

SUMMARY

1. Japan remains one of world's largest economies, ranking fourth in 2025. The economy is highly developed, diversified, and market-oriented, characterized by a well-established industrial base and strong technological capabilities. The economy is closely integrated into global markets through both trade and outward investment, reflecting its position as a major exporter of manufacturing products and a source of foreign investment.

2. Over the review period, from 2022 to early 2026, the economy continued its gradual recovery from the COVID-pandemic, amid persistent structural challenges and evolving geoeconomic conditions. Japan intensified efforts to revitalize growth and strengthen economic resilience, notably by reinforcing economic security considerations in domestic policies, while upholding international commitments, and promoting economic cooperation. During this period, economic security became an increasingly important driver of policy development, continuing a trend observed in the previous review period. This shift influenced various policy areas, including trade and trade-related measures. In parallel, Japan continued to advance its green and digital transformations, with industrial policy playing an important role in strengthening innovation and production capacity.

3. Japan is a leading advocate of the multilateral trading system, and its trade policy remains anchored in it. Throughout the period, the importance of WTO principles continued to be reflected in the significant share of MFN trade in Japan's imports and in the absence of unilateral tariff reductions as a policy instrument.

Macroeconomic and economic security developments

4. Following a rebound in 2021, Japan's economic growth remained modest (0.7% in 2023), while unemployment stayed low, at around 2.6%. In 2024, the economy contracted by 0.2% and nominal GDP totalled USD 4.2 trillion, corresponding to approximately USD 34,000 per capita. For FY2025, real growth is estimated at 1.1%. Trade played an important role in supporting the recovery, driven by external demand for Japanese exports, of both goods (vehicles and transport equipment) and services (travel services), alongside a rebound in domestic consumption. The trade-to-GDP ratio remained broadly stable at around 45%, showing Japan's continued openness despite a changing global trade environment.

5. Fiscal and monetary policies remain supportive of economic activity during this period. Japan continued to maintain an expansionary fiscal policy through various stimulus packages. The country remains among the most indebted countries in the world, although the gross government debt to GDP ratio declined from around 258% in 2020 to around 236% in 2024. Most of the debt is financed domestically. On the monetary side, the Bank of Japan ended its policy of negative interest rates in March 2024 and raised its policy rate to 0.75% in December 2025, marking a turning point after a prolonged period of persistent low inflation (CPI inflation was 2.5% in 2022 and 2.7% in 2024). In parallel, the yen depreciated against most major currencies since 2020, mechanically reducing the value of Japan's economic indicators when expressed in USD for cross-country comparisons.

6. The balance of payments continued to record a current account surplus during the review period, increasing from 2.0% in 2022 to 4.5% in 2024 when expressed as the share of GDP. This position remains driven by a surplus in the primary income balance, which has been offsetting the deficits in merchandise and services trade. Both deficits narrowed between 2022 and 2024. The surplus in the primary income balance reflects strong earnings by Japan's outward investments.

7. Several structural challenges continue to shape Japan's economy. These include relatively weak domestic demand, deflationary pressures, modest productivity growth, fiscal sustainability, and import dependency, notably for agricultural, mineral and energy goods. At the same time, an ageing population and persistent labour shortages continue to weigh on economic activity. These challenges have been exacerbated by external shocks, including the 2024 Noto Peninsula Earthquake, and by intensifying international competition in manufacturing sectors, where Japan has traditionally held a revealed comparative advantage.

8. Against this macroeconomic background, Japan continued to gradually integrate economic security considerations into its trade and investment policy frameworks. A major step was the adoption of the Economic Security Promotion Act (ESPA) in 2022, which entered fully into force in

May 2024 and institutionalized economic security within Japan's policy framework. The Act aims to enhance supply chain resilience for critical goods, safeguards strategic technologies, and ensure the provision of critical infrastructures services, with implications across the economy, affecting areas such as manufacturing, the services sector, investment inflows, and the intellectual property regime.

9. The Act also defines critical goods eligible for government support, which as of December 2025 comprises 16 categories, including semiconductors, storage batteries, critical minerals, computer programs for cloud services, and natural gas. In 2024, these goods together accounted for 15% and 13.5% of Japan's exports and imports, respectively. Economic security considerations were also included in other policy areas such as foreign investment screening, export controls, access to finance, and trade remedies.

