

Global Situation and Economic Outlook for 2026

~Awakening from Dependence and
Rebuilding the World Order~

January 16, 2026

Sumitomo Corporation Global Research



Sumitomo Corporation Global Research Co. Ltd.

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Part 1

Global Issues Overview / Focus

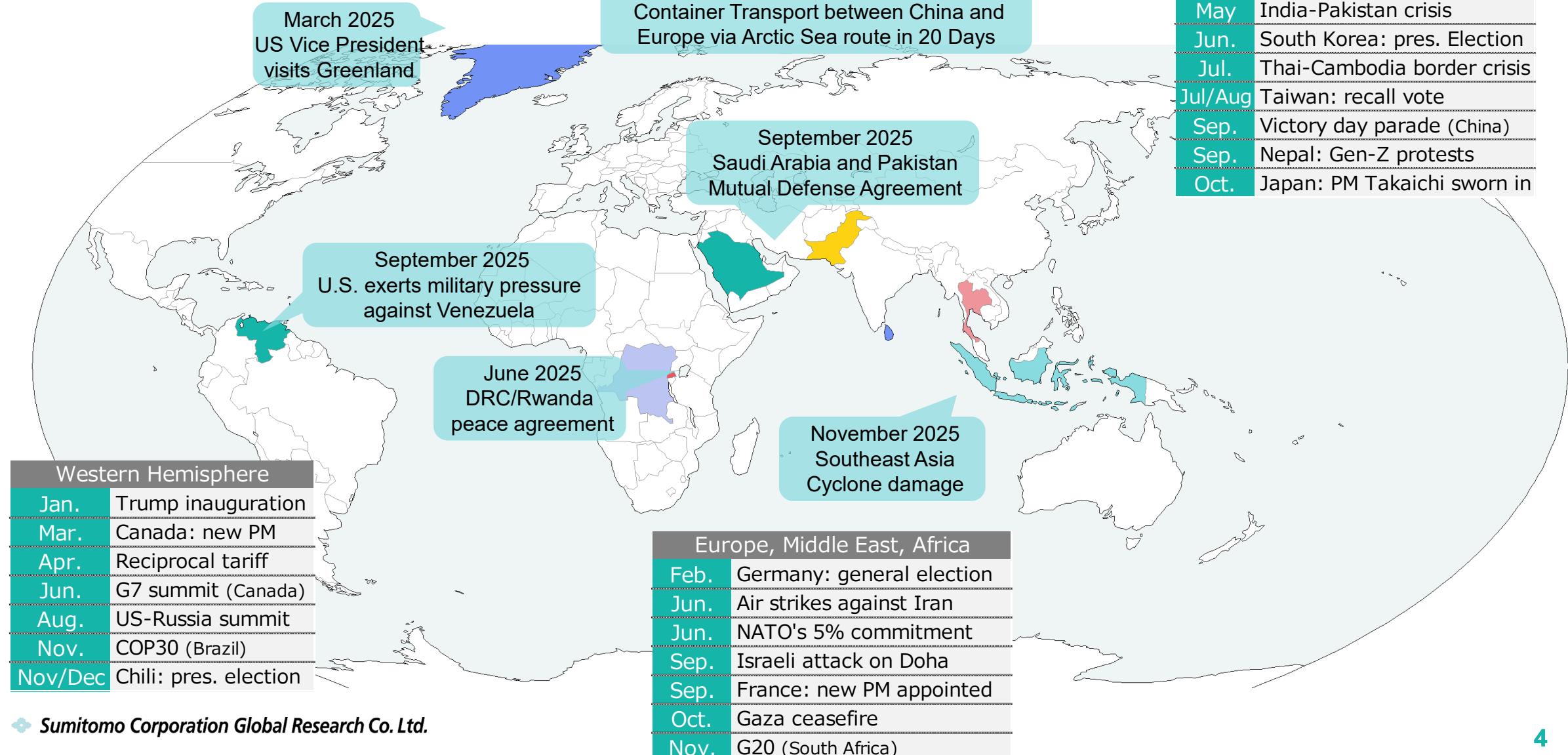
Before 2026

Q1 2025: What Happened to the Global Economy Under Trump 2.0?

Q2 Behind the Scenes: How Did the "World Order" and "Security" Change?

Q3 Where are AI, climate change, and ESG headed in this context?

International Relations in 2025



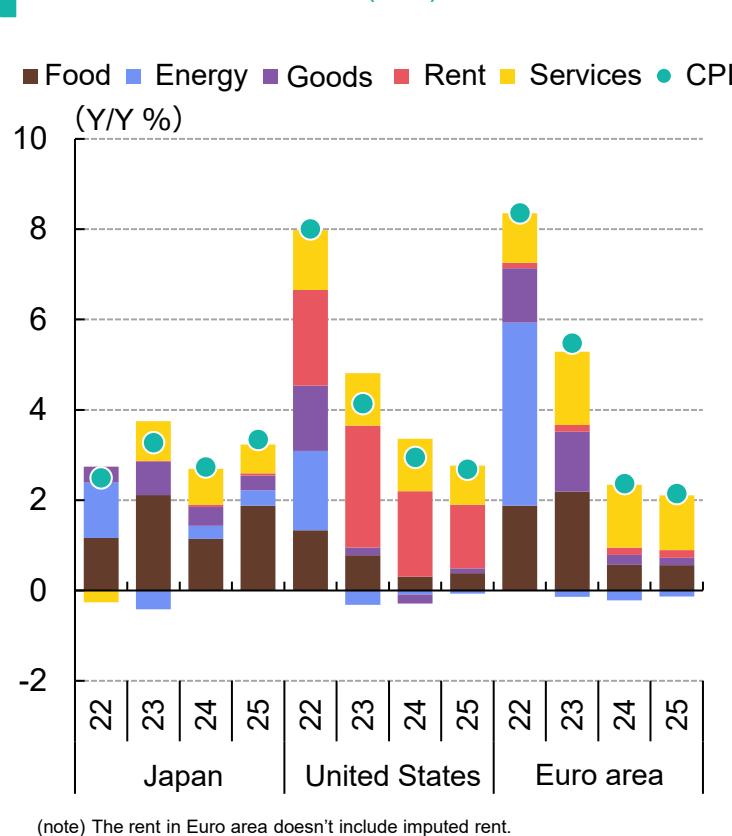
Macroeconomic Outlook

- **Economic Growth** held steady, supported resilient service sectors despite a sluggish manufacturing sector and is expected going forward.
- **Inflation** slowed down, but remains stubbornly high. Driving forces vary by country and region, including food, rent, and services.
- Trade Volume deteriorated in the manufacturing in advanced economies, but expanded in emerging economies. Weak domestic demand in China and U.S. tariff policies are concerned.

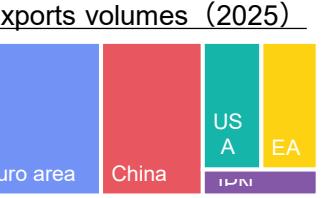
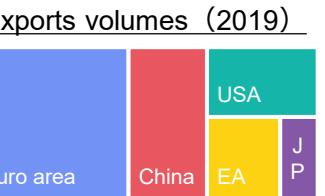
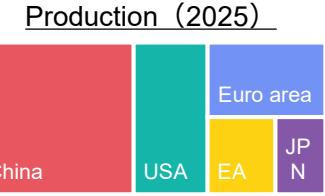
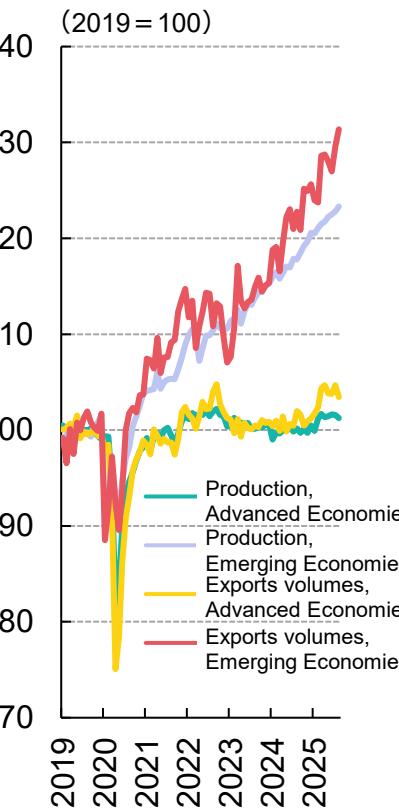
IMF World Economic Outlook (October 2025)

	Year over Year			Difference from April 2025 WEO	
	2024	2025	2026	2025	2026
	Projections			Projections	
World	3.3	3.2	3.1	0.4	0.1
Advanced economies	1.8	1.6	1.6	0.2	0.1
Japan	0.1	1.1	0.6	0.5	0.0
U.S.	2.8	2.0	2.1	0.2	0.4
Euro area	0.9	1.2	1.1	0.4	-0.1
U.K.	1.1	1.3	1.3	0.2	-0.1
Emerging Market and Developing Economies	4.3	4.2	4.0	0.5	0.1
Asia	5.3	5.2	4.7	0.7	0.1
China	5.0	4.8	4.2	0.8	0.2
India	6.5	6.6	6.2	0.4	-0.1
ASEAN-5	4.6	4.2	4.1	0.2	0.2
Europe	3.5	1.8	2.2	-0.3	0.1
Russia	4.3	0.6	1.0	-0.9	0.1
Middle East and Central Asia	2.6	3.5	3.8	0.5	0.3
Saudi Arabia	2.0	4.0	4.0	1.0	0.3
Sub-Saharan Africa	4.1	4.1	4.4	0.3	0.2
Nigeria	4.1	3.9	4.2	0.9	1.5
South Africa	0.5	1.1	1.2	0.1	-0.1
Latin America and the Caribbean	2.4	2.4	2.3	0.4	-0.1
Brazil	3.4	2.4	1.9	0.4	-0.1
Mexico	1.4	1.0	1.5	1.3	0.1

Consumer Price Index (CPI)

