# White Paper on International Economy & Trade 2026 – Summary

By *Japan SPOTLIGHT*

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## 1. Growing Risks to the Global Economy

• In 2025, although global economic prospects became more uncertain due to tariffs, progress in trade negotiations and the restoration of policy predictability supported growth that exceeded expectations, while global trade volumes remained resilient *(Table, Chart 1 & 2)*. Japan's exports to the United States are projected to decline year-on-year in FY 2025, and its trade surplus with the US is expected to decrease by approximately ¥2 trillion (around 20%). Overall, however, Japan's trade deficit is projected to narrow. At the same time, growth in returns on overseas investments is expected to contribute to a further expansion of the current account surplus *(Chart 3)*. Meanwhile, although China's trade surplus with the US has declined significantly, close attention should be paid to the possibility that exports routed through third countries, such as Vietnam and Mexico, are increasing.

• Meanwhile, global policy uncertainty has reached its highest level since 2000, driven by historically elevated tariff rates and export controls on critical minerals. Geopolitical risks also remain elevated, reflecting Russia's invasion of Ukraine and the deteriorating security situation in the Middle East. It is difficult to expect these risks to diminish in the foreseeable future *(Chart 4, 5 & 6)*.

• The deteriorating geopolitical situation in the Middle East has led not only to higher crude oil prices *(Chart 7)*, but also to sharp increases in naphtha prices in Asian markets. Around 90% of the crude oil transported through the Strait of Hormuz is destined for Asia, while many Asian countries hosting production bases of Japanese companies rely heavily on the Middle East for imports of petroleum products. These developments have brought to the forefront supply chain risks affecting Asia's energy security *(Chart 8 & 9)*.

TABLE
### Global growth forecasts (IMF)

| | 2025 | | 2026 | | |
|---|---|---|---|---|---|
| | Forecasts (as of Apr) | Actual | Forecasts (as of Jan) | Forecasts **reference scenario** (as of Apr) | Forecasts **adverse scenario** (as of Apr) |
| World | 2.8% | 3.4% | 3.3% | 3.1% | 2.5% |
| US | 1.8% | 2.1% | 2.4% | 2.3% | |
| China | 4.0% | 5.0% | 4.5% | 4.4% | |
| Japan | 0.6% | 1.2% | 0.7% | 0.7% | |
| Euro Area | 0.8% | 1.4% | 1.3% | 1.1% | |

*Note: The reference scenario assumes that the war in the Middle East region turns out to be relatively short-lived. The adverse scenario assumes that the war would be more prolonged and the recovery of economic activities would take more time due to damage to and/or closures of energy infrastructure.*
Source: IMF, Netherlands CPB

CHART 1
### Global trade volume

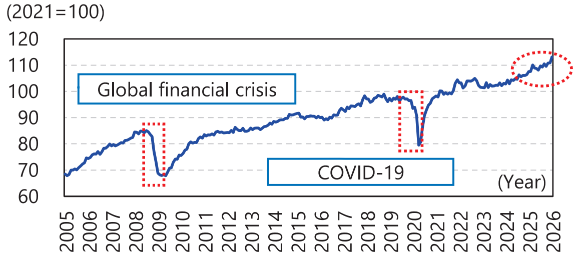
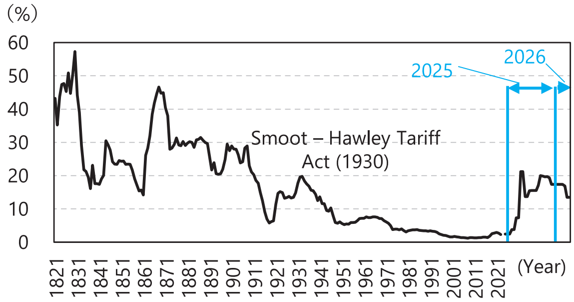



CHART 2
### US effective tariff rate

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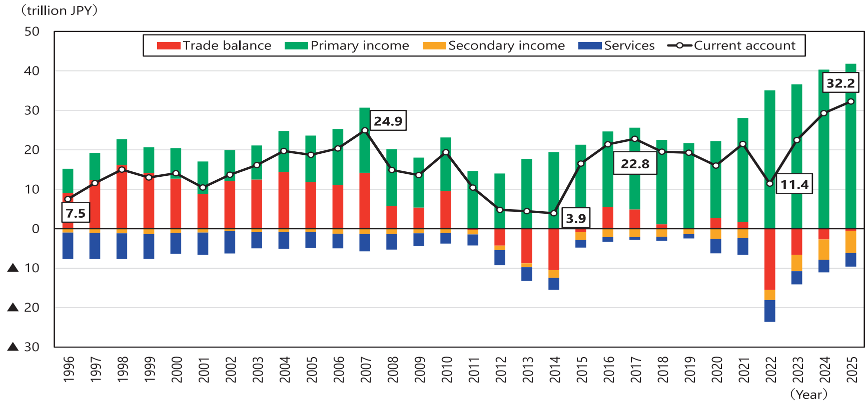
Source: IMF, Netherlands CPB

