White Paper on Manufacturing Industries 2026

(FY2025 Measures to Promote Core Manufacturing Technologies)

Summary

May 2026

Ministry of Economy, Trade and Industry, Ministry of Health, Labour and Welfare, and Ministry of Education, Culture, Sports, Science and Technology

経済産業省　厚生労働省　文部科学省

About the White Paper on Manufacturing Industries

- In 1999, **the Basic Act on the Promotion of Core Manufacturing Technology was enacted and brought into force through a Diet member-sponsored bill.** As a statutory white paper based on the Act, **the White Paper on Manufacturing Industries has been submitted to the National Diet annually since 2001.** This is the 26th report.
- The white paper is prepared jointly by **three ministries: the Ministry of Economy, Trade and Industry (METI), Ministry of Health, Labour and Welfare (MHLW), and Ministry of Education, Culture, Sports, Science and Technology (MEXT).**
- It comprises two parts: Part 1 describes the challenges and initiatives to be addressed and implemented by the government in the year, and Part 2 compiles a range of measures carried out to promote the manufacturing industry.

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Messages from the White Paper on Manufacturing Industries 2026

- While there is growing **uncertainty caused by disruptions to the international economic order** resulting from the strengthening of protectionist policies in various countries, **the rapid advancement of digital technologies such as AI** is bringing significant changes to the environment surrounding the manufacturing industry.
- **Responding promptly to these rapid changes** is **critically important for strengthening the competitiveness of Japan's manufacturing industry**.

Current situation and challenges

Status of capital investment in the manufacturing industry

Japan's capital equipment ratio remains lower than that of other major countries, and companies with low profitability in particular **also invest less in intangible fixed assets such as AI and digital technologies**.

Utilization of AI and digital technologies to strengthen the competitiveness of the manufacturing industry

- **Optimization of the entire manufacturing process**, which is essential for strengthening competitiveness, **has not progressed sufficiently**, and **data sharing among companies has remained stagnant over the past two years**.
- Although **the utilization of AI and digital technologies is key** to achieving optimization, **securing resources such as skilled personnel remains a challenge**.

Sustainable growth of manufacturing companies in consideration of economic security

- **The proportion of manufacturing businesses engaged in economic security initiatives improved from 40% last year to 60%.** While more businesses are working on measures such as supply chain diversification, only a limited number conduct risk analyses and use the results to develop response measures.
- A certain number of manufacturing businesses continue to believe that, **over the medium to long term, the losses resulting from insufficient economic security risk measures would exceed the costs of implementing such measures**.

Key points for resolution

- It is important for **companies to first identify and organize their management challenges** and recognize that **the utilization of AI and digital technologies is essential** for solving those challenges.
- To optimize the entire manufacturing process, **it is important to connect fragmented operational data through the use of AI**. It is **also important to pursue initiatives with a focus on improving profitability**, including **the creation of new businesses**.

- To address economic security issues, it is important for **companies to accurately understand their current situation during normal times**.
- Companies should view economic security initiatives as potential sources of new business opportunities and **make medium- to long-term management decisions rather than focusing solely on short-term costs**.

Messages from the White Paper

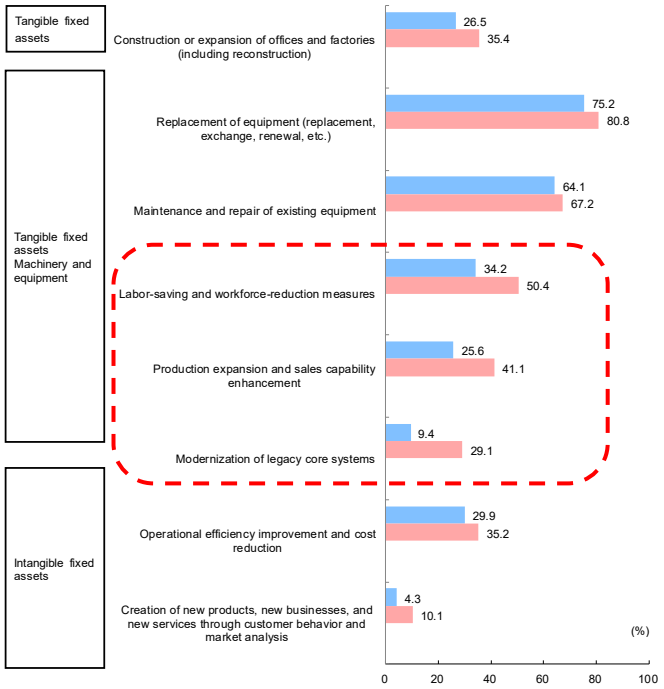
By accurately understanding their current situation and challenges during normal times, companies should actively pursue growth investments and management reforms with a medium- to long-term perspective, thereby building a management foundation that is resilient to unpredictable changes in the business environment.