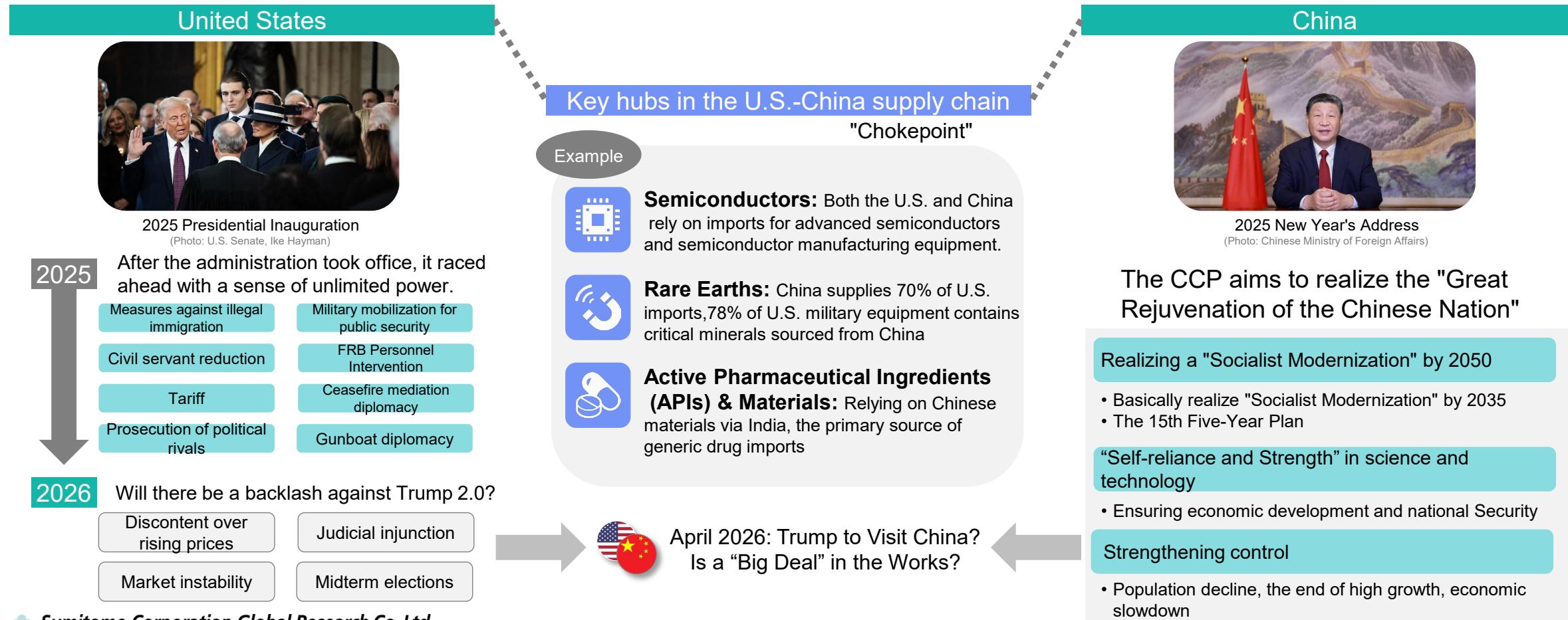


Production and Exports



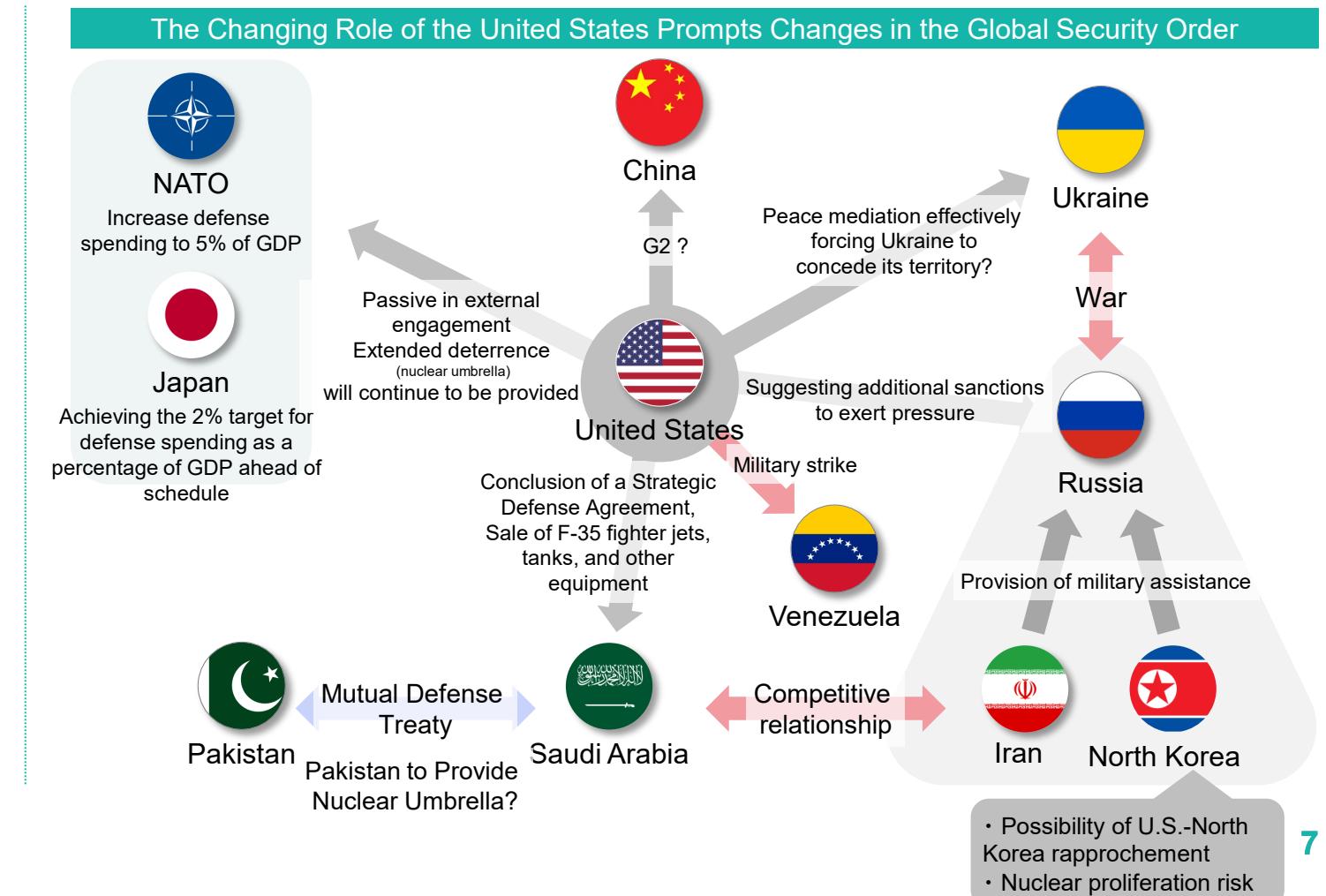
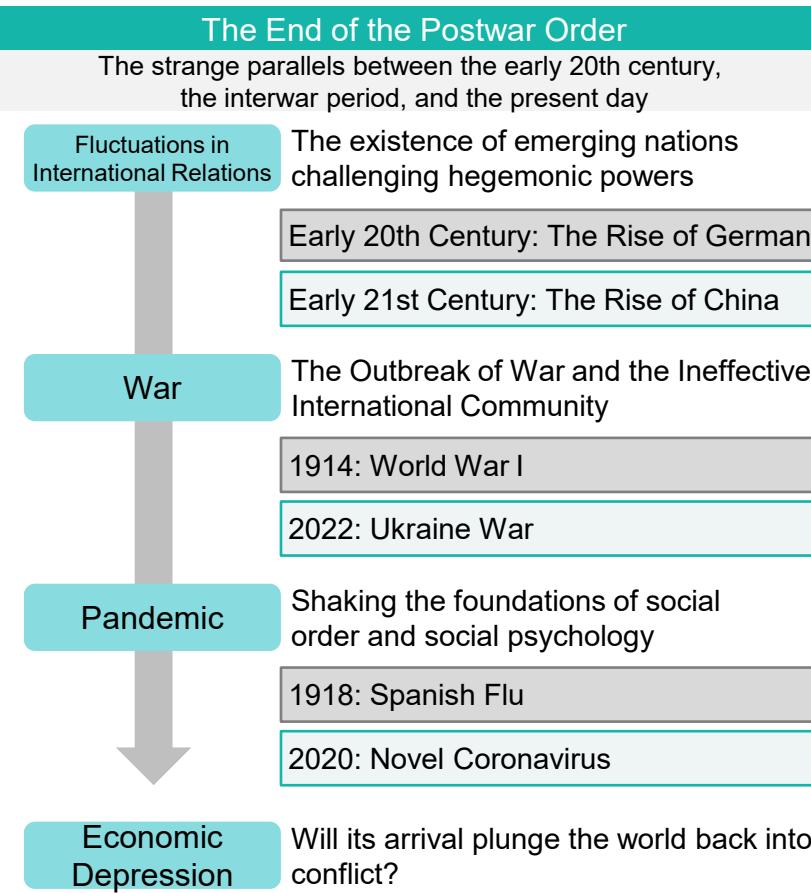
U.S.-China Relations: A Tug-of-War Between Competition and Dependence

- In 2025, the Trump administration swiftly rolled out policy initiatives. Going forward, it will inevitably face backlash.
- China is forging ahead toward realizing the “great rejuvenation of the Chinese nation.” Could it leverage its advantage in rare earth supply to break the deadlock in negotiations with the United States?



Security Order Entering a Transition Period

- Can the international community withstand a series of shocks—shifts in the global power balance, the outbreak of war, and the emergence of a pandemic?
- As the United States' role undergoes transformation, nations are beginning to reassess their relations with the U.S., signaling shifts in the global security order.



Global Protests by Generation Z

- Protests led by Generation Z (young people in their teens and twenties) are erupting worldwide. This surge stems from pent-up anger over political corruption, inequality, and deteriorating public safety.
- The digital generation, adept at leveraging social media, has mobilized large-scale protests by harnessing pop culture as a medium. Can they pioneer new avenues for political participation?

Characteristics of Generation Z Protests		Examples of Protests in 2025	
Generation Z	Refers to the generation born from the late 1990s to the early 2010s. Currently, from teenagers to those approaching their 30s .	Indonesia	Nepal
Anger	Corruption, inequality, the heavy burden of living expenses, collapsing infrastructure, public safety, and more – these triggers are anger toward the privileged class, dissatisfaction with daily life .	In August, protests erupted over increased housing allowances for lawmakers; the hike was reversed and the unrest subsided after a cabinet reshuffle.	In September, a social media shutdown over “disinformation” sparked protests, the parliament was set on fire, and the prime minister resigned.
SNS	They organize activities using SNS bypassing established mobilizing bodies (political parties, labor unions, etc.), and instantly disseminate information while staging demonstrations.	Madagascar	Morocco
<p>Due to similarities like youth leadership and social media use, it is often compared to the "Arab Spring" (2010–12). Generation Z does not necessarily seek systemic change.</p>			<p>By leveraging social media, activists enabled rapid information sharing and mobilization, making cross-border solidarity easier than ever.</p> <p>As a "generational movement," it succeeded in fostering a sense of solidarity. Evolving into sustained political action remains a future challenge.</p> <p>Can Gen Z forge new forms of political engagement?</p>
<p>September 2025, Nepal protests (Photo: Wikimedia Commons, Himāla Suvedī)</p> 			
<p>Peru</p> <p>September: Pension reform sparks rising discontent over corruption, declining public safety. State of emergency declared.</p>			Bulgaria
<p>In December, amid growing protests over political corruption and economic policies, the cabinet resigned en masse.</p>			

Circular Economy Driven by Economic Security and Decarbonization

- Importance heightened by economic security × decarbonization, driving policies toward domestic securing of critical minerals and building circular supply chains.
- Progress stalled in international agreements, including the development of a treaty on plastic pollution.

Climate Change Issues and Global Environmental Conservation

- GHG Emission Reduction ⇒ Carbon Recycling (Plastics, Textiles)
- Reducing pressure on natural resource extraction
⇒ Utilizing recycled materials (metals, paper, wood, etc.)

Expansion of energy security concepts, heightened geopolitical risks

- Expanded use of renewable energy and storage batteries ⇒ Need to secure critical minerals/recycle raw materials
- Concerns over trade restrictions ⇒ Securing economic autonomy

The Need for Responses Leveraging the Circular Economy

Utilization of low-carbon/decarbonized circular resources, visualization of resource circulation,
Circular design considerations, low-cost/wide-area collection, and advanced recycling technologies, etc.

Japan

- Revised Act on the Promotion of Effective Utilization of Resources (Apr. 2026–)
- Ouranos Ecosystem (Apr. 2023–)

EU

- European Battery Regulation (Aug. 2023–)
- Critical Raw Materials Act (May 2024–)
- Circular Economy Act (Bill to be submitted in 2026)

Global

- International Treaty on Plastic Pollution Prevention (negotiations ongoing) (Single-use restrictions, mandatory recycling promotion)
- Global Circularity Protocol (GCP, First Edition Published)

Slowdown in Global Efforts for Environmental Issues

- Europe and the US are rethinking climate policies, while China is advancing decarbonization. IEA shows a more realistic scenario.
- 2°C goal is challenging even with 2035 NDCs. Global consensus-building remains difficult.
- Biodiversity COP17 (26/10) is expected to feature the first substantive review and operationalization discussions following implementation of the Kunming-Montreal Biodiversity Framework

Key Developments in 2025/26 (Climate Change Related)		Major Countries' GHG Emission Reduction Targets (NDCs)					
		2030	2035				
World	Global consensus-building remains difficult <ul style="list-style-type: none"> • COP30: Agreement on adaptation indicators, but not on fossil fuels • IEA: the first “Current Policy Scenario” since 2020 • IMO: Vote for shipping carbon tax was postponed 	Japan	46% reduction from FY2013	60% reduction from FY2013			
Japan	Deepening discussions toward Green transformation <ul style="list-style-type: none"> • 7th Basic Energy Plan: Maximizing renewable energy and nuclear power • GX-ETS: Full implementation starting in April 2026 	US*	50-52% reduction from 2005	61-66% reduction from 2005			
United States	Moving away from decarbonization <ul style="list-style-type: none"> • OBBB, IRA scale-back, Withdrawal from Paris Agreement announced 	EU	55% reduction from 1990	66.25%–72.5% reduction from 1990			
EU	Seeking to balance decarbonization and competitiveness <ul style="list-style-type: none"> • Clean industry deal, Pressure to review 2035 EV target • CBAM: full implementation starting in 2026 	UK	68% reduction from 1990	81% reduction from 1990			
China	Advancing decarbonization efforts <ul style="list-style-type: none"> • 2035 NDC targets over 3,600 GW of wind/solar (6x 2020 levels) 	China	CO2 peaked	Reduction from peak by 7-10%			
Private sector	Offshore wind faces challenges, EV OEMs in developed countries struggle, Nuclear power gains attention, GFANZ retreats	* NDCs are commitments under the Paris Agreement. US plans to withdraw from the Paris Agreement in Jan. 2026.					
Outlook and Key Issues for COP17 on Biodiversity (October 2026)							
DSI (Digital Sequence Information): Moving toward concrete operational rules							
Progress Review of the Biodiversity Framework: Verifying national efforts							
Fund Mobilization: Confirming progress toward the GBF's annual \$200 billion funding target							
Mainstreaming biodiversity: Discussing the integration of biodiversity values into economic and other decision-making processes.							

The Sustainable Finance Swing-back

- ESG shifts from lofty ideals to practical regulations and standards focused on essential areas.
EU: Reducing disclosure burdens through the Omnibus Act; **Japan**: SSBJ (Sustainability Standards Board Japan) implementation begins; **36 Countries**: Adopting/Considering ISSB (International Sustainability Standards Board) Standards.
- In **the US**, ESG faces continued backlash: retreat in climate risk management, financial institutions halting international framework activities, SEC disclosure stalling.
- Internationally, progress continues on establishing international standards targeting corporate actions in biodiversity and standardizing disclosure for investors.