CHART 3

## Trends in Japan's current account balance




Source: Compiled from the Bank of Japan, "Balance of Payments Statistics"

CHART 4

## Index of global economic policy uncertainty

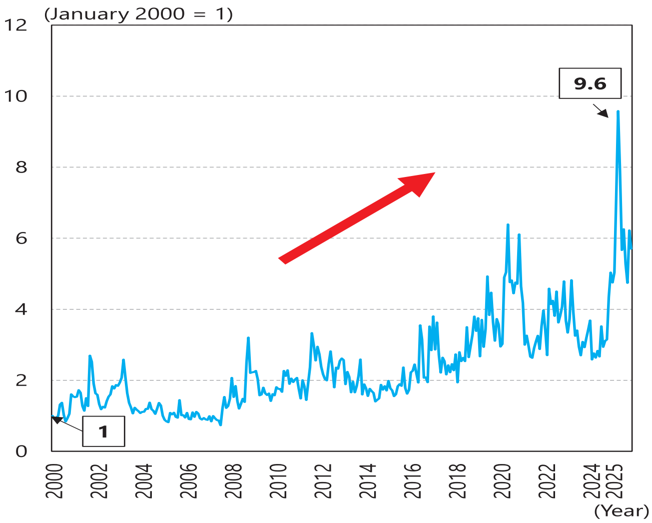
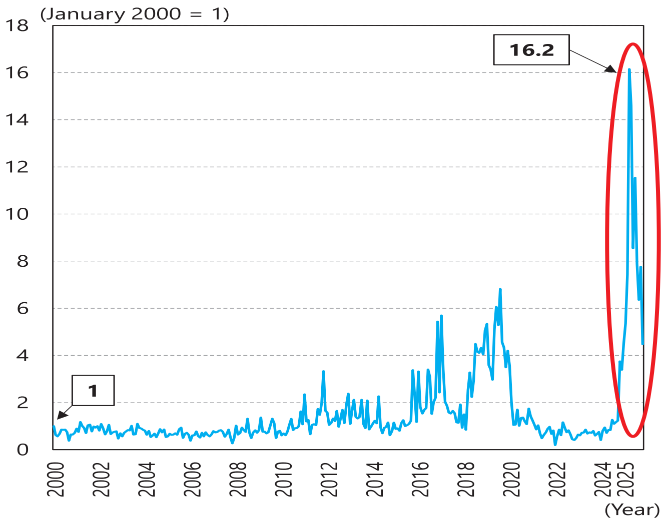



CHART 5

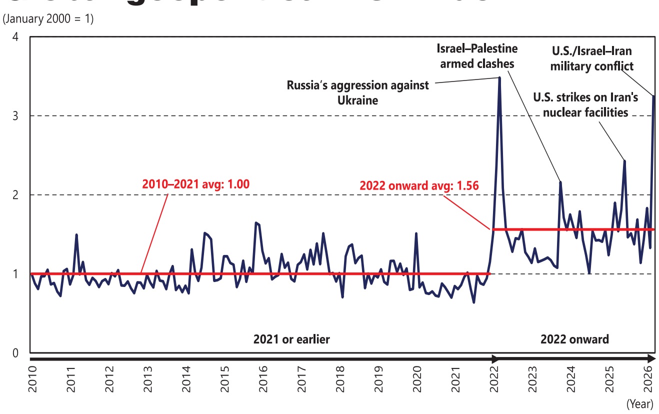
## Index of trade policy uncertainty facing Japan




Source: Baker, Scott R., Nicholas Bloom, and Steven J. Davis. 2016. "Measuring Economic Policy Uncertainty", Quarterly Journal of Economics 131(4): 1593-1636. Compiled from the corresponding dataset

CHART 6

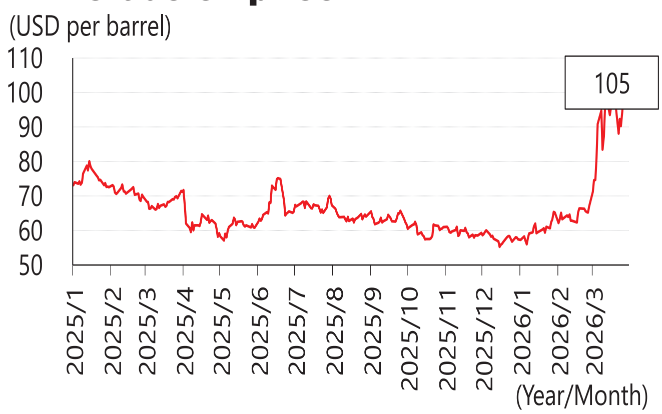
## Global geopolitical risk index




Source: Caldara, Dario and Matteo Iacoviello. 2022. "Measuring Geopolitical Risk", American Economic Review 112(4): 1194-1225. Compiled from the corresponding dataset.