Trade, investment and global integration

10. Trade and outward investment are key drivers of Japan's economy. As one of the world's largest traders, Japan benefits from a well-established manufacturing base and stands out as a major exporter of automotive products, steel and iron, and chemicals. Manufactured goods account for most merchandise exports (88.5% in 2024), while imports provide access to essential resources that are limited domestically, notably agricultural, mining and energy products, as well as intermediary inputs.

11. In 2024, merchandise exports amounted to USD 707.3 billion, while imports totalled USD 742.6 billion. Merchandise export and imports remained broadly stable in USD terms during the review period, while export values in JPY have increased substantially since 2021, reflecting the depreciation of the JPY against the USD rather than growth in export volumes. Japan's major export destinations remain the United States and China. On the import side, China remains by far the largest trading partner for Japan, supplying on average around 22% of imported goods during 2022-2024. The share of the United States and the European Union increased during the same period, whereas the importance of Asia (except China) as import source declined.

12. Japan remains a net importer of services, and this trend continued during the review period. Japan's commercial services exports and imports grew steadily between 2022 and 2024, although they remain much smaller in scale than merchandise trade. During this period, the deficit narrowed significantly from USD 43.5 billion in 2022 to USD 18.6 billion in 2024, largely due to a boost in travel services. In 2024, the most important export sectors were travel, charges for the use of intellectual property, and other business services, while for imports, the main categories were other business services, transport, and charges for the use of intellectual property. Trade in digitally delivered services contributed significantly to overall trade in services, even as export growth in these services remained limited and import reliance persisted, notably in digitally delivered computer and insurance services.

13. Japan is deeply integrated into global value chains, with a share of foreign value added in its gross exports that has consistently exceeded that of OECD economies and the world's top tree traders. China remains the largest GVC partner, followed by the United States. Japan's integration in GVCs has been supported by declining overall trade costs since 2020, according to the WTO Trade Cost Index.

14. Over the review period, Japan's revealed comparative advantage (RCA) in manufacturing industries generally declined, with several traditional sectors, including motor vehicles and semiconductors, losing ground relative to global averages. No new product groups achieved an RCA. Japan's manufacturing concentrates on innovation-intensive activities like electronic components and specialized machinery. To sustain competitiveness, Japan's trade policy continued to emphasize workforce transitions, innovation ecosystems, and technological leadership to boost productivity and shift toward higher value-added manufacturing.

15. In investment, Japan remains one of the world's major sources. Outward investments support Japan's production networks abroad and integration into GVCs; and their earnings are key to sustaining the current account surplus. By 2024, Japan's outward FDI stock had reached USD 2.1 trillion, equivalent to about 50% of Japan's GDP. During the review period, the United States remained the main destination for Japan's outward FDI stocks and flows, at the same time Japan's outward FDI stock decreased for China and increased towards ASEAN countries.

16. Trade and investment, and economic activities in general, continue to benefit from a conducive business environment, supported by strong innovation capacity, solid logistics infrastructure and high regulatory quality as evidenced by WIPO, World Bank and IMD indicators. However, the country faces persistent labour shortages and demographic pressures as its working-age population continues to decline. These pressures are being partially offset by rising female labour participation (77.3% in 2025) and high elderly workforce engagement. To address labour shortages, measures have been taken to prioritize investments in automation alongside policies to attract skilled foreign talent, including dedicated visa programs. To further enhance its business environment, anti-corruption and corporate governance frameworks also were strengthened through heightened penalties for foreign bribery and enhanced whistleblower protection. Additional reforms aimed to ease market entry, boost transparency, and enhance reporting rules for cross-shareholding.

17. In other cross-cutting areas, such as competition, and government procurement, the regimes remained unchanged during the review period. Japan's government procurement amounted to JPY 3.4 trillion (USD 24.3 billion) in 2023 (the latest year for which data were available). Foreign suppliers accounted for 4.2% of procurement by the Central Government and Incorporated Administrative Agencies in 2023 (4.1% in 2022). Japan is party to WTO Agreement on Government Procurement. Japan maintains various State-owned enterprises, known as "Special Companies", notably in telecommunications, financial services, railways, and airports, as well as in energy and leaf tobacco. In addition to Special Companies, the State holds stakes in other domestic enterprises and institutions. As of March 2023, these stakes amounted to around JPY 90 trillion (USD 640 billion, equivalent to about 15% of the 2023 GDP).