- **The government, for its part, positions both "crisis management investment" and "growth investment" as key pillars of Japan's growth strategy** and will continue to support business initiatives from various angles.
- In addition, the government will promote **the collection and accumulation of data from Japan's manufacturing sites and advance initiatives such as the development of physical AI**, thereby enhancing **the competitiveness of the manufacturing industry as a whole**.

For medium- to long-term growth, it is important to improve profitability and achieve sustained wage increases through proactive capital investment and growth investment

- **Companies with high profitability are more proactive in labor-saving and workforce-reduction investments, capacity expansion investments, and system investments**. Companies that actively invest in capital equipment and **have high labor productivity also tend to achieve higher wage growth rates. However, Japan's labor productivity remains at a relatively low level compared with other major countries**.
- **To increase corporate profitability, achieve sustained wage growth, and contribute to medium- to long-term economic growth**, it is essential to promote capital investment and growth investment that strengthen competitiveness, including **through the use of the Bold Investment Promotion Tax Incentive.**

Figure 1: Companies with higher profitability are more proactive in labor-saving and other capital investments



Low-profitability companies (EBITDA margin below 0%) (n=117)

High-profitability companies (EBITDA margin of 10% or higher) (n=506)

Figure 2: Companies with higher capital equipment ratios also have higher labor productivity

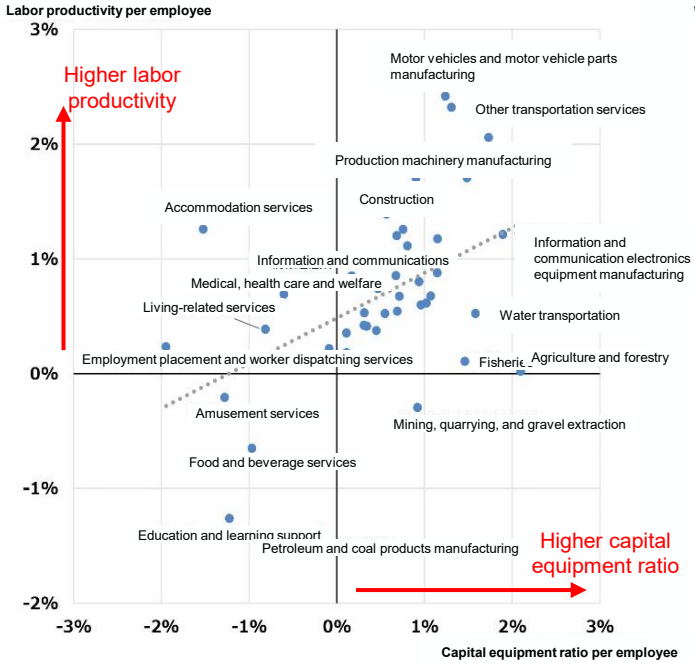


Figure 3: Companies with higher labor productivity also have higher wage growth rates