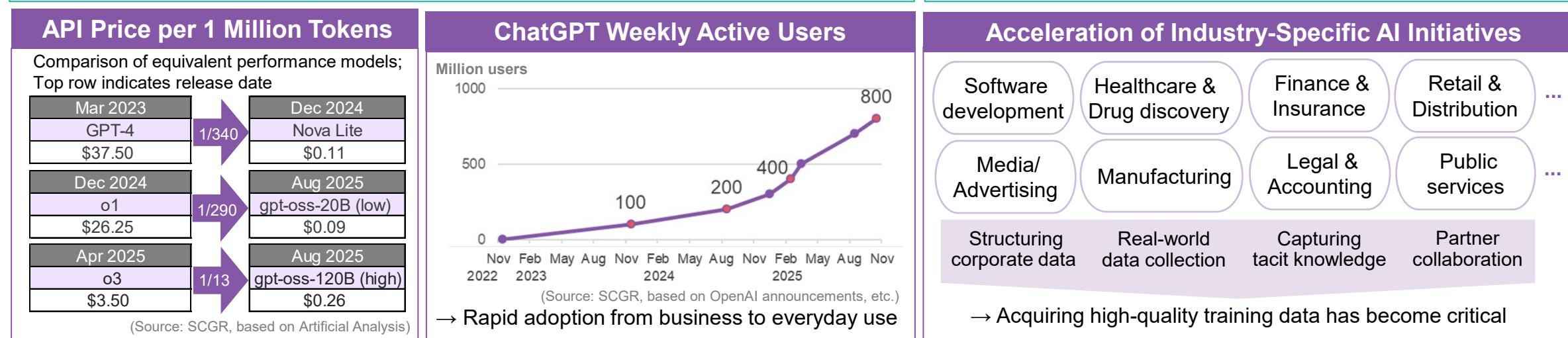
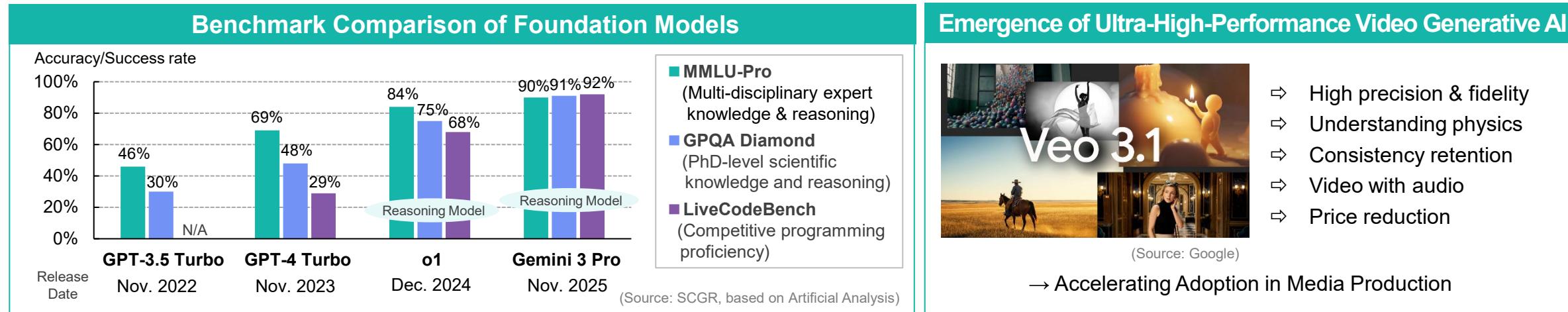
Developments regarding sustainability disclosure rules	
	Disclosure status
EU	Beginning application of ESRS (European Sustainability Reporting Standards) under the CSRD (Corporate Sustainability Reporting Directive) (Burden reduction under deliberation)
United States	SEC rules suspended/withdrawn in effect
Japan	SSBJ standards finalized and voluntary application begins (to be phased in as mandatory)
Other	36 countries have adopted or are considering adoption of ISSB.

Movement toward international standards and disclosure frameworks for biodiversity	
<ul style="list-style-type: none"> ● ISO 17298 issued, establishing a framework for corporate action on biodiversity (aligned with TNFD) ● ISSB begins developing biodiversity and ecosystem disclosure standards 	



Qualitative Evolution and Widespread Adoption of AI

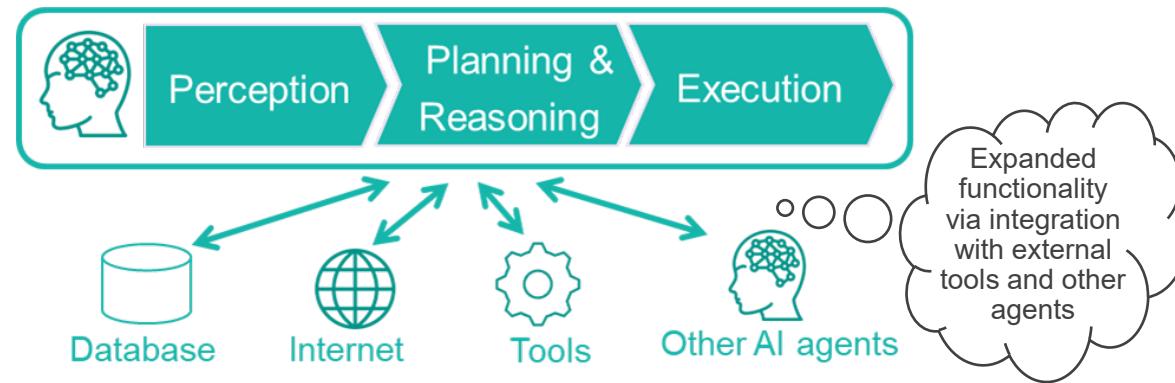
- Foundation model performance has surged, exceeding human experts in certain tasks. Creative AI has also evolved dramatically.
- Improved cost efficiency is accelerating widespread use. Development of specialized AI for specific industries is now in full swing.



Expansion of AI Application Scope

- AI agent implementation is gaining momentum. Enhanced agent capabilities enable handling complex tasks and pursuing open-ended goals.
- R&D in Physical AI is rapidly advancing in fields like robotics and autonomous driving. Recently, expectations for humanoid robots have been rising significantly.

AI Agents (Autonomous execution of intellectual tasks)



→ Protocols for connectivity and payment are emerging, and standardization is progressing

Anticipated Application Areas (Examples)

Customer support

Software development

Healthcare & Pharma

Personal assistant services

[Key Challenges]

Computational resource consumption, Accuracy & reliability, Permission settings/management, Black-boxed reasoning processes, Security, Privacy, etc.

Physical AI (Perceiving and Acting in the Real World)

Humanoid Robots: Dramatic Evolution and Cost Reduction



(Source: X/@UnitreeRobotics)

(Source: X/@Figure_robot)

- Achieved advanced athletic capabilities and versatility for a wide range of tasks
- Pilot operations are in full swing. Mass production systems are being established, signaling market expansion.

Anticipated Application Areas for Humanoid Robots (Examples)

Manufacturing & Logistics

Customer service

Healthcare & Nursing care

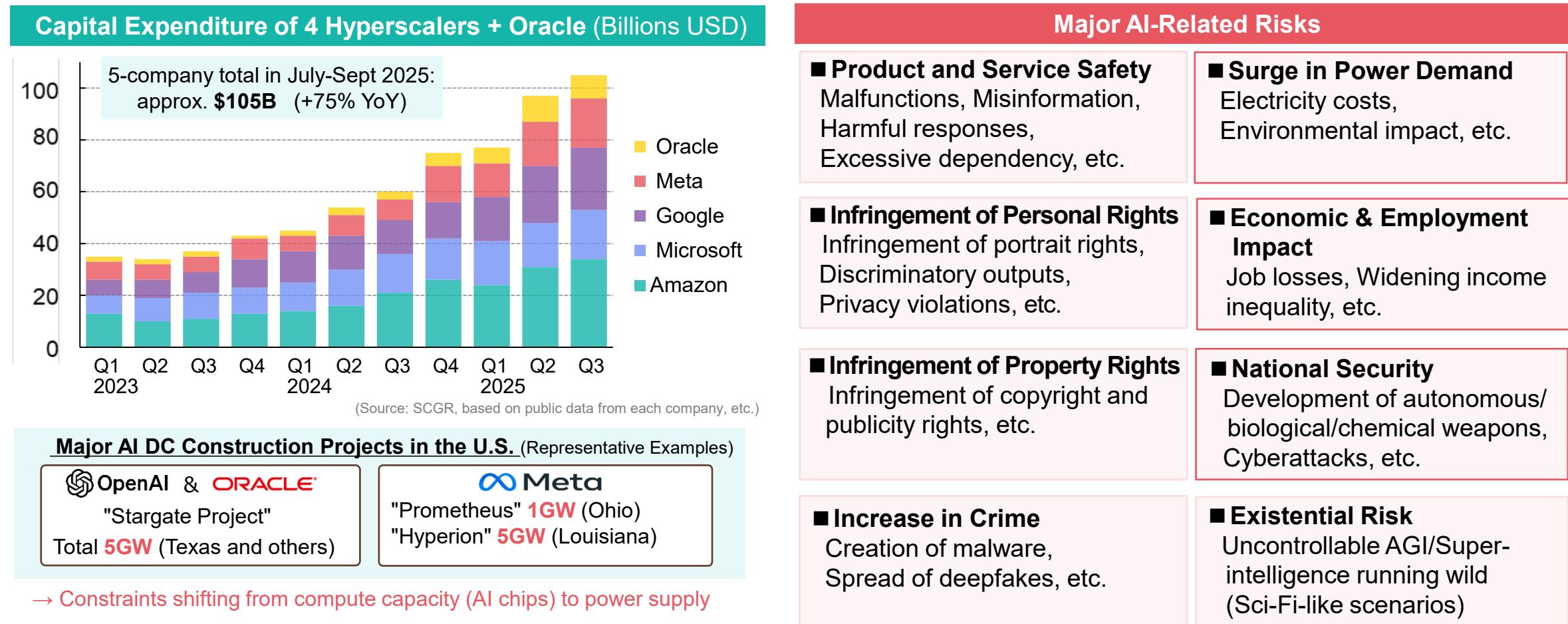
Household services

[Key Challenges]

High-speed/high-precision motion, Operating time, Manufacturing costs, Maintenance, Safety, privacy, etc.

AI Infrastructure Investment and Related Risks

- Continued expansion of AI infrastructure investment by major US tech companies. Numerous construction plans for mega AI data centers (DCs) are underway.
- Meanwhile, rapid improvements in AI performance and its widespread adoption are bringing various risks and issues to the surface.



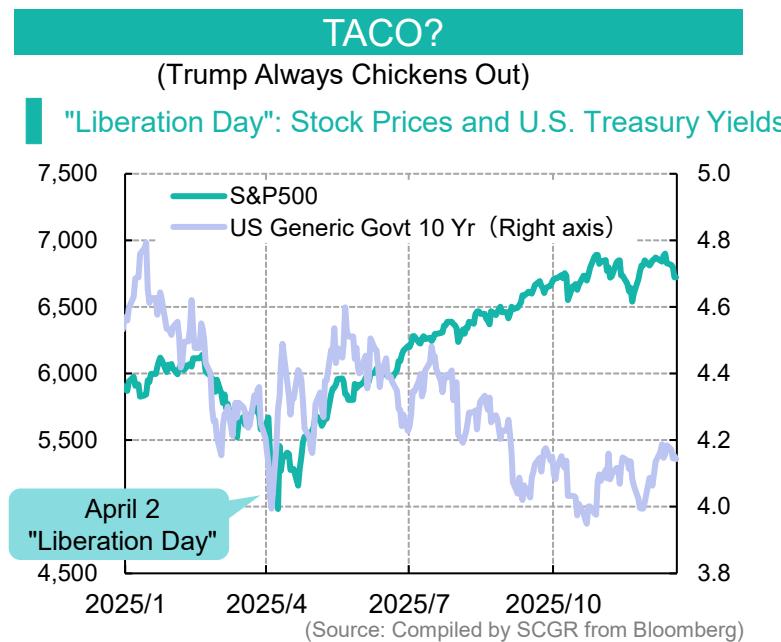
02

Part 2

Regional Political, Economic, and Market Trends

The U.S. Roiled by Trump Politics

- Trump tariffs have been revised and postponed multiple times. Trump administration possess the flexibility to adapt to circumstances.
- With the midterm elections in November 2026 approaching, what lessons will the Democratic Party draw from the victories like the New York mayoral race to shape its election strategy?



Markets reacted after the announcement of reciprocal tariffs, The Trump administration announced a 90-day suspension. Even when the Trump administration adopts a hardline policy, there is a hypothesis that it softens its stance depending on market reactions, (Trump always chickens out).