Multilateral, regional and bilateral trade engagement

18. Japan is a strong supporter of the multilateral trading system, and contributes actively to WTO negotiations and committees, including as a donor to WTO related initiatives. Japan advocates for an ambitious WTO reform, and participates in multiple plurilateral initiatives, often taking a leading role, such as in the case of the Joint Statement Initiative on Electronic Commerce. In 2025, Japan inscribed its additional commitments under the Joint Initiative on Services Domestic Regulation in its GATS Schedule. During the review period, Japan also accepted the Agreement on Fisheries Subsidies (2023) and joined the Multi-Party Interim Appeal Arbitration Arrangement (2023). During this period, Japan participated as a third party in WTO dispute settlement cases but was neither a complainant nor a respondent. Japan maintains a solid record of WTO notifications, with pending notifications in limited areas, notably with respect to regional trade agreements (RTAs). Nearly 80% of the value of imports entered the Japanese market duty-free on an MFN basis, showcasing the importance of the MFN regime in Japan's trade.

19. To further deepen economic integration, Japan maintains a diversified RTA network, with 20 RTAs currently in force, covering 24 trading partners across the Asia-Pacific, Europe and the Americas. In 2024, Japan's merchandise trade with its RTA partners accounted for about 79% of its exports and of its imports. As of December 2025, implementation was ongoing for nine RTAs, with timelines extending to 2041.

20. During the review period, Japan revised some of its existing RTAs to broaden their scope. In 2024, it amended its RTA with the European Union to facilitate cross-border data exchange and updated its agreement with Indonesia to strengthen e-commerce disciplines. More recently, in February 2026, Japan signed a new RTA with Bangladesh. Japan also maintained its strong support for developing countries through enhanced market access under its Generalized System of Preferences (GSP) scheme, which includes broad product coverage for least developed countries (LDCs). In April 2025, Japan revised its GSP system to allow LDCs to remain beneficiaries up to three years (up from one year) after their graduation.

21. With the view of expanding and diversifying partnerships, Japan has ongoing RTA negotiations with various economies (i.e. the Gulf Cooperation Council, Colombia, Türkiye, and the United Arab Emirates) and is actively pursuing more flexible cooperation frameworks to strengthen economic security and supply chain resilience. In this regard, Japan concluded bilateral agreements with India and United States in 2025 to secure critical minerals and participates in related international initiatives.

22. In July 2025, Japan signed a Framework Agreement with the United States following changes in US trade policy. Under the agreement, most imports from Japan are subject to a baseline 15% tariff in the US market, with differentiated treatment for certain sectors. Some products, such as aerospace goods, generic pharmaceuticals, and certain natural resources, may be exempt, while automobiles, auto parts, timber, and wood furniture are subject to the baseline tariff and are not affected by higher tariffs under US Section 232 measures. The Agreement also includes procurement commitments and an investment pledge by Japan. The Agreement applies separately from the Japan-US RTA, which Japan continues to apply. As at March 2026, additional changes to US tariff measures were ongoing, which could affect the tariffs faced by Japan.

Trade and investment regimes

23. Japan's tariff structure remains complex and non-uniform, featuring over 270 distinct rates, with the highest rates exceeding 200% when considering *ad valorem* equivalents (AVE). Seasonal tariffs and tariff rate quotas are also applied. Agriculture, leather and footwear remained the most protected sectors. Revenue from customs duty was marginal and accounted for 1.2% of the total tax revenue in FY2024 (1.4% in FY2022), reflecting their strategic rather than fiscal purpose.

24. At the 9-digit level (national level), in FY2025, 41% of the tariff lines were duty-free, and the average applied MFN tariff was 5.4%, down from 6.3% in FY2022. This decline was not driven by changes in duty rates, but by lower AVE values, particularly in agricultural products, resulting from higher unit prices and reflecting market dynamics rather than policy adjustments. In FY2025, the average applied MFN tariff for agricultural products (WTO definition) was 14.7%, down from 18.0% in FY2022, and significantly higher than on non-agricultural products (3.2%). At the 6-digit level and for the purpose of cross-country comparisons, the overall average applied MFN tariff was 3.9% in 2025 (latest figure published by the WTO). The difference between both indicators was mainly driven by the greater variations captured at the 9-digit level. In terms of bound tariffs, Japan's applied rates remain at or below their bound levels, with nearly all applied MFN rates matching the corresponding bound rates. Japan does not apply export taxes.