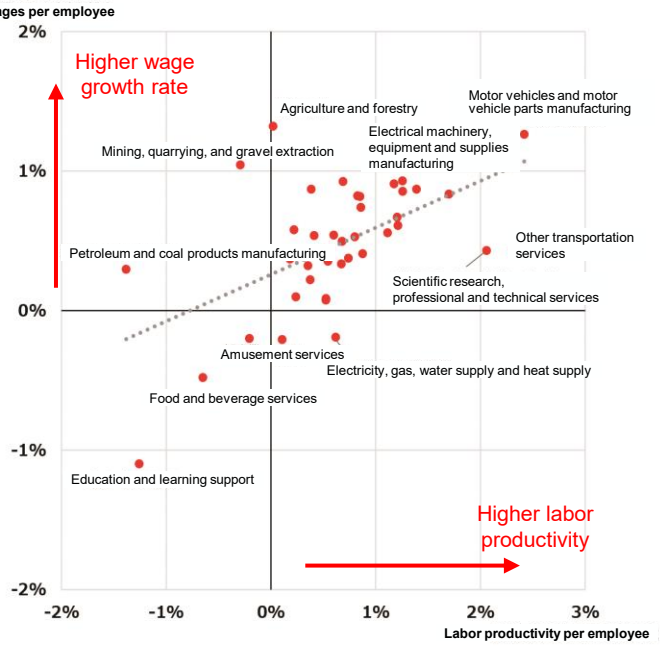
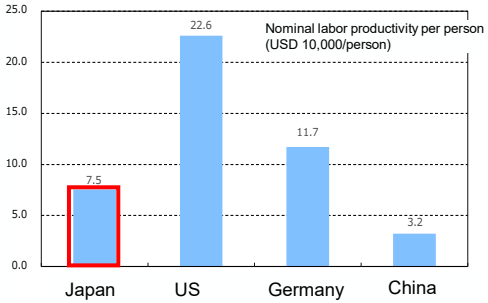


Figure 4: Japan's labor productivity remains low



EBITDA margin: Ratio of EBITDA (operating profit + depreciation and amortization + goodwill amortization) to net sales

Source: (Figures 1 and 4) Mitsubishi UFJ Research and Consulting Co., Ltd., "FY2025 Industrial Survey Project Report (Survey on Challenges Facing Japan's Manufacturing Industry and Future Directions for Response)" (March 2026)

(Figures 2 and 3) Cabinet Secretariat, "Background Materials for the Council for Japan's Growth Strategy" (November 2025)

Developing manufacturing-site data as a data infrastructure and combining it with AI for social implementation and data accumulation will be a key path to future competitiveness

- Managers who are highly aware of management challenges such as geopolitical risks, supply chain and cost issues, and cybersecurity risks are **actively utilizing AI and digital technologies to address those challenges and drive management reform**.
- On the other hand, **difficulties in securing knowledge, know-how, and human resources** remain major challenges in utilizing AI and digital technologies. **Creating the necessary environment is essential for promoting their utilization**.
- **METI is promoting the establishment of a manufacturing AX hub to collect processing and operational data from Japan's manufacturing sites and support the development of manufacturing platforms incorporating AI models**.

Figure 1: The greater the awareness of a company's management challenges, the more actively it utilizes AI and digital technologies

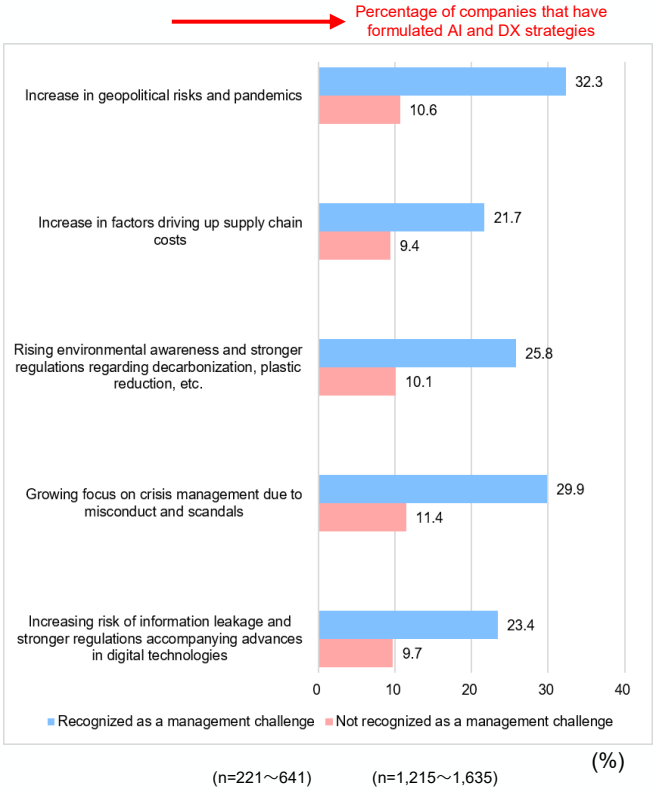
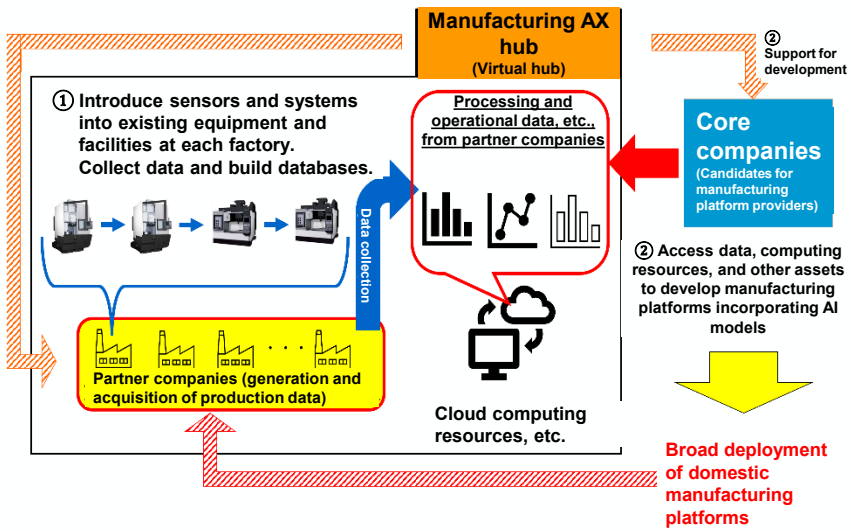