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November 2025, Democratic candidate wins

New York City Mayoral Election

	Votes (mil)	Pct. (%)
民主黨 (D)	1.11	50.8
共和黨 (R)	0.91	41.3



Z. Mamdani
(Photo: Wikimedia, Dmitry Shein)

Childcare Cost Assistance
(\$6 Billion annually?)

Rent Control for Rental Housing

Virginia gubernatorial election

	Votes (mil)	Pct. (%)
民主黨 (D)	1.98	57.6
共和黨 (R)	1.45	42.2



A. Spangler
(Photo: U.S. House)

New Jersey gubernatorial election

	Votes (mil)	Pct. (%)
民主黨 (D)	1.9	56.9
共和黨 (R)	1.42	42.5



M. Sherrill
(Photo: U.S. House)

Composition of the U.S. Congress



Democratic Party



Republican Party

The Republican Party currently holds a majority in both the House of Representatives and the Senate.

Senate

47

53

House

213

218

(Vacancy: 4)

Midterm elections (November 3, 2026)

Of these, 35 seats are up for election.

13

22

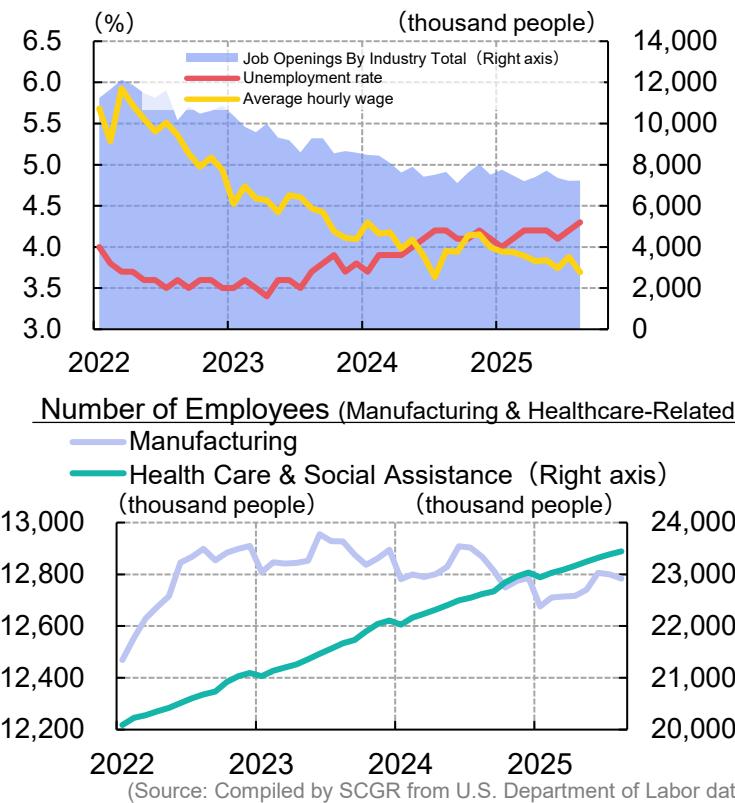
Democratic Party Republican Party

House of Representatives 435 seats up for election

The U.S. economy, seen as both strong and weak

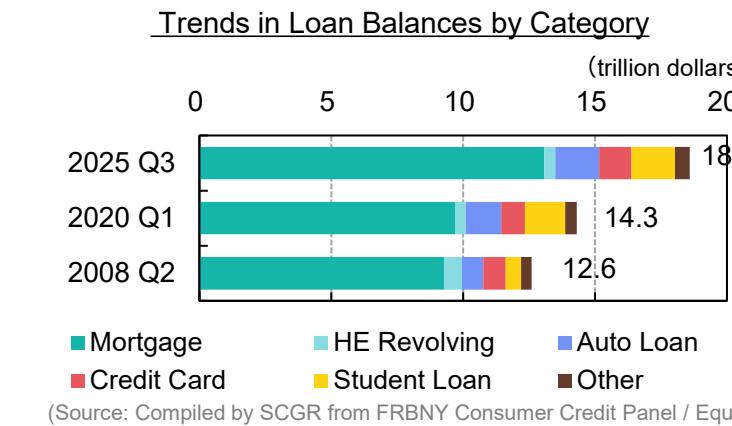
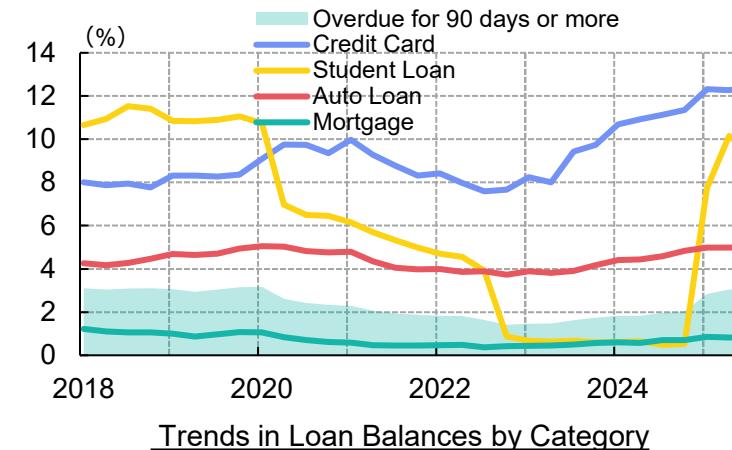
- In the U.S., long considered robust, the unemployment rate has begun to rise, and wage growth shows signs of stagnation. Employment gains are particularly noticeable in healthcare and social assistance.
- Delinquency rates are trending upward. While no impact is seen on large-value mortgages, concerns mount over the rapid rise in credit card and student loan delinquencies and their potential household effects.
- Price stability may be key to improving consumer sentiment. Closely monitor how tariff measures affect household behavior through U.S. prices.

The U.S. labor market is approaching a turning point.

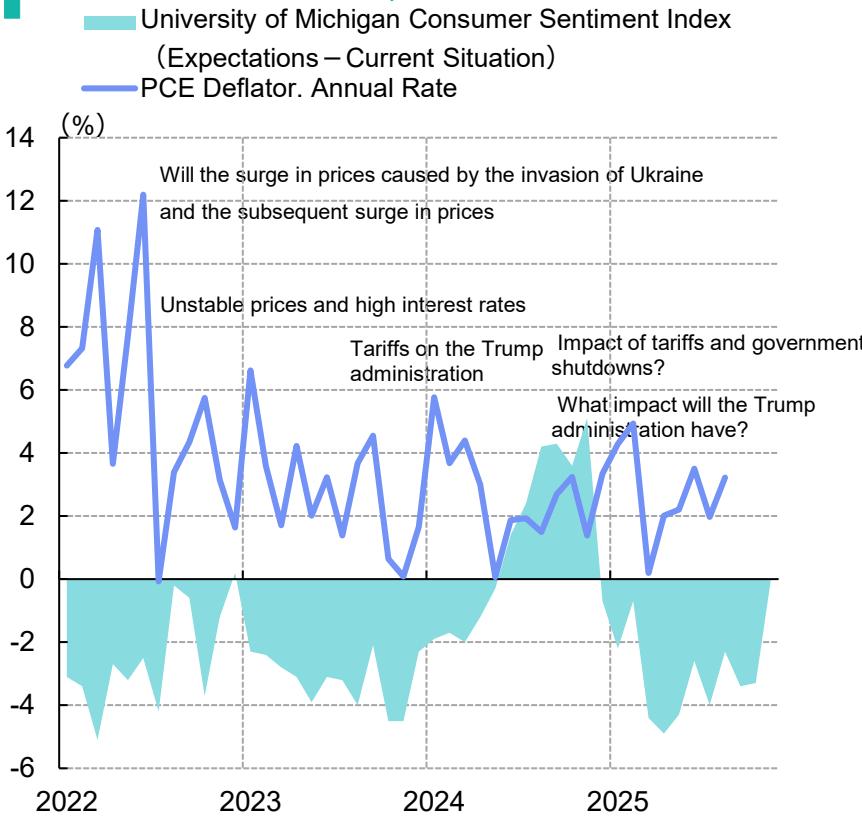


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Delinquency Rates on the Rise, Driven by Credit Cards and Student Loans



Will Stable Price Trends Improve Consumer Sentiment?



Europe's Unity Put to the Test

- Europe is in the midst of sweeping structural change, standing at a crossroads not only in foreign affairs and defense, but also across diverse fields including the economy, finance, industry, and the environment.
- Faced with US-China rivalry and the threat from Russia, Europe's resolve to redefine its strategy and transform itself is being tested.

Centripetal and Centrifugal Forces at Work in the EU

Centripetal force

Growing mistrust of the U.S. is strengthening the drive for “[strategic autonomy](#)”, coupled with a simultaneous effort to break away from dependence on China.

Cracks

Right-wing parties are gaining ground in the European Parliament and key EU member states (e.g., Germany, France). Concerns are mounting over declining industrial competitiveness. This poses a risk to EU cohesion.

United Kingdom

Economy

The Starmer Labour government has proposed fiscal consolidation, including tax increases and welfare benefit cuts, but its approval ratings have declined amidst the economic downturn.

Relations with the EU

The UK seeks a "reset" of its relationship with the EU. Efforts are underway to achieve convergence in the food inspection and defense sectors.

Populist Rise



United Kingdom
Nigel Farage's “Reform UK” is gaining influence.

(Photo: Wikimedia Commons)

Rise of the far right

- The rise of right-wing forces, including the far right, has seen them enter government in some EU member states.
- These far-right forces advocate for anti-immigration policies and a shift away from pro-European stances.
- In the European Parliament, the collaboration between center-right and right-wing parties is positioning the far right as a realistic force to implement policies.



Germany

Support for the Weidel-led Alternative for Germany (AfD) has significantly expanded, impacting government policies.

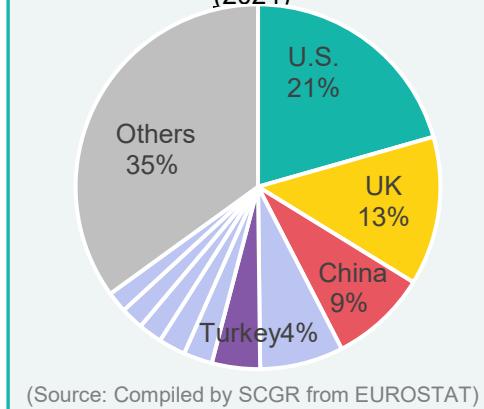


France
Le Pen's National Rally (RN) is gaining support, potentially winning the next presidential election.

Strategic realignment of diplomacy

- The relationship with the U.S. is being relatively repositioned, while the process of decoupling from China advances. Sanctions against Russia continue to move toward reinforcement.
- NATO aims to raise defense spending to 5% of GDP by 2035. Increased defense spending pressures UK and French finances, narrowing room for economic policy.
- Advancing FTA negotiations to diversify trade relationships.

EU Export Shares by Partner Country (2024)



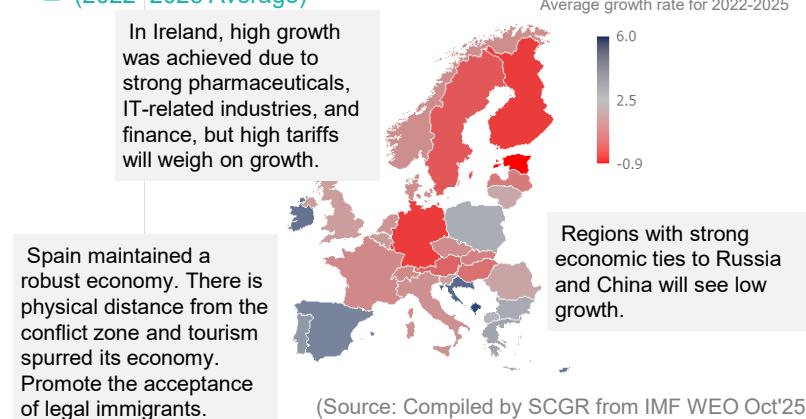
European economies show increasing disparities

- Economic growth varies across European countries, with some lagging behind in recovery.
- Can fiscal and industrial policies be transformed to drive growth?
- Establishing an economic system independent of the United States and China is now essential.

European economic growth shows significant disparities

- Price has been stable, but growth momentum has slowed.
- Economic growth shows significant variation. Low growth in Northern and Eastern Europe is prolonged, while Ireland, Spain maintained relatively high growth.
- Increasing fiscal spending on infrastructure construction and defense expenditures will provide short-term support for growth.
- New market development is being pursued through new economic partnerships with Mexico, India, and Mercosur

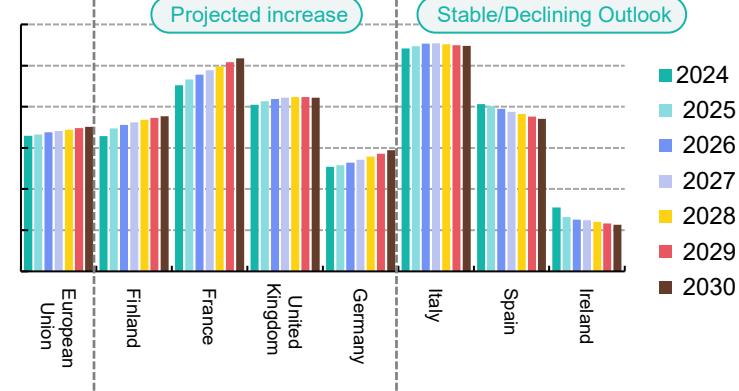
Real GDP Growth Rates of Major European Countries (2022–2025 Average)



Fiscal stances also vary.