CHART 7

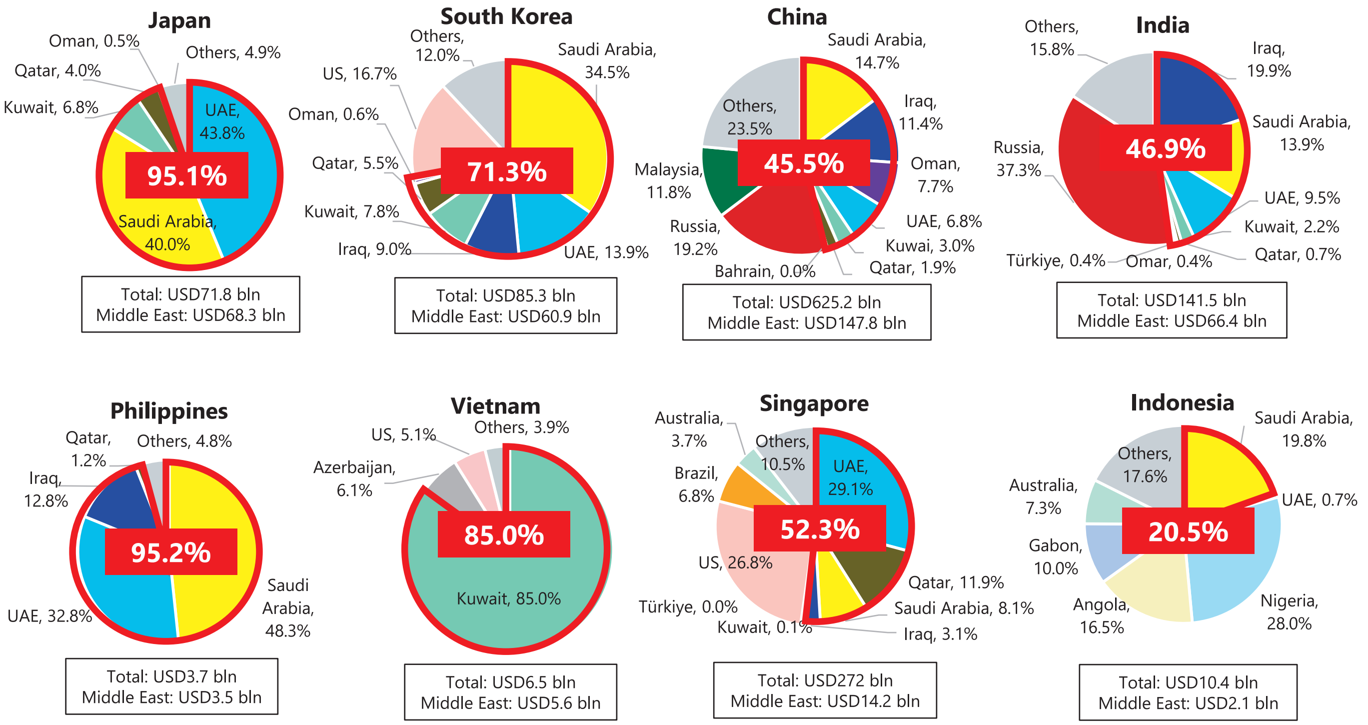
## WTI crude oil price




Source: Number and composition of ships compiled from IMF PortWatch. The moving average is a 7-day moving average. Crude oil prices compiled from LSEG

