

(Reference) Impact of Japan's Growth Strategy on the TFP Growth Rate

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Provisional
Translation

Category	Area	Medium Term (~2031)	Long Term (~2036)	Assumptions on the Projection
Capital Investment	AI Adoption 【NEW】	Appx. 0.2%pt	Appx. 0.2%pt	The Growth Strategy is expected to accelerate the pace of AI adoption. According to an OECD study by Filippucci et al. (2025), the acceleration of AI adoption can increase Japan's TFP growth rate by 0.2%pt. Given that AI adoption is one of the priority areas of the Growth Strategy, <u>the effect is expected to emerge in the medium term.</u>
	Large-Scale Capital Investment (Renewal of the Capital Stock) 【NEW】	Appx. 0.1%pt	Appx. 0.1%pt	Based on the Public-Private Investment Roadmap under the Growth Strategy, the share of large-scale investment—defined as investment on a scale exceeding 20% of a firm's capital—is expected to rise from 13.5% to 21%, a level comparable to that in the United States and major European economies, and the average age of the capital stock is expected to decline by 2.6 years. From Fiori et al. (2025), it is shown that a one-year decline in the average age of capital raises the TFP growth rate by 0.34%pt. It is expected that an increase of approximately 0.9%pt (2.6 years * 0.34%pt) emerges over around a decade. Given that investment based on the “Public-Private Investment Roadmap” is to be implemented sequentially from FY2027 onward as a priority area of the Growth Strategy, <u>the effect is expected to emerge in the medium term.</u>
	Inward Direct Investment	Appx. 0.1%pt	Appx. 0.1%pt	Toward CY2030, the ratio of the stock of inward direct investment to GDP is expected to increase by approximately 0.9%pt per year on average, compared with the past trend. Baltabaev (2014) shows that a 1%pt increase in the ratio of inward direct investment stock to GDP raises the TFP growth rate by approximately 0.17%pt. Given that technology spillovers from inward direct investment are expected to occur relatively quickly, particularly for technologies that are already at the implementation stage, <u>the effect is expected to emerge in the medium term.</u>
Intangible Asset Investment	Human Capital Investment (Education and Training)	Appx. 0.1%pt	Appx. 0.1%pt	Firms' education and training investment (stock per employee) is assumed to increase by approximately 3.0% per year. Morikawa (2021) estimates that a 1% rise in the investment increases labor productivity by approximately 0.03%. Given that the outcomes of education and training are expected to be reflected relatively quickly in higher productivity of the employees, <u>the effect is expected to emerge in the medium term.</u>
	Science, Technology and Innovation (R&D)	Appx. 0.0%pt	Appx. 0.2%pt	Heading to FY2030, public and private investment is expected to raise the ratio of R&D investment to GDP by approximately 0.7%pt per year on average, compared with the past trend. Morikawa (2015) shows that a 1%pt increase in the ratio of R&D investment to GDP raises the TFP growth rate by 0.3-0.4%pt. Given that it is expected to take time for technologies at the R&D stage to contribute to productivity growth through commercialization and diffusion, <u>the effect is expected to emerge in the long term.</u>
Other	More Efficient Allocation of Productive Resources 【NEW】	Appx. 0.1%pt	Appx. 0.2%pt	The allocation of productive resources is assumed to become more efficient through changes in the employment structure in response to the social implementation of AI, future changes in the industrial structure associated with the 17 strategic sectors, and the promotion of corporate entry, exit and reallocation including the expansion of startups. For instance, according to the OECD study by Filippucci et al. (2025), even if AI adoption accelerates, there remains a 0.2 percentage point gap in the TFP growth rate between Japan and other major advanced economies, with this gap assumed to be closed through the promotion of Growth Strategy. Given that structural change is expected to take time, <u>approximately half of the effect is expected to emerge in the medium term, with the full effect emerging in the long term.</u>
Total (Compared with the PC Case)		Appx. 0.6%pt	Appx. 0.9%pt	The impacts shown above are added to the TFP growth rate of 0.6% in the PC Case. Given the possibility that some effects may overlap, the TFP growth rate is expected to be <u>approximately 1.1% in the medium term</u> and <u>approximately 1.4% in the long term.</u>

(Note) The impacts on the TFP growth listed on the table are annual averages. The approaches used for the inward direct investment, human capital investment, science, technology and innovation, and the startups-related component of more efficient allocation of productive resources are based on ESRI Discussion Paper Series No.395, Urasawa et al. (2024). The OECD study cited above for AI adoption and more efficient allocation of productive resources is OECD Artificial Intelligence Papers, No. 41, Filippucci et al. (2025). For large-scale capital investment, the figure of 13.5% for Japan is based on CREPE Discussion Paper No. 159, Nirei (2024). The figure of 21%, representing a level comparable to that in the United States and major European economies, is based on the average for the United States, the United Kingdom, France and Germany in FEDS Notes 2025-10-15-1, Fiori et al. (2025).