- The Stability and Growth Pact (SGP) requires a fiscal deficit within 3% and debt within 60% of GDP, but the EU's 2024 fiscal deficit and government debt is still at 3.1% and 81% of GDP, respectively.
- Due to massive investments in green and digital technologies through the promotion of the Competitiveness Package and increased defense spending, it will be difficult for highly indebted countries to achieve the agreement.
- UK and France discuss on spending cuts and tax increases. Germany has temporarily suspended its "debt brake" rule and shifted its focus to strengthening defense capabilities and expanding industrial subsidies.

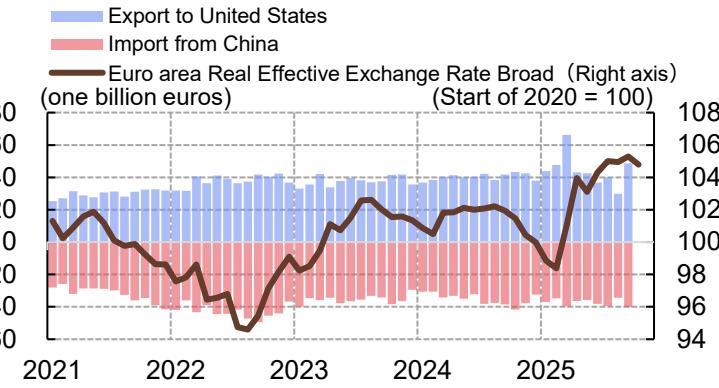
EU/Major European Countries Government Debt (as a percentage of GDP)



Can it escape the slump?

- While the ECB has lowered its policy interest rate, the currency remains strong. Although a strong currency has a price-suppressing effect, the impact of U.S. tariffs on exports and the risk that increased imports due to currency strength are risks on growth. Attention is focused on how much fiscal support will offset downside risks to the economy.
- Strategic and structural challenges such as decarbonization, security, and population aging persist over the medium to long term, making it difficult to sustain growth. While fiscal spending increases, there is also a risk of policy drift.

Trends in Exports to the US and Imports from China and Exchange Rates



Is a Ceasefire Possible in the War in Ukraine?

- The war in Ukraine has entered its fifth year (since February 2022), placing heavy burdens on both sides.
- The Trump administration has mediated ceasefire negotiations and presented a new peace proposal. However, the proposal includes tough conditions for Ukraine, such as territorial concessions.

The ongoing conflict imposes significant costs on both sides.



- Severe funding shortages, manpower shortages, as well as widespread war fatigue
- Massive corruption scandal shakes confidence in government
- Economic slowdown, high inflation, and rapidly expanding fiscal deficit
- Impact on citizens' lives (fuel shortages, airport closures, etc.)

Peace proposals under discussion (as of December 2025)

Sovereignty / Military	<ul style="list-style-type: none"> The US and Europe recognize Ukraine's sovereignty Limit on the number of Ukrainian troops
Territory	<ul style="list-style-type: none"> Two eastern regions of Donbas in Ukraine are ceded to Russia The US recognizes Russian ownership of two eastern regions and Crimea
Security Guarantees / NATO	<ul style="list-style-type: none"> The US guarantees Ukraine's security Ukraine clearly states in its constitution the abandonment of NATO membership NATO troops will not be stationed in Ukraine
Russia-related	<ul style="list-style-type: none"> Sanctions against Russia will be lifted gradually Russia will rejoin the G8

Standoff between NATO and Russia, risk of conflict spreading to Europe

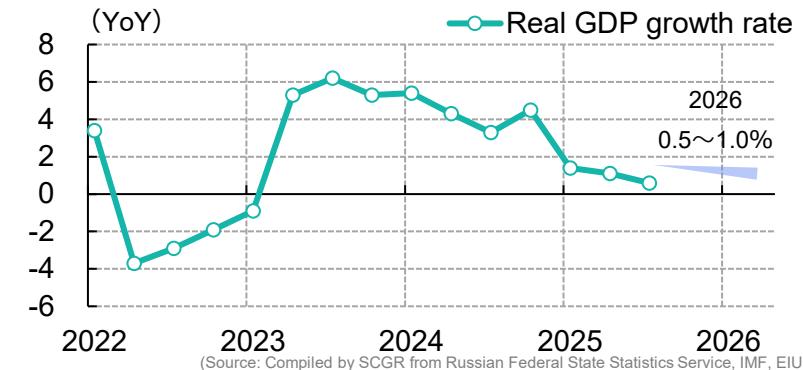


Putin Administration Faces Scrutiny Over Wartime Economic Management

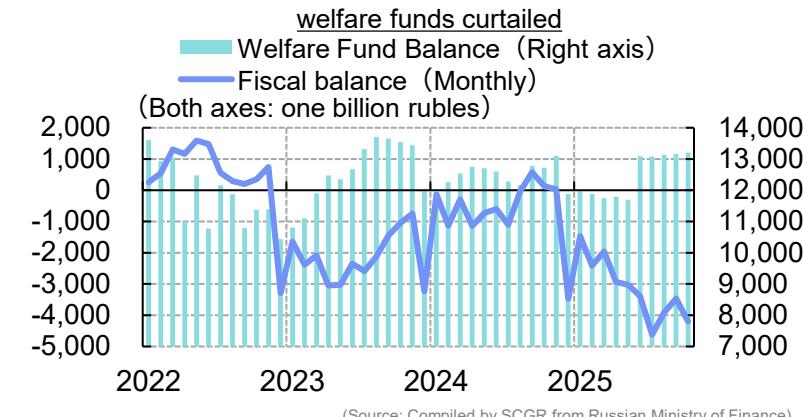
- The administration enjoys high approval ratings and a stable political base. The ruling party is expected to win the State Duma elections scheduled for September 2026.
- Relations with China, North Korea, Belarus, and Central Asia are being maintained and strengthened. However, Russia's presence in the Middle East and Africa may decline, affecting crude oil and gas markets.
- The sustainability of the war effort is in question. It is important to closely monitor the effects of rising prices, labor shortages, reduced foreign investment, and falling resource prices on Russia's ability to continue the conflict.



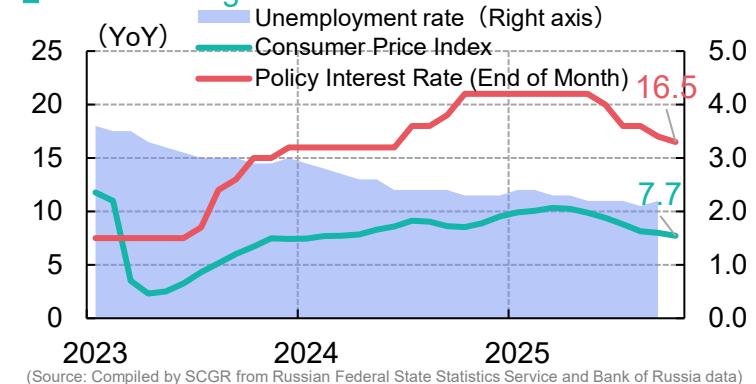
Economic growth driven by wartime economy also showing strong signs of slowing



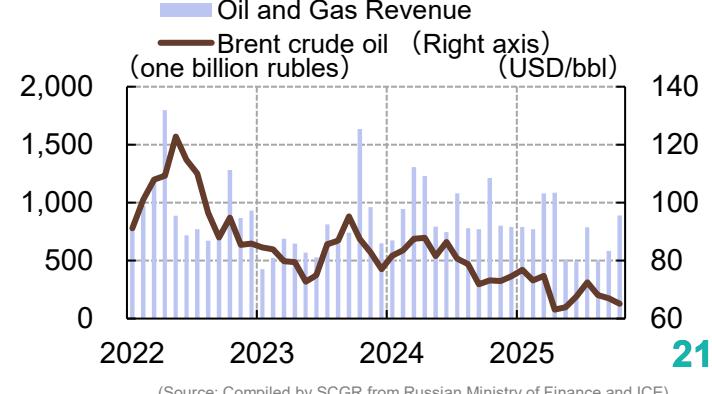
Fiscal deterioration leads to VAT hike; budget allocations from welfare funds curtailed



Signs of change amid soaring prices and labor shortages



Revenue impacts from lower oil prices and economic sanctions to persist



China Aims to Become a "Strong Nation"

- Xi Jinping is centralizing power, focusing on national security amid U.S.-China tensions and economic slowdown. His strategy emphasizes tech dominance and sustained growth.
- Despite calls to boost domestic demand, investment and exports remain key drivers.

Domestic Politics

The 4th Plenum of the CCP (October)

Outline of the 15th Five-Year Plan (2026–30)

- **New Quality Productive Forces** Emphasis on innovation-driven growth and **“Self-reliance and Strength” in technology**
- No Successor Designated→ Xi administration likely to continue beyond 2027
- Ongoing Personnel Shake-ups & Purges→ Further consolidation of power around Xi Jinping

Emphasis on National Security

White Paper on China's National Security in the New Era (May 2025)



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Foreign Policy

Strategies for U.S.-China Rivalry

1

Strengthening Relations with Russia and North Korea

- Substantial Support for Russia in the Ukraine War
- Reciprocal Visits by Xi Jinping and Vladimir Putin (May & September 2025; three phone calls)
- Visit by Kim Jong-un to China (September)



September 3, 2025, in Beijing
(Photo: From Wikipedia Commons)

2

Strengthening Relations with Emerging and Developing Countries

- Central Asia, Romania, Africa, and the Middle East, China hosts forums
- Belt and Road recovery



November 2025 G20
Summit
(Photo: From the

3

Improving Relations with Neighboring Countries

- Improved Ties with India and South Korea

©However, Japan-China relations deteriorate sharply from November 2025

Japan-China Relations

In November 2025, China strongly protested remarks by Prime Minister Takaichi, with frictions likely to persist over the long term.

Scenario ①

The situation has calmed, leaving Japan–China relations in a low-level but stable state.

Scenario ②

China strengthens sanctions on Japan, further worsening bilateral relations.

1. Likelihood	High
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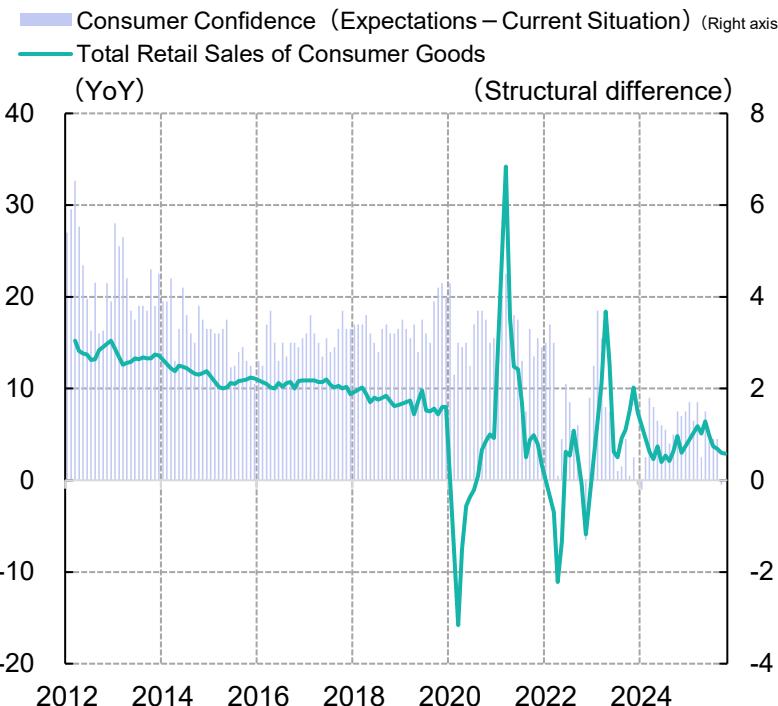
- Increased activity of Chinese government vessels and drones around the Senkaku Islands
- Cancellation of short-stay visa exemptions
- Tightened procedures for Japanese companies and Japanese-made products
- Stronger crackdowns on alleged “spies” among Japanese nationals in China
- Export / import restrictions on specific goods
- Investigations and fines targeting specific Japanese companies in China
- Substantive restrictions on rare-earth exports
- Tolerance of anti-Japanese demonstrations within China