CHART 8

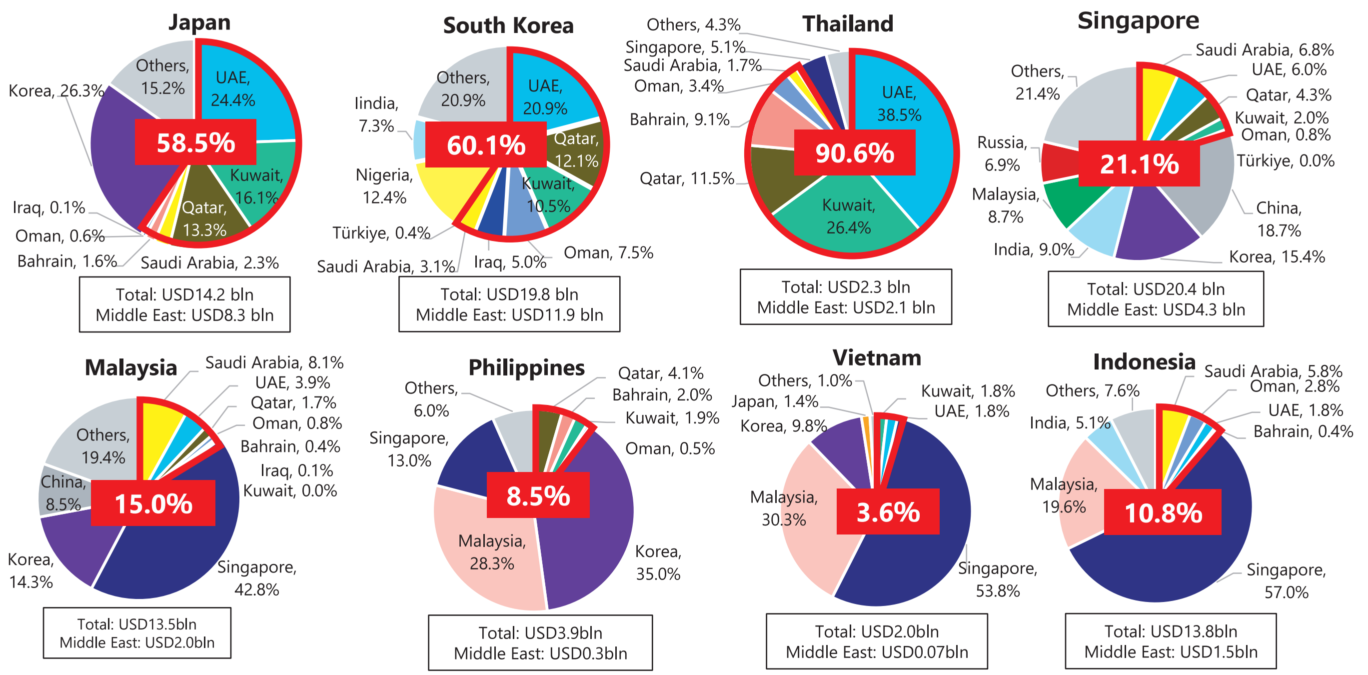
## Shares of the Middle East in Asian countries' crude oil imports (2024 [2023 for Vietnam])




*Note: HS2709 for crude oil*
Source: UN Comtrade

CHART 9

## Shares of the Middle East in Asian countries' imports of oil products (2024 [2023 for Vietnam])




*Note: HS271012 for oil products. The code contains naphtha but also contains gasoline, kerosene, and distillate.*
Source: UN Comtrade

• Strengthening supply chains across Asia, including Japan, has become an urgent priority to prevent operational disruptions at Japanese companies overseas and shortages of critical goods in Japan, while ensuring the stable supply of essential commodities, including crude oil, naphtha and other petroleum products, as well as medical supplies.

• In an era in which supply chain risks can significantly influence national economies, it is difficult to expect policy- and geopolitical-related risks to diminish in the foreseeable future. Such risks arise not only on the supply side but also on the demand side, as well as through natural disasters and other disruptions. The ability to effectively manage supply chain risks will be a key determinant of the success of economic policy.

## 2. Emerging Economies' Importance in Supply Chain Demand & Supply

• Diversifying export destinations by tapping into emerging economies – driven by high economic growth, population increases, and rising international presence – helps mitigate risks such as declining demand in specific markets *(Chart 10 & 11)*.

• Resource endowments, which constitute supply-side choke points, are concentrated in emerging economies; therefore, building relationships with these economies is essential for diversifying resource procurement *(Chart 12 & 13)*.

• Exports to emerging economies have grown, with particularly strong growth in exports from China. China's share of their total imports has reached about 25% *(Chart 14)*, while the share of other advanced economies, including Japan, is declining.

• The US, having been overwhelmingly important for the emerging nations until the 2000s, is replaced by China *(Chart 15)*.

• Exports from emerging countries have also increased their dependence on Chinese value added in intermediate goods *(Chart 16)*.

• In ASEAN countries, the share of intermediate goods categories for which more than 50% of imports depend on China has been increasing. Given China's significant influence over global value chains, supply chain risks, including potential disruptions, could emerge depending on the availability of