25. In the area of customs procedures and trade facilitation, Japan operates a modern and highly digitalized customs system and has fully implemented its WTO Trade Facilitation Agreement commitments. In 2023 and 2025, reforms in customs procedures were introduced to enhance transparency, tax compliance, as well as oversight of cross-border e-commerce transactions. Customs procedures are supported by an advanced Single Window system, and well-established Authorized Economic Operator (AEO) programme, through which most trade flows benefit from simplified procedures (i.e. 74% of imports and 77% of exports in 2024). To further facilitate trade, Japan had 13 Mutual Recognition Arrangements (MRAs) for AEO programmes in force. Additional MRAs were signed with India (December 2024) and Indonesia (October 2025) but had not yet entered into force. According to the OECD, Japan ranks among the leading performers in trade facilitation within the Asia-Pacific region, and among OECD countries.

26. During this period, Japan integrated economic security considerations in several trade related areas, notably trade remedies, export controls and trade finance. In trade remedies, it clarified the requirements for initiating *ex officio* investigations on national security considerations for specified critical goods. During this period, Japan continued to rely on anti-dumping measures as its main trade defence instrument and maintained its long-standing practice of not using countervailing or safeguard measures, except for certain agricultural products under a WTO reservation. In export controls, Japan expanded their scope in 2023 and 2025 by revising the licensing system for dual-use goods to cover items related to semiconductor manufacturing equipment, advanced semiconductors, and quantum-related technologies. In parallel, access to finance and loan guarantees was expanded in 2023 through Japan's export credit agencies to support the overseas expansion of domestic firms, particularly in strategic sectors such as semiconductors, electric vehicles, and batteries, as well as projects contributing to supply chain resilience and decarbonization.

27. Regarding export promotion policies, Japan continued to provide support in the form of capacity-building, business-matching, market intelligence, advisory services, and promotional activities. Certain programs available to exporters and non-exporters may include grants covering certain expenses for overseas expansion.

28. In the areas of SPS and TBT measures, there were no significant changes to Japan's regimes. In TBT, Japan maintains Japanese standards for agricultural and industrial goods. According to the authorities, most standards in both categories follow international standards, where these exist.

29. Japan's investment regime remains broadly open, although specific statutory foreign equity restrictions exist in specific industries, notably in telecommunications, air transport, broadcasting and radio services. In 2023, Japan strengthened oversight of foreign investment in strategic sectors by expanding the list of industries subject to prior notification under its screening regime, to include *inter alia* semiconductors, storage batteries, and advanced machinery. By 2025, it also introduced a tiered approach differentiating by investor type, coupled with transaction specific provisions for the transfer of sensitive technologies abroad.

30. The services regulatory framework is also relatively open and characterized by a low level of barriers for trade, as reflected in the scores of the WTO–World Bank Services Trade Restrictiveness Index (STRI) 2022 and the STRI OECD in 2024. During the review period, economic security considerations were also incorporated in services-related policies. In April 2025, Japan introduced an oversight regime to secure essential infrastructure services, requiring operators in 15 critical sectors, including finance and telecommunications, to undergo pre-screening for equipment installation and outsourcing of services.

Economic transformation, industrial policy, and innovation

31. The "Digital Transformation" (DX) is a key component of Japan's economic strategy, aimed at enhancing productivity, innovation, and competitiveness across sectors through new governance frameworks and infrastructure investment. The Act on Promotion of AI (2025) established the AI Strategic Headquarters to guide national strategy, with an AI Basic Plan published in December 2025. Policy during the review period shifted from voluntary guidelines to a framework that includes voluntary risk-based inspections for high-impact systems.

32. The "Green Transformation" (GX) and Japan's overall energy policy is driven by the need to reduce reliance on fossil fuels, while strengthening energy security. In 2024, fossil fuels (crude oil, coal and natural gas) remained the main source of energy, accounting for 83.5% of total energy supply, leaving Japan highly dependent on imports from a limited number of partners. To shield the domestic economy from global energy price volatility, the Government introduced price stabilization measures, including subsidies for fuel, electricity and gas between 2022 and 2025, and strengthened regulatory enforcement in the electricity market. Nuclear energy is considered essential to decarbonization; while reactor restarts remained limited, new rules have been adopted to strengthen and support its development.