2. Impact	Low
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China's economy remains sluggish

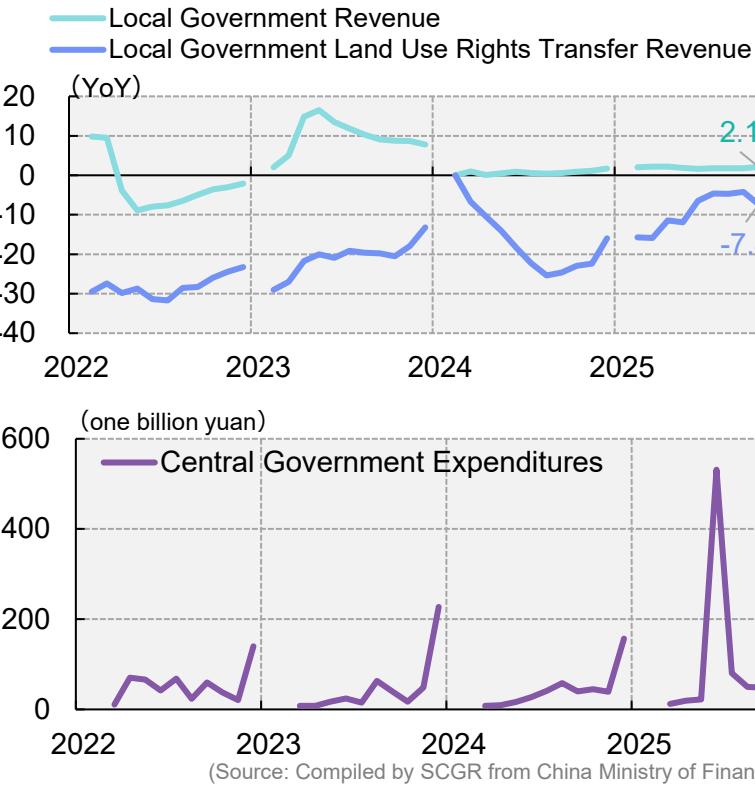
- Policy support seeks to boost consumption, but effects remain temporary; future expectations stay subdued, raising concerns that disinflation may be reinforcing saving behavior.
- Local government finances are gradually stabilizing with central support; land-use rights transfer revenues remain negative year-on-year, though the decline is narrowing.
- Exports face headwinds from U.S. tariffs and rising European caution toward Chinese imports, highlighting the need to strengthen domestic demand.

Can weak household consumption help restore expectations of renewed growth acceleration?

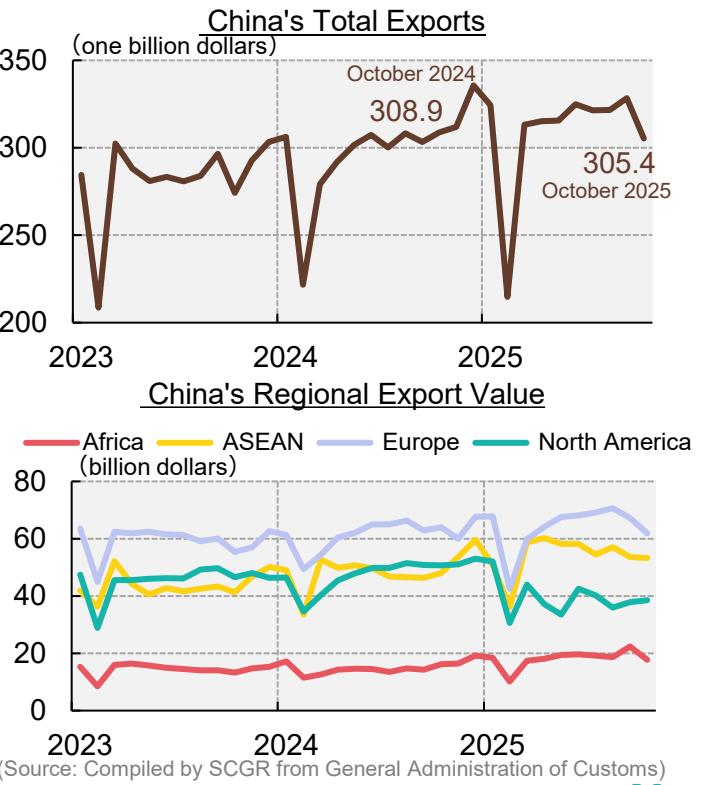


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Local finances rebuild with central government support



A challenging external-demand environment limits growth acceleration as an engine of growth.



Pragmatic South Korea; Taiwan under growing internal and external pressure

- President Lee Jae-myung promotes “pragmatic diplomacy,” prioritizing national interests, stabilizing ties with key partners, and focusing on economic revitalization.
- Taiwan’s Lai Ching-te administration faces policy constraints under a minority government; next year’s unified local elections are pivotal. China views Taiwan’s current situation as an opportunity, stepping up pressure and intensifying infiltration efforts.

South Korea

June 2025: Lee Jae-myung of the Democratic Party of Korea elected president.

Practical Diplomacy Prioritizing National Interests



US Investment: \$3,500

Cooperation to revitalize U.S. shipbuilding industry



Negotiations for South Korea's Nuclear Submarine Construction



“Future-Oriented and Stable Relationship Building”

Continuing Shuttle Diplomacy Between Leaders



Respecting the Previous Administration's Agreement on Historical Issues

Economic Policy

Slowing Exports

Construction Slump

External Risks

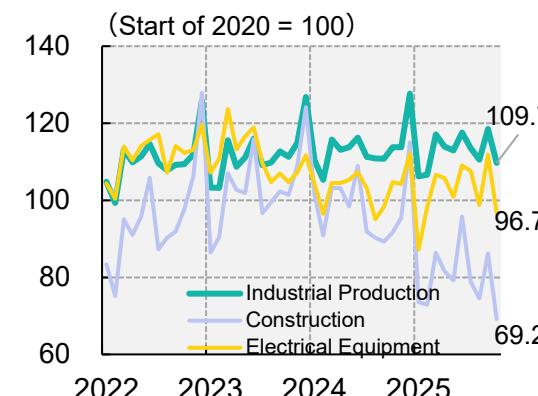
2026 growth forecast: +1.8%

Structural Reform

Fostering strategic industries

Economic Growth Strategy:
Vision such as "Top 3 AI Powers" and
"World's Top 5 National Powers"

Industrial Production Index



Taiwan

Lai Ching-te Administration: Tough Policy Management with a Minority Party

The Failure of the Major Recall Movement

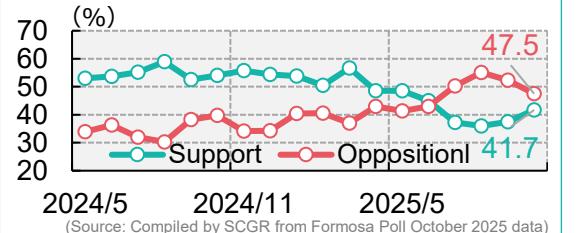
Trump Tariffs

Increased Defense Budget
5% of GDP by 2030

The November 2026 unified local elections will also shape the 2028 presidential race.

Administration under pressure

President Lai Ching-te's Approval Rating



Foreign Relations



- Spread of “anti-American sentiment”
- TSMC plans \$100 billion Additional Investment in the U.S.



- Infiltrating Taiwanese Society with “Carrots and Sticks” tactics
- Low likelihood of Chinese military invasion
- Risk of Chinese Quarantine/Blockade Rising

Economic Policy

Economic growth

2026 Real GDP Growth Rate 3.1–3.3%

Growth Drivers

Global AI and semiconductor investments, together with private consumption, are driving economic growth, while securing a stable power supply remains a key challenge.

Realignment of Great-Power Competition in the Middle East and Normalization of Low-Intensity Conflicts

- While Arab states continue to value their relations with the US, they are also reducing overdependence on Washington and maintaining ties with China/Russia.
- Although Gaza and Lebanon are nominally under ceasefire, Israel continues low-intensity attacks, and the risk of conflict escalation remains.
- Gulf states are accelerating national transformation aimed at reducing dependence on oil. Turkey is expanding its presence in international and regional affairs.

Three Structural Trends Shaping the Region

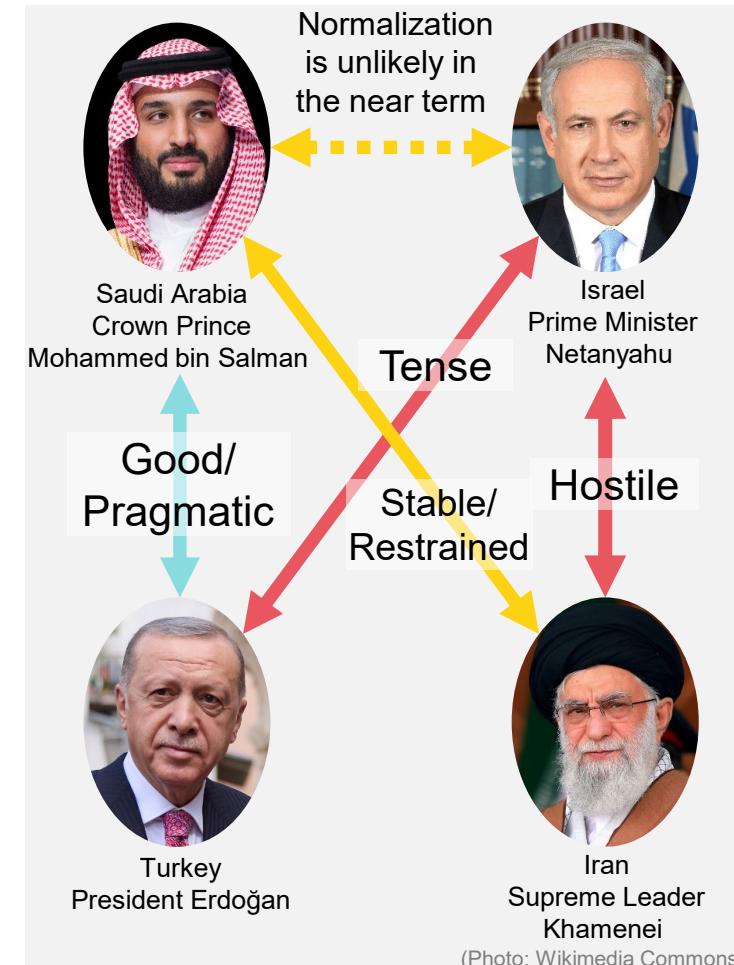
Realignment of Great-Power Competition
(US, China, Russia)

Normalization of Low-Intensity Conflicts
(Gaza, Lebanon, Red Sea)

National Transformation
(Saudi Arabia, UAE, Turkey)

Major Hotspots

Gaza/Lebanon	Nominal ceasefire, but tensions persist
Iran	Difficult to rebuild nuclear agreement. Closer ties with Russia and China
Turkey-Syria	Kurdish Issue continues to smolder
Red Sea	Houthi attacks on commercial vessels
Israel	Possibility of leadership change through elections



Key Geopolitical Risks in 2026

Large-scale conflict between Israel and Hezbollah

Major progress in Iran's nuclear program and resulting military strike risk

Intensified competition between Turkey and Israel over Syria

Fiscal deterioration in Gulf oil producers due to low oil prices

Increased instability in North Africa (Sudan, Libya) and spillover to the region

Worsening water scarcity (Iran, Iraq, Egypt)

Positive Scenarios (Opportunities)