CHART 10

### Real GDP growth rate

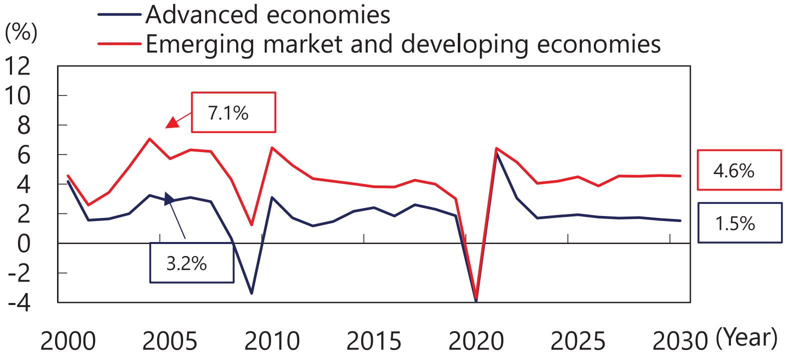



CHART 11

### World population prospects

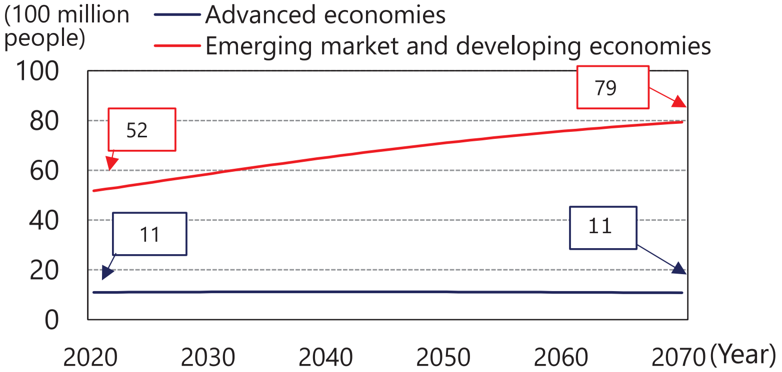



CHART 12

### Share of critical mineral reserves

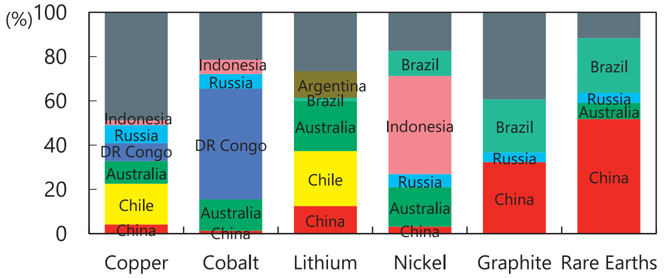
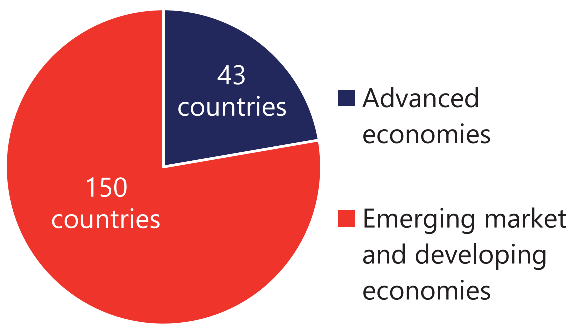



CHART 13

### Number of UN member countries




Source: GDP growth rates are based on data from the IMF World Economic Outlook. Population data are from the United Nations World Population Prospects. Shares of critical mineral reserves are compiled from the USGS MINERAL COMMODITY SUMMARIES 2026. Gray represents other nations. The total number of United Nations member states is as of March 2026.

alternative suppliers. Establishing and maintaining trade rules is essential not only to mitigate supply chain risks but also to ensure the stability of international trade.

## High Returns and Supply-Demand Diversification through Japan's Investment in Emerging Countries

• Japan's outbound investment is concentrated in advanced countries, particularly the US *(Charts 17 & 18)*, while returns are higher in emerging countries *(Charts 19)*.

CHART 14

### Share of imports in emerging markets by country

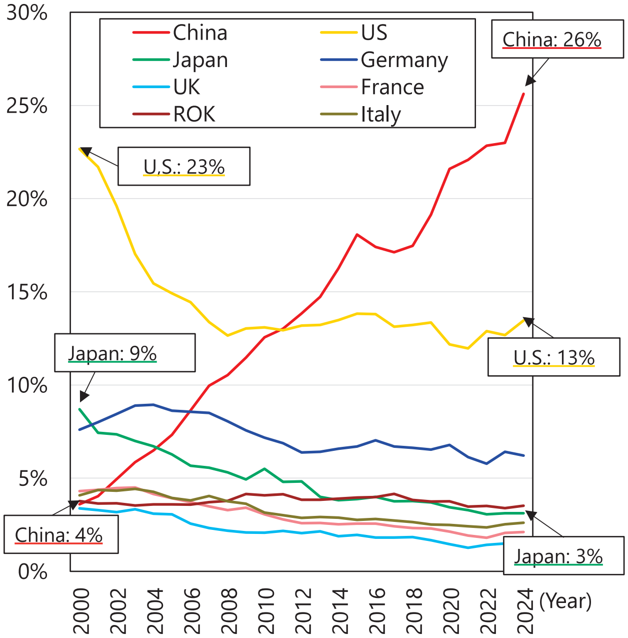
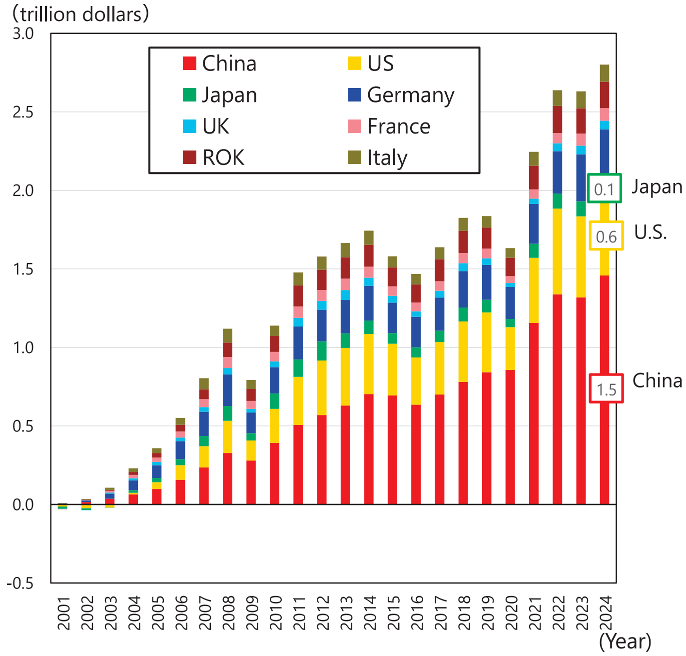