Figure 2: Key challenges in utilizing AI and digital technologies are securing knowledge, know-how, and human resources

Figure 3: Concept of manufacturing AX hub

- METI is promoting consideration of **the establishment of a manufacturing AX hub that will develop manufacturing-site databases** and **support the development of manufacturing platforms incorporating AI models**.
- The manufacturing AX hub will **develop manufacturing databases consisting of processing and operational data from manufacturing sites and support participating companies in developing manufacturing platforms by utilizing those databases and related resources**.



Source: (Figures 1 and 2) Prepared by METI based on Mitsubishi UFJ Research and Consulting Co., Ltd., "FY2025 Industrial Survey Project Report (Survey on Challenges Facing Japan's Manufacturing Industry and Future Directions for Response)" (March 2026); (Figure 3) Prepared by METI.

It is necessary to advance economic security initiatives through medium- to long-term management decisions rather than focusing on short-term costs

- Although the number of manufacturing businesses engaged in economic security initiatives is increasing, actual **efforts remain largely limited to information gathering**, while **more advanced measures** such as supply chain diversification and cybersecurity enhancement **remain at low levels**.
- In particular, **companies with lower profitability tend to be less able to undertake economic security initiatives such as diversifying procurement sources**.

  ⇒ Economic security initiatives should be led by the government, and **it is important to foster a sense of crisis awareness through ① management mindset reform, ② internal coordination and collaboration, ③ dialogue with business partners, etc**.

Figure 1: Economic security initiatives remain largely limited to information gathering