Saudi Arabia and Iran maintain stable relations while containing tensions

Gulf states' large-scale investments stimulate regional economies

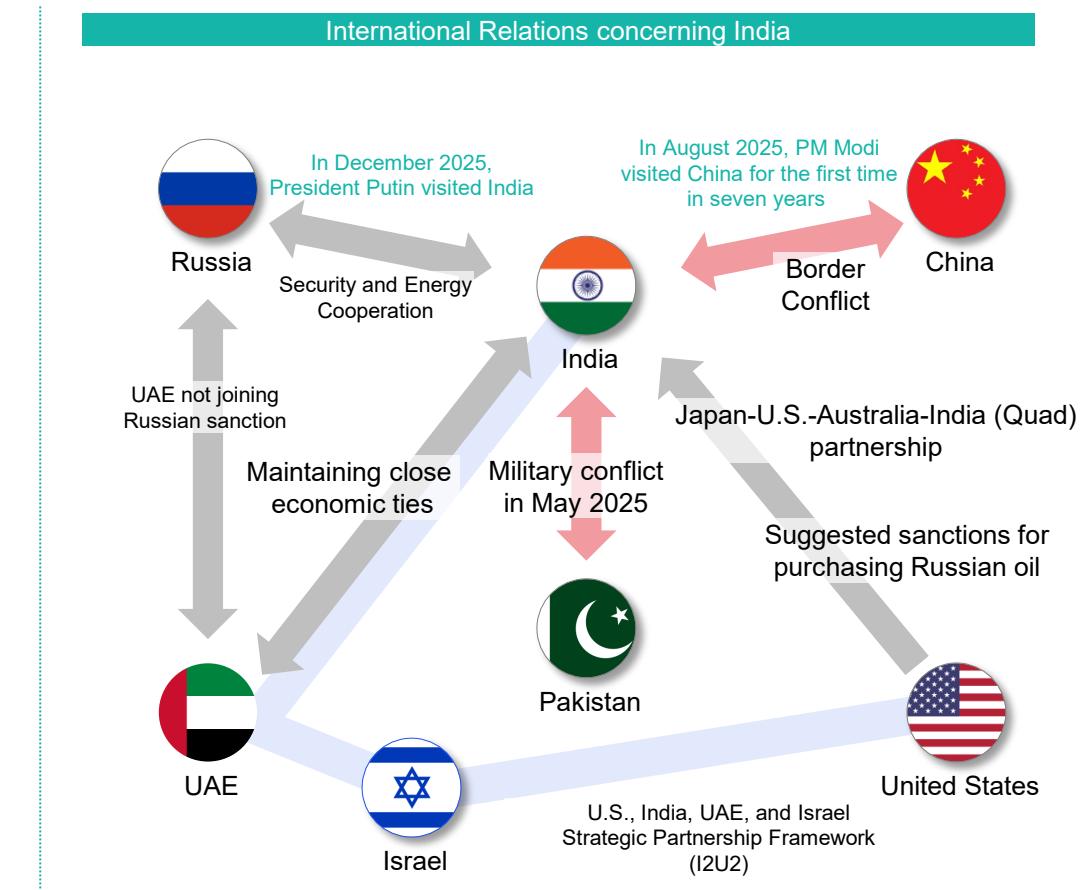
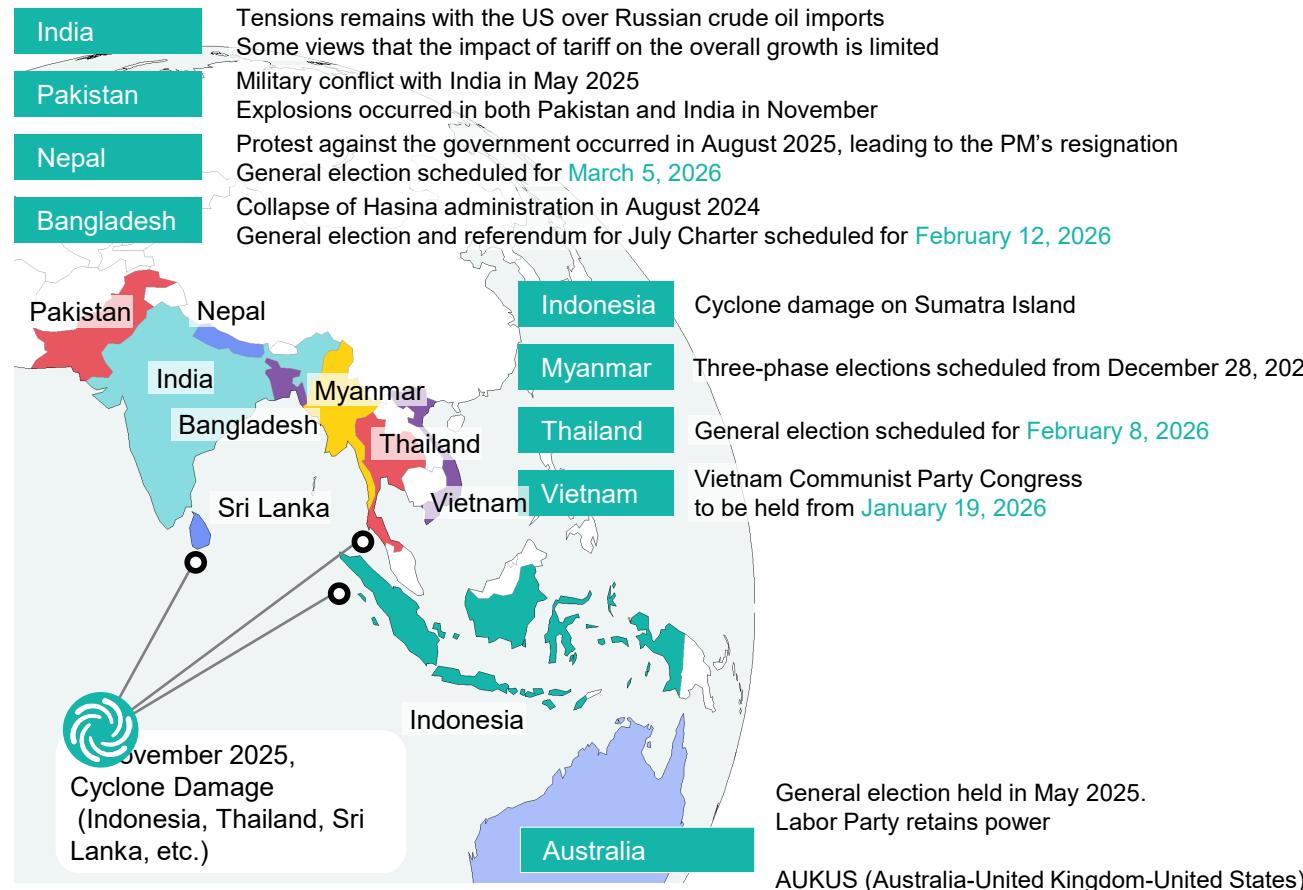
Continuation of the Gaza ceasefire enables limited economic cooperation between Israel and Arab states

National governance reforms advance, centered around decarbonization, AI, and digitalization

With progress in various "corridor" initiatives, the Middle East emerges as an economic zone linking Europe and Asia

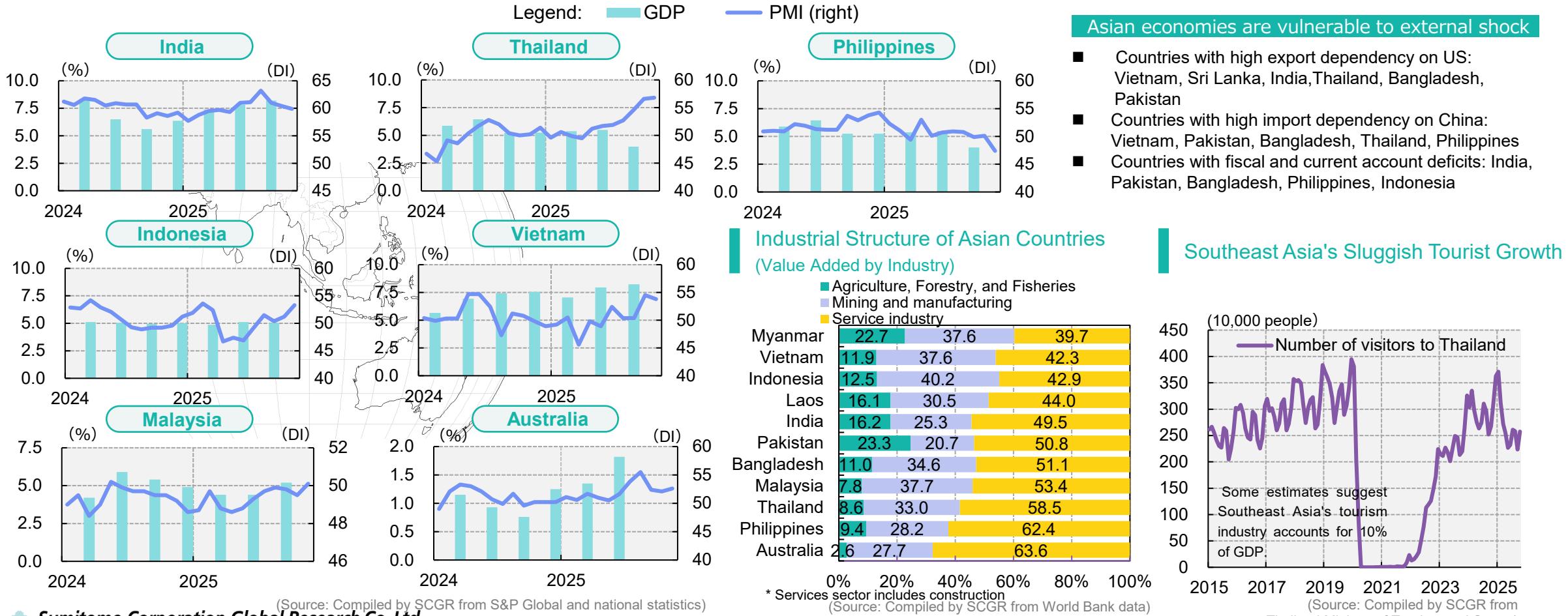
Asia: Where Growth Opportunities and Political Tensions Intersect

- In 2026, key national elections are scheduled in Southeast Asia and South Asia. Attention must also be paid to the impact of natural disasters on politics, the economy, and society.
- India aims to uphold strategic autonomy amid a complex international environment.



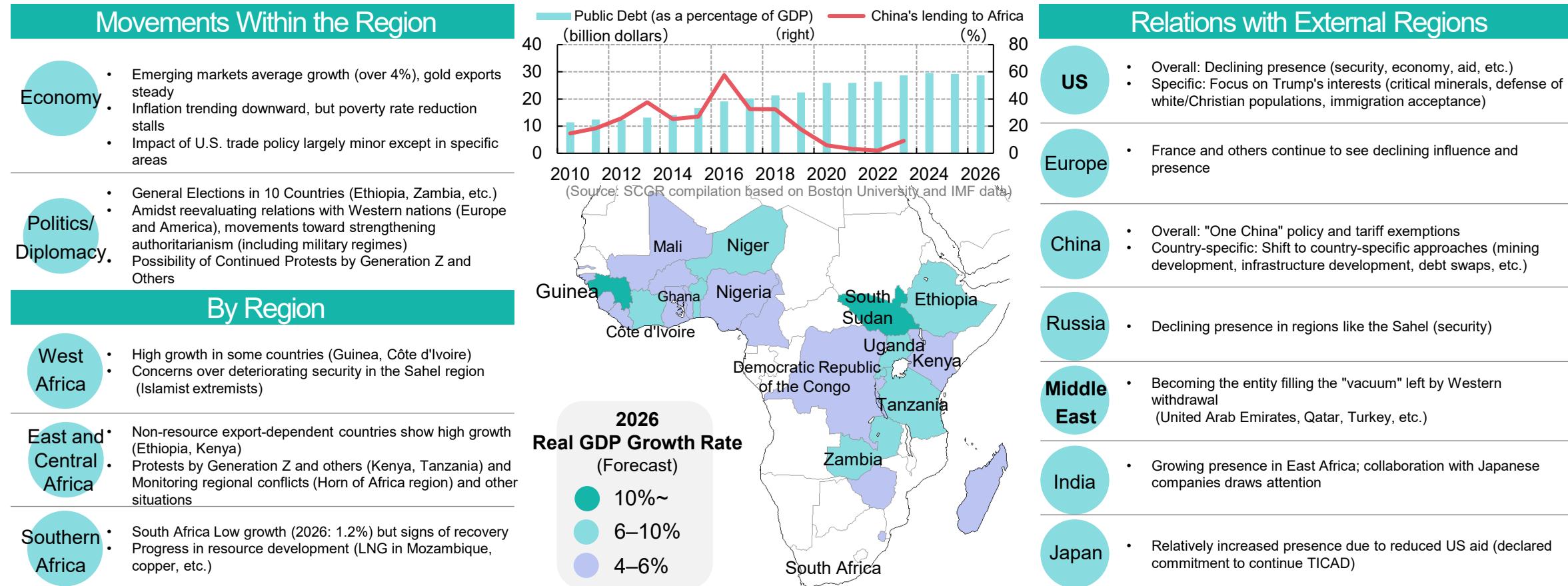
Asian Economies Adapting to Structural Changes in Domestic and Global Economies

- Asian economies continue to outperform global economic growth, but due to differences in economic levels and industrial structures, the momentum and trends of growth vary significantly from country to country.
- Should pay close attention to changes arising from supply chains and their impacts, U.S. tariffs, the impact of EU's CBAM on exports, and increasing import pressure from China.
- Should monitor the impact on national economies from the torrential rains that struck Southeast Asia in December 2025.



Sub-Saharan Africa: Diverse Nations Advance on the Back of Their Potential

- Economy: Growth rates remain at the emerging market average (around 4%). The balance of payments is improving due to rising gold prices.
- Politics: Middle Eastern influence expands as Western presence diminishes. Generation Z protests also draw attention.



Latin America's Swing Away from Liberal Politics

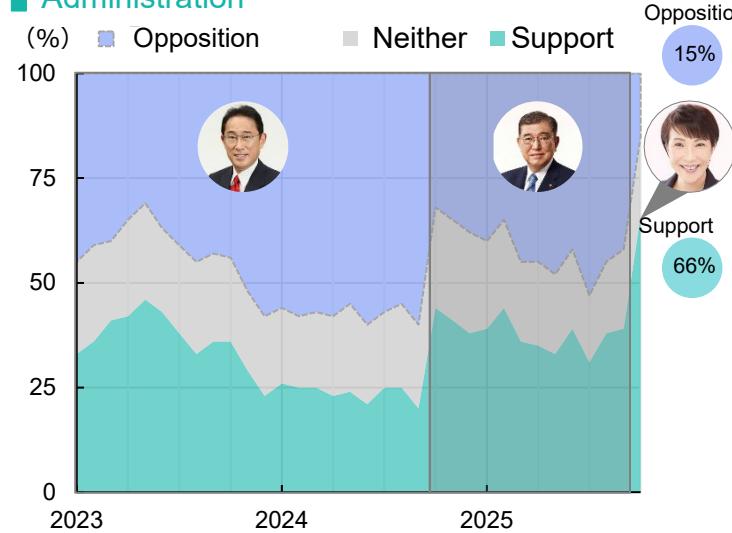
- Elections will be held in rapid succession across Latin America in 2025–2026. The backlash against the Pink Tide (leftward shift) that began in early 2020.
- Will policies prioritizing the alleviation of domestic discontent in each country take precedence over regional cooperation and policy coordination within Latin America?