CHART 15

### Export values to emerging economies by country (vs. 2000)

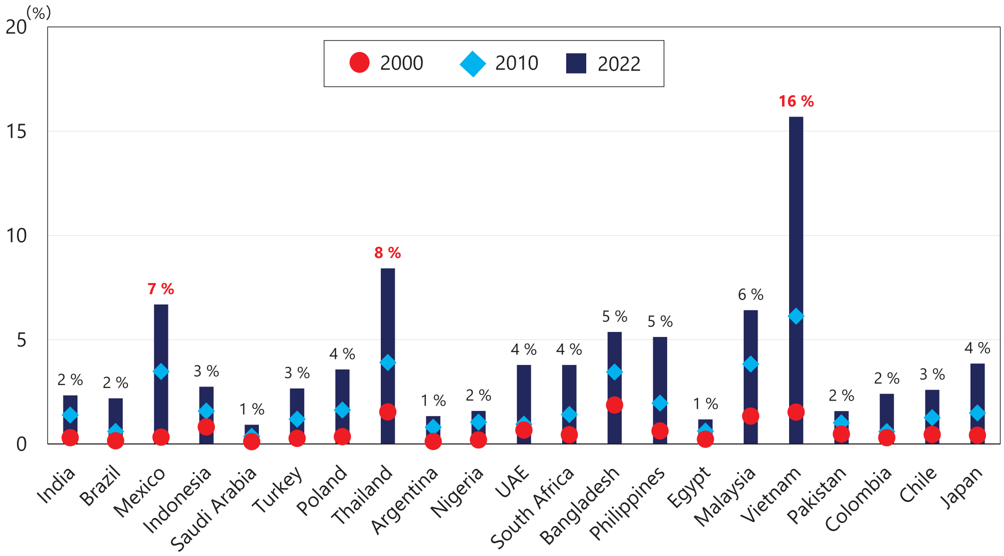



Source: Created based on UN Comtrade data

CHART 16

### Chinese value-added in the exports of emerging countries

**(%)**




Source: OECD TiVA

• Investment in emerging countries also contributes to market development and the diversification of production and supply bases and supports supply-chain risk management.

• Japan's proactive investment in emerging markets has built a strong track record, contributing to the current account surplus *(Chart 20)*.

• On the other hand, in flow terms, Japan has been overtaken by China, raising concerns about its declining presence *(Chart 21)*.

CHART 17

## Comparison of Japan's outward FDI stock in advanced & emerging countries (2024)

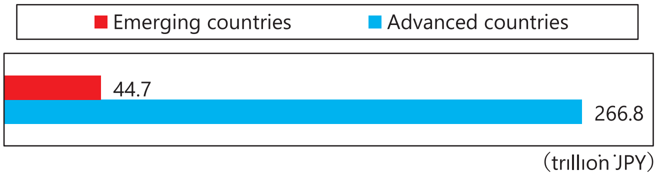



CHART 18

## Top 5 destinations of Japan's outward FDI stock in advanced & emerging countries (2024)

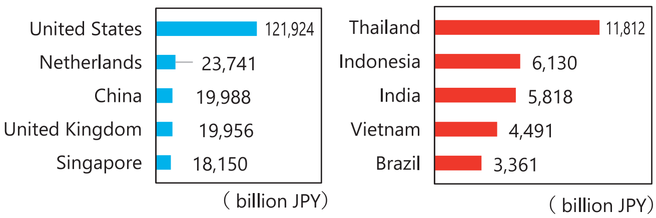
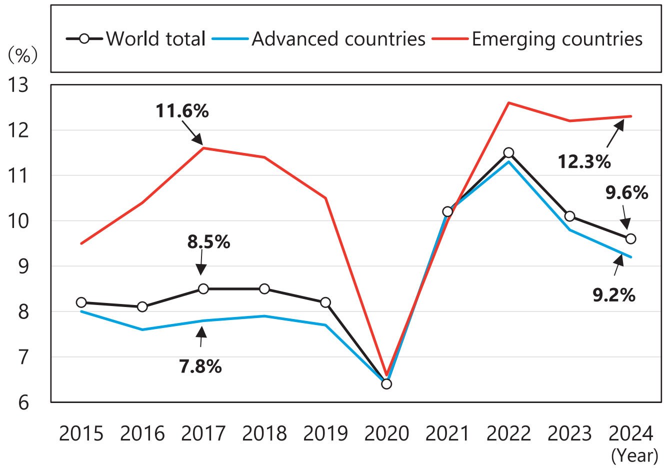