33. During the review period, industrial policy gained prominence as Japan adopted a comprehensive approach that integrates economic security and manufacturing revitalization with its green and digital transformations. This approach has been implemented through a range of policy tools, including tax incentives and subsidies, aimed at securing access to critical goods, such as semiconductors and batteries while enhancing supply chain resilience and reducing dependencies. These measures focus on boosting domestic production of these goods, and fostering public-private collaborations in R&D. For example, under the ESPA, Japan allocated JPY 2.55 trillion (USD 17 billion) in public funding (as of December 2025) to support the supply of critical goods, with most funding directed toward storage batteries, semiconductors, and critical minerals.

34. Furthermore, the GX Promotion Act authorizes JPY 20 trillion (USD 133.7 billion) in transition bonds to fund decarbonization technologies. This financial support is underpinned by a "growth-oriented carbon pricing" roadmap, featuring a phased emissions trading system and a mandatory fossil fuel surcharge starting in FY2028, alongside legislation to accelerate hydrogen supply chains, carbon capture and storage, and critical mineral recycling.

35. In July 2025, Japan notified a list of 54 specific subsidy programmes to the WTO's Committee on Subsidies and Countervailing Measures. The list includes both old and new schemes with different objectives mainly to support industry, finance, and agriculture, including measures under ESPA and those adopted by local governments. Several support measures for SMEs were also in place, including low interest loans, credit guarantees, and tax measures.

36. Strong innovation capabilities drive Japan's industrial competitiveness, evidenced by its high RCA index and its position as a leading net exporter of intellectual property. To counter intensifying global competition, the Government adopted a new Intellectual Property Strategic Program in June 2025, aiming to reach the top four of the Global Innovation Index by 2035 through investments in AI and digital technologies. Japan also modernized its broader IP regime during the review period with updates to copyright, trademark, and design frameworks. Under ESPA, it also established a non-disclosure system for patent applications, allowing the Government to suspend the publication of patent applications that pose national security risks. Alongside this, amendments to the Unfair Competition Prevention Act in 2024 further strengthened protection for trade secrets and shared data.

Sector-specific policies

37. Japan is a net importer of agricultural goods and remained the world's fourth largest importer in 2024, reflecting Japan's important role in agriculture trade and its strong reliance on imports. At the same time, the sector remains highly protected and subject to a complex tariff regime. Agricultural trade is also managed through tariff quotas and state trading for rice, wheat and barley. The commercial rice quota was fully utilized in 2024 for the first time since 2017 due to domestic rice shortages, prompting regulatory changes to allow stockpile releases for non-harvest emergencies. Support to the sector has declined in recent years but remained more than double the OECD average. During the review period, agricultural policy shifted to focus on supply chain resilience, environmental sustainability, and productivity improvements. In this regard, Japan introduced new support programmes tied to environmental objectives, as well as tax incentives promoting automation to offset labour declines. Recent reforms have also redefined the role of exports of agricultural products to maintain domestic production capacity.

38. Japan is also a net importer of fisheries products. In 2024, Japan was the third-largest importer of fish and crustaceans globally and in 2023 (latest data available), it was among the top ten capture fishery producers. The size of the domestic fleet has continued its downward trend, and contracted by 50% since 2003, prompting support aimed to modernize and decarbonize vessels and improve productivity via digital technologies rather than expanding capacity. According to the OECD, in 2022 (latest year available) Japan's fishing fleet represented around 10% worldwide. Japan has also revised its system for management fisheries resources to enhance enforcement and accountability to ensure sustainability and combat illegal fishing. Japan was the first WTO Member to make a voluntary contribution to the WTO Fisheries Funding Mechanism.

39. Japan's mining sector remains characterized by structural import dependence. Policy focused on securing supply chains for critical minerals, important for both the green and digital transformation. To mitigate dependence, the Government utilizes a public stockpiling mechanism and expanded regulatory scope in 2023 to include rare-earth minerals. Authorities are also pursuing supply diversification through bilateral agreements (see above), alongside state-backed equity and technical support for overseas projects.