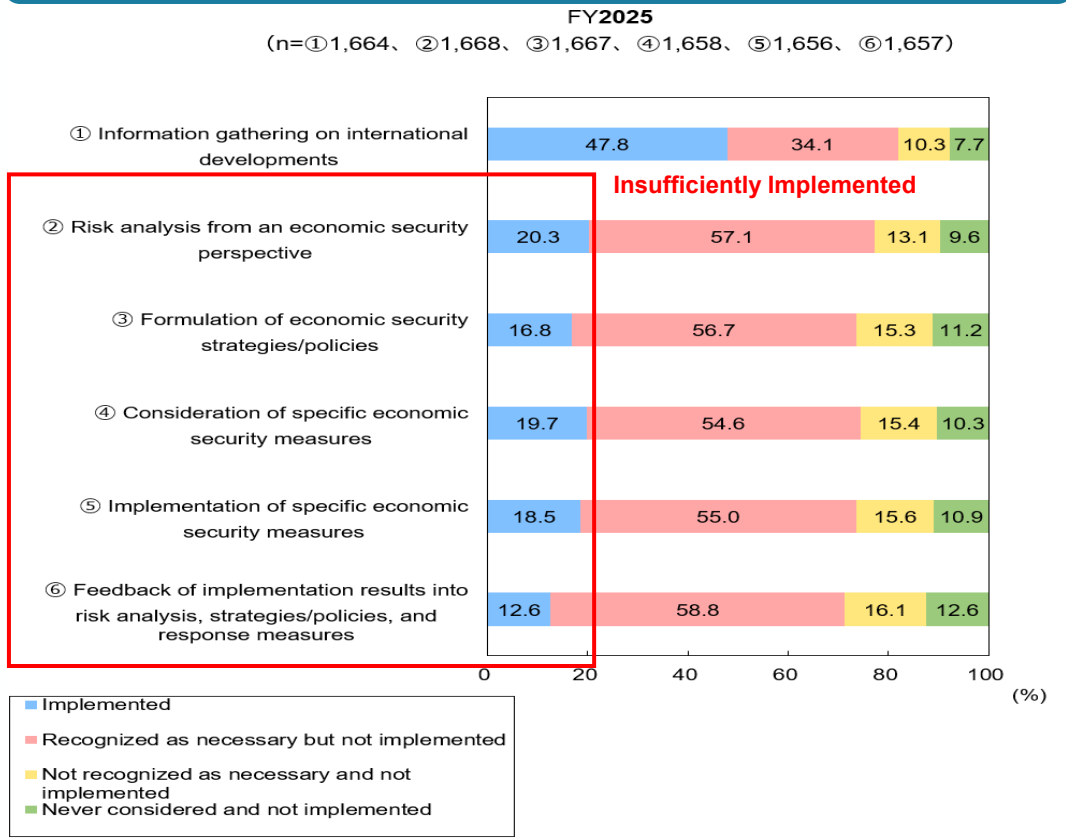
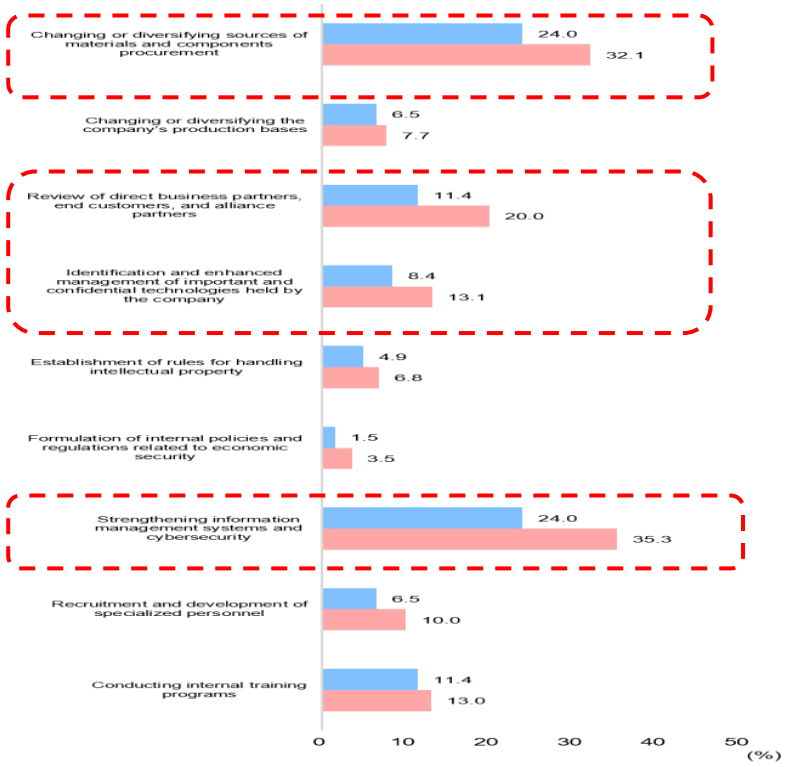


Figure 2: Companies with lower profitability are less likely to implement measures such as diversification of procurement sources and strengthening of cybersecurity



EBITDA margin: Ratio of EBITDA (operating profit + depreciation and amortization + goodwill amortization) to net sales

Source: (Figures 1 and 2) Prepared by METI based on Mitsubishi UFJ Research and Consulting Co., Ltd., "FY2025 Industrial Survey Project Report (Survey on Challenges Facing Japan's Manufacturing Industry and Future Directions for Response)" (March 2026).