CHART 19

## Trends in the rate of return on Japan's outward FDT in advanced & emerging countries (2024)




*Note: The rate of return is calculated by dividing the current-year income on Japan's outward FDI by the average of the previous-year and current-year FDI position. The analysis covers only those countries for which country-level data are available in the Balance of Payments Statistics. While not all countries are included, the countries covered account for approximately 94% of the investment position and approximately 92% of the income.*

Source: Compiled from the Bank of Japan, "Direct Investment Statistics" and "Direct Investment Position Statistics."

CHART 20

## Foreign Direct Investment stocks to emerging markets by country (Stocks)

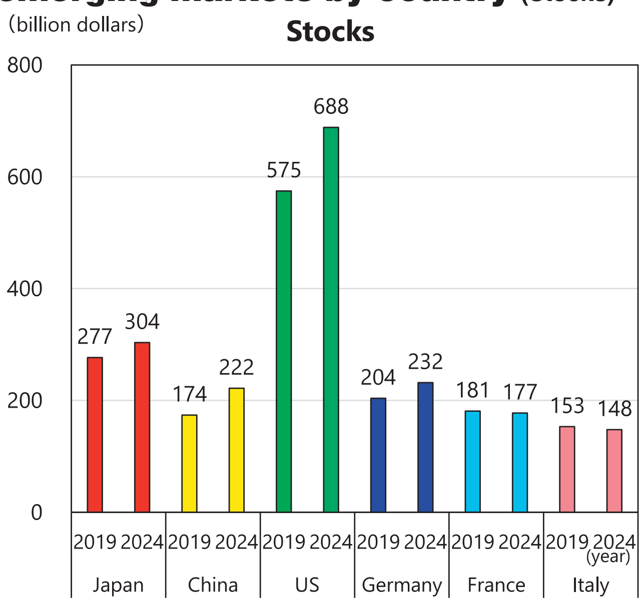
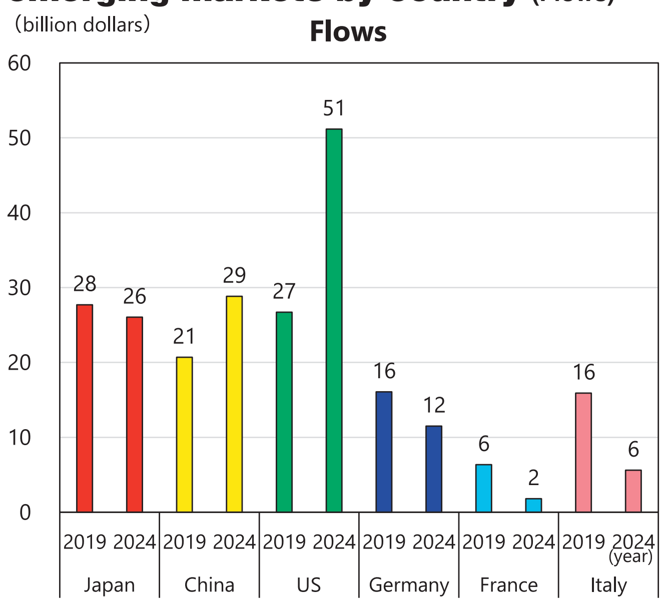



CHART 21

## Foreign Direct Investment stocks to emerging markets by country (Flows)




Source: Bank of Japan; CEIC; Eurostat; Bureau of Economic Analysis

### 3. Building Co-Creation Partnerships Between Japan & the Global South

#### (1) Energy-Related Cooperation with Asia Supported by Japanese Technologies

• In addition to economic growth and the expansion of energy and electricity demand driven by AI, Asia is facing growing supply chain risks stemming from the situation in the Middle East. Against this backdrop, efforts to strengthen supply chains, including those related to energy, and to advance carbon neutrality and the energy transition are expected to accelerate further.

• Japan's expansion into these markets through investment and other initiatives, supported by Japanese technologies, can help promote such efforts while also contributing to the strengthening of Japan's own supply chain resilience.

#### (2) Japanese Real Estate Investment Contributing to Solving Challenges in Emerging Economies, Including Asia

• The development of industrial parks contributes to strengthening supply chains in host countries while providing an important foundation for investment and exports by Japanese companies, including small and medium-sized enterprises. Investment in industrial parks represents one of Japan's key areas of competitive advantage.