40. Manufacturing remains central to the economy, accounting for 20.5% of GDP and 15.4% of employment in 2024, almost unchanged since the previous Review. Key challenges include persistent labour shortages, the need to accelerate digitalization, and the urgency to meet carbon neutrality targets. These challenges are compounded by weak productivity growth and intensifying international competition in industries in which Japan traditionally has held a revealed comparative advantage. The report zooms in on three manufacturing industries, automobiles, semiconductors, and steel, given their importance in Japan's trade policy and strategic role in supporting other industries. The automotive industry remains Japan's largest export sector, accounting for 17.1% of merchandise exports, with policy increasingly focused on electrification and software-defined vehicles. Semiconductors have become a renewed strategic policy priority, reflecting their central role in driving technological innovation and receiving substantial financial support through various government initiatives. In 2024, semiconductor devices accounted for 5.6% of Japan's exports, ranking fourth among export products, with their share remaining relatively stable during the review period. Japan also remained one of the world's leading steel producers. The sector is a critical intermediate input supplier to domestic industries, and undergoes a structural transformation driven by decarbonization objectives. Japan has applied trade remedies in recent years to address dumping of certain steel products.

41. The services sector is the largest contributor to Japan's economy, accounting for around 70.5% of GDP and 72.5% of employment in 2024. In telecommunications, Japan prioritized the development of next-generation infrastructure and the regulation of digital platform competition amidst a trade deficit driven by foreign cloud services. To secure technological leadership, the Government is funding R&D and providing tax incentives. To enhance market competition, new legislation (Mobile Software Competition Act, 2024) mandates designated large-scale software providers to permit access of third-party application and alternative billing systems. Regulations on the former state monopoly (NTT) were relaxed to permit foreign directors.

42. Financial services were among the sectors to record a trade surplus during the review period, along with travel, construction and charges for the use of intellectual property. With the end of negative interest rates, policymakers are focused on mobilizing largely dormant household assets and elevating Japan's status as a global investment management hub. Key initiatives include expanding tax-exempt investment programs, enforcing capital efficiency mandates for listed firms, and implementing reforms that ease market entry while boosting transparency and attracting overseas talent. Additionally, the fintech landscape has been updated with regulations defining fiat-backed stablecoins as electronic payment instruments and applying stricter anti-money laundering rules to crypto-assets.

43. Maritime and air transport remain the backbone of Japan's international connectivity for merchandise and passenger movements, respectively. Both sectors operate under strict domestic protections; domestic shipping is reserved exclusively for Japanese-owned vessels, and foreign ownership of national air carriers is capped at one-third of voting rights. Furthermore, policy in both industries is increasingly geared toward decarbonization, driven by new subsidies for zero-emission shipbuilding and a mandate to replace 10% of aviation fuel with Sustainable Aviation Fuel by 2030.

To conclude

44. To conclude, Japan remains an active WTO Member and a highly developed, globally integrated economy, supported by a robust industrial base, advanced technological capabilities, and a favourable business and trade facilitation environment. While the economy has shown resilience, its growth performance has remained modest, both reflecting structural challenges, including weak private consumption, labour shortages, and modest productivity growth, as well as external factors, such as evolving global competition and geoeconomic conditions. In this context, trade and outward investment have continue to play an important role in supporting economic activity and sustaining external balances.

45. Over the review period, Japan implemented measures to support economic recovery following the COVID-19 pandemic, focusing on economic security, emerging technologies, and the green and digital transitions. These included promoting R&D investments, supporting overseas expansion, and enhancing protection of sensitive technologies, as well as strengthening domestic production capacity and supply chain resilience for critical goods.

46. Japan's economic outlook remains positive in the near term, with real GDP projected to growth by 1.3% in FY2026. Monetary policy normalization, together with solid private sector activity, is expected to support economic conditions, although the outlook remains subject to global uncertainty and ongoing structural challenges. In this context, trade will remain central to growth, both by securing essential imports and supporting exports. Japan retains comparative advantages in manufacturing exports, including in automotive products, machinery, electronics, and semiconductors. Yet, shifts in global competition and technology are placing pressure on these strengths and highlighting the need to broaden Japan's sources of growth. Expanding high-value services, developing new industries, and diversifying markets and suppliers, will be important to enhance resilience and support sustainable long-term growth.