Reconsidering global supply chains is a matter of corporate survival

- At present, **critical minerals** that are indispensable for the advancement of semiconductors and automobiles are **dependent on imports from specific countries**. In addition, **petrochemical products** (including plastics), which form the foundation of industrial activities, are **dependent on the Middle East**, and **instability in the global situation has a significant impact on corporate management**.
- Against this backdrop, maintaining the medium- to long-term growth, autonomy, and indispensability of the manufacturing industry **requires strengthening systems that can enable alternative production even in times of crisis, including diversifying supply chains so that they do not depend on specific countries or regions and promoting domestic production of critical materials**.

Figure 1: Major critical minerals depend on imports from specific countries

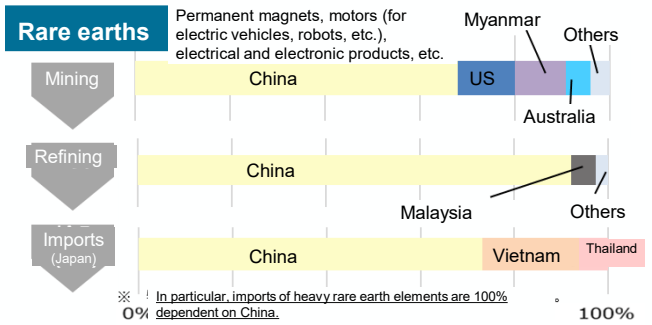


Figure 2: Initiatives to diversify sources of supply for critical minerals

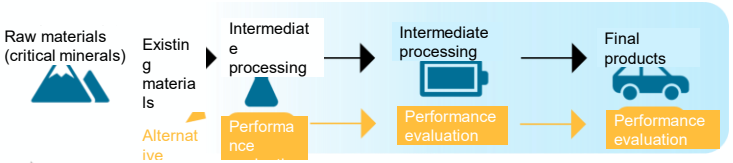
- For rare earths, two projects involving Lynas (Australia/Malaysia) and Caremag (France) have been established through JOGMEC equity investment measures, securing alternative sources of supply for heavy rare earths.

Mount Weld Mine, Western Australia

Mount Weld Mine facilities

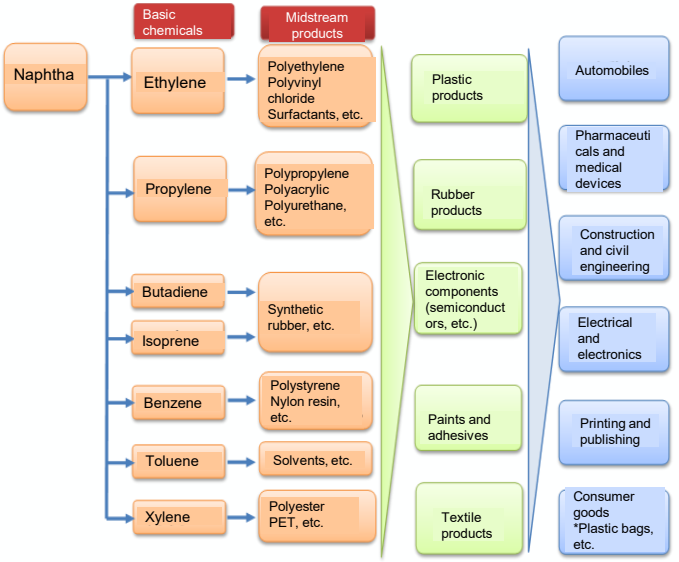
- For gallium, one project has been established in Australia through JOGMEC equity investment measures.

Figure 3: Conceptual image of support for switching to diversified procurement sources

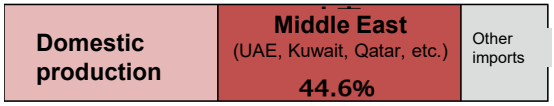


Companies throughout the supply chain conduct multi-stage and repeated evaluations of functionality, safety, manufacturing methods, and other factors when using alternative materials (with one-third of the costs subsidized through a government-funded program).

Figure 4: Petrochemical supply chain



Sources of naphtha procurement (2024)



Source: (Figure 1) METI, "19th Industrial Structure Council Manufacturing Industry Committee – Document 2: Material (Critical Minerals and Components/Materials) Sector Challenges and Directions for Consideration" (February 2026)
(Figures 2, 3, and 4) Prepared by METI.