• Urban development contributes to addressing challenges faced by cities in emerging economies experiencing rapid economic and population growth. It also represents a form of real estate investment that can create new opportunities for Japan, including through the expansion of Japanese content and other offerings via commercial facilities.

#### (3) Increasing Momentum for FTAs & EPAs Worldwide

• Amid growing uncertainty surrounding the international economic order, efforts to conclude FTAs and EPAs have gained momentum. Such initiatives are accelerating across regions and among both advanced and emerging economies, as demonstrated by agreements such as the Mercosur–EU and India–EU trade agreements.

#### (4) Trade Strategy 2026

• As the global economy shifts from an era of neoliberalism centered on the pursuit of a single global market toward an era in which state involvement and economic security are gaining importance amid potential fragmentation, Japan will continue to pursue the objectives of its trade strategy: remaining a "trusted economic partner" and "maximizing Japan's value-added presence in the world by contributing to the resolution of global challenges". In coordination with the public-private investment roadmap, Japan will contribute to its growth strategy with the aim of achieving shared prosperity for Japan and the global community.

REFERENCE 1
**Hybrid trade strategy**


Source: The International Trade and Economic Strategy 2026

• To this end, Japan will build a truly free and mutually beneficial "trusted economic sphere," including major powers, while promoting proactive strategic investments that enhance resilience and investments that promote growth to support export expansion, and positioning contributions to FOIP as a key objective, thereby contributing to the realization of updated FOIP.

• While addressing immediate challenges, including responses to the US and China, Japan will advance a "hybrid trade strategy" that promotes both free trade and the rule of law through a rules-based approach *(Reference 1)*.

### (5) Direction of Trade Strategy Toward the Global South

• Strengthening partnerships with the Global South is key to realizing updated FOIP; since FY2023, an annual US$1 billion the global south future-oriented co-creation projecthas supported 423 projects in 79 countries, with results to be shared domestically and internationally.

• Building on these demonstration projects and other initiatives, and in coordination with regional strategies and the public-private investment roadmap covering 17 growth strategy fields, Japan aims to achieve the following: (1) commercialization of projects, (2) expansion of participating businesses and partner countries, and (3) wider deployment of successful initiatives across regions and sectors. In addition, Japan will pursue (4) the creation of a shared knowledge base through academic collaboration with Global South countries, which will serve as a foundation for these efforts *(Reference 2)*.

## 4. The Vision for a "Virtuous Cycle between Domestic and Global Economies" Through Japan's Growth Strategy

• Japan's Growth Strategy aims to (1) build a resilient industrial structure capable of competing globally through strategic investments that enhance resilience and investments that promote," while (2) strengthening investment returns by creating a trusted economic sphere where Japanese goods and services are chosen.

• This approach will also contribute to exchange rate stability by increasing foreign currency earnings. JS

REFERENCE 2

## Trade strategy toward the Global South

**① Project Commercialization**
-Achieving sustainable financing through collaboration with financial institutions

**② Expanding the Base of Businesses and Partner countries**
-Promoting startups and scaling up activities in frontier markets

**③ Scaling Projects**
-Expand international rule-making from individual initiatives to a broader framework

**④ Creating a "Shared Knowledge Base"**
-Leading academic collaboration with Global South countries to build a knowledge base that supports policy marking capacity

**Examples of specific projects**

**Rare Metals**
A Malaysia-based demonstration project to **recover vanadium and molybdenum—rare metals with high supply dependence on specific countries**—from spent refinery desulfurization catalysts generated at refineries, **structured by risk and supported by JOGMEC assistance, JBIC financing, GS subsidies, and ongoing government support**.

**Mining management, Disaster Prevention, and Space**
A startup-led demonstration project in Africa (including South Africa and Angola) using **SAR satellites** to **monitor mining operations**. By detecting ground changes regardless of weather or time of day, **it enhances safety, risk, management, and operational efficiency**.

**Circular Economy**
A project in Thailand to **introduce advanced Japanese PET recycling technology** and demonstrate the production of recycled PET bottles and supply them to Japanese beverage companies. In partnership with a leading local PET producer, a joint venture has been established to **make Japanese PET recycling technology a de facto standard in ASEAN and globally**.

**Circular Economy**
Conducting **a study in Africa on resource circulation through enhanced digital logistics connectivity** and, based on this, **providing G20 policy recommendations on methodologies for building circular economy systems in the GS (e.g., battery recycling),** taking into account that G20 presidencies over the past four years have been held by GS countries (Indonesia in 2022, India in 2023, Brazil in 2024, and South Africa in 2025). **Japan has been requested to lead collaboration with GS think tanks that provide a continuous policy foundation for the G20**.

Source: The International Trade and Economic Strategy 2026