Overall Trends in Latin America	Chile	A backlash against the Pink Tide
<ul style="list-style-type: none"> ■ Prospects for a shift toward pro-US policies are rising, but the Trump's transactional diplomacy creates significant uncertainty. ■ Mexico and Brazil face risks of economic slowdown, while Argentina is expected to sustain growth through reforms. 	<ul style="list-style-type: none"> ■ The Boric administration has struggled with failed constitutional amendments and implementing reforms, with right-wing candidate Kast expected to win the December presidential runoff. ■ Expectations are high for a return to neoliberalism and attracting investment. 	
<h3>Foreign Relations</h3> <ul style="list-style-type: none"> ■ China: Due to economic and geographic ties with the US and domestic circumstances, relations will remain stable or decline. ■ Europe: FTAs with non-EU countries anratification of EU/Mercosur FTA expected to expand markets. ■ Can foreign capital be attracted for the development of abundant mineral resources ? 	<h3>Peru</h3> <ul style="list-style-type: none"> ■ The president was impeached. Political instability persists, and security improvements remain elusive. The 2026 general election is expected to be chaotic, but the right wing is seen as having an advantage. 	
<h3>Mexico</h3> <ul style="list-style-type: none"> ■ President Sheinbaum maintains high approval ratings. ■ In foreign policy, she prioritizes relations with the US against with China. Renewal of the USMCA and security cooperation are key future focuses. 	<h3>Colombia</h3> <ul style="list-style-type: none"> ■ The leftist Petro administration continues its confrontation with the U.S.. Can a change in government and improved relations with the U.S. be achieved in the 2026 general election. 	
<h3>Brazil</h3> <ul style="list-style-type: none"> ■ Aims to expand its presence by championing environmental protection and multilateralism. ■ Presidential election in October 2026. President Lula seeks re-election but faces a head-to-head race against a successor candidate to former President Bolsonaro. ■ Improving relations with the U.S., unstable prices and high interest rates is a key focus. 	<h3>Argentina</h3> <ul style="list-style-type: none"> ■ President Milei continues to push through reforms. Inflation rate has dropped significantly. Partial removal of capital controls and return to international capital markets. ■ Victory in the midterm elections signals further reform momentum, economic concerns persist, including insufficient foreign exchange reserves. ■ There are distance in its relationship with Brazil and Mercosur. 	<p>Financial markets remained stable</p> <ul style="list-style-type: none"> ■ Despite U.S. tariffs, Latin American financial markets remain stable. Stock markets outperform the U.S. market. Mexico +28%, Brazil +32%, Chile +51%, Colombia +50%. ■ Currencies have also remained largely stable. Attention is focused on whether economic stability can be maintained.
<h3>Venezuela</h3> <ul style="list-style-type: none"> ■ Economic collapse and a humanitarian crisis persist amid the Maduro regime's continued authoritarian rule. ■ Relations with the U.S. have intensified, raising the possibility of U.S. military action. 		

Japan: Will the Economic Tide Shift with a Change in Government?

- October 2025: The Takaichi administration takes office, ushering in Japan's first female prime minister. Despite high approval ratings and the dissolution of the minority ruling party, policy flexibility remains relatively constrained.
- Economic policy aims to simultaneously achieve crisis management and growth. Market reaction to the "high-pressure economy" orientation draws attention.
- While successfully building positive relations with the US, relations with China deteriorated significantly.

High Approval Ratings for the Takaichi Administration



(Photo: Wikimedia Commons, Source: Compiled by SCGR from NHK)

- Japan's first female Prime Minister. High expectations for policy advancement backed by strong approval ratings. "Sanae-nomics" and "Takaichi Trade" drive stock prices to record highs.
- Economic expansion, price stability, diplomacy, security, and other challenges abound
- Amidst concerns over declining support for the Liberal Democratic Party, there are also expectations for a revival of the party's fortunes, fueling speculation about an early dissolution and general election.

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Economic Policy: Security/Crisis Management × Growth Realization

Field	Content
1 AI and Semiconductors	Public-private collaboration in technology development and human resource development, international standardization
2 Shipbuilding	Enhancing international competitiveness, supporting environmentally friendly ships
3 Quantum Technology	Inter-national Collaboration and Basic Research Support
4 Bio/Synthetic Biology	Research and Development/Industrialization Support
5 Aerospace	Public-Private Partnerships for Launch Services and Satellite Industry Development
6 Digital & Cybersecurity	Cyber Defense and Digital Public Infrastructure Development
7 Content	Overseas Expansion and Cultural Export Support
8 Food Tech	Agriculture × Biotechnology Development Support
9 Resources, Energy, and Green Transformation (GX)	Renewable Energy, Hydrogen, and Nuclear Integration Policy
10 Disaster Prevention and National Resilience	Infrastructure Investment and Disaster Risk Reduction
11 Drug Discovery and Advanced Medical Care	Healthcare DX and Biopharmaceutical Development Support
12 Fusion Energy	Next-Generation Energy Development
13 Materials (Critical Minerals and Materials)	Resource Securing and Domestic Supply Chain Strengthening
14 Port Logistics	Development of logistics infrastructure, port digitalization, Maritime Transport Route Resilience
15 Defense Industry	Technology and Production Base Support
16 Information and Communications	Optical Communications/Satellite Communications, 5G/6G Deployment, Quantum Cryptography Communication Development
17 Ocean	Seabed Resource Development, Ocean Observation, Promotion of marine science for both climate and security

(Source: Compiled by SCGR from Cabinet Secretariat "Japan Growth Strategy Council" materials)

FY2025 Supplementary Budget

Policy Themes	Target	Comments	National Funds, etc.	Project Scale
First Pillar Livelihood Security	Response to Rising Prices (Abolition of Temporary Gasoline Tax Rate, Energy Cost Support, etc.)	Expected to have immediate effects on prices and income	11.7	16.2
	Regional Economic Measures & Livelihood Stability (Medical/Long-Term Care Support, Public Safety/Bear Countermeasures, Education Support, SME Support, etc.)	Expected to yield economic effects at an early stage		
	Creating conditions for wage increases	Effects mainly expected from next fiscal year onward?		
Second Pillar Crisis Management Investment	Strengthening economic security	May require multi-year implementation, with effects seen over the medium to long term?	7.2	17.5
	Establishing Food Security			
	Strengthening Energy and Resource Security			
	Disaster Prevention, Mitigation, and National Resilience Measures			
The Third Pillar Defense Capabilities and Strengthening Diplomatic Capabilities	Responding to Changes in the Diplomatic and Security Environment	Can we expect results early?	1.7	8.4
	Response to U.S. Tariffs			
Contingency Funds	—	—	0.7	0.7
Total	—	—	21.3	42.8

- Real GDP boost effect +24 trillion yen
- Annualized growth rate +1.4%

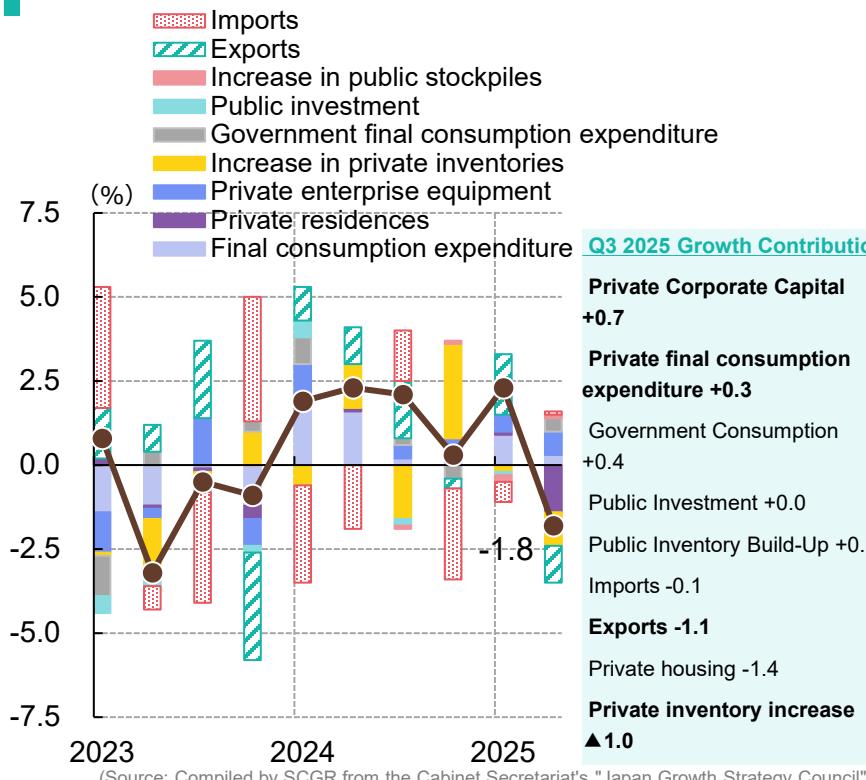
(Simple average assuming the above effects materialize over the next three years)

(Source: Compiled by SCGR from Cabinet Office) 30

Japan's Economy: Consumer Sentiment Recovering on Wage Hike Effects, Will It Lead to Expanded Domestic Demand?

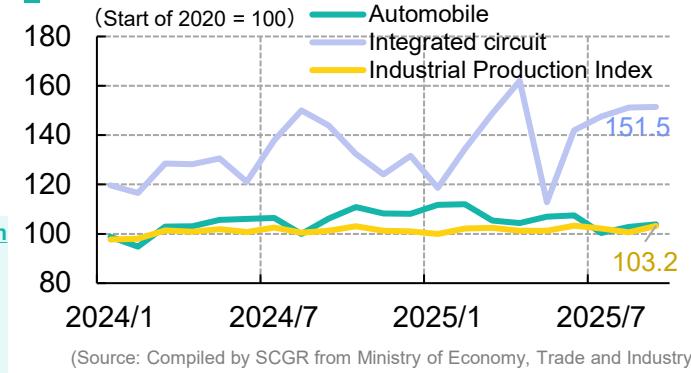
- While household consumption and exports show mixed progress, corporate capital investment has remained solid so far. Investment continues in both hardware and software.
- The impact of U.S. tariffs on production is noticeable but limited. Semiconductor-related production remains at high levels. The automotive sector faces semiconductor supply constraints.
- Will inbound tourism take a breather after the Osaka Expo? Policy effects offer room for real wage growth; also watch for improvements in business sentiment, which tends to lag nationwide.

Is capital investment the driver of growth?

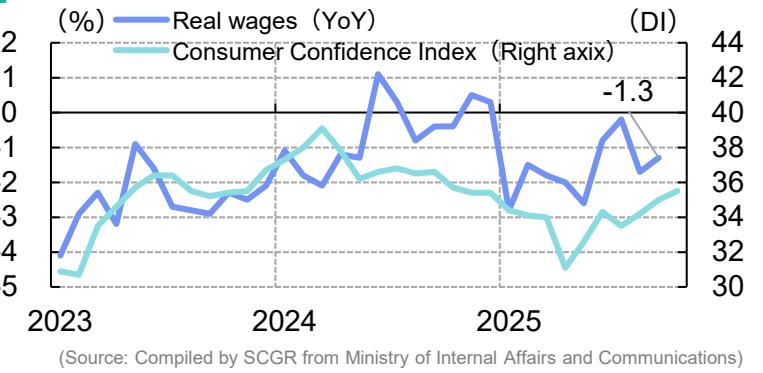


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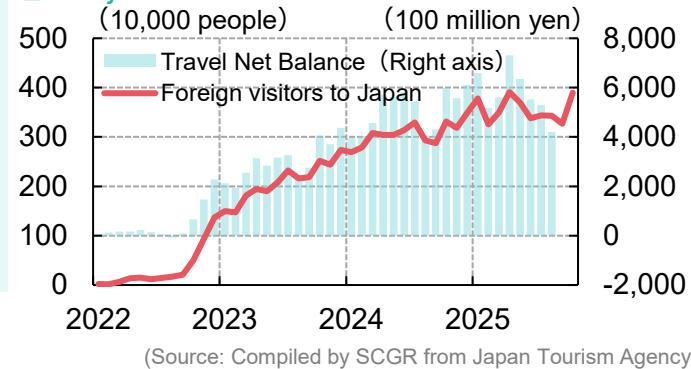
Production Activities Vary by Sector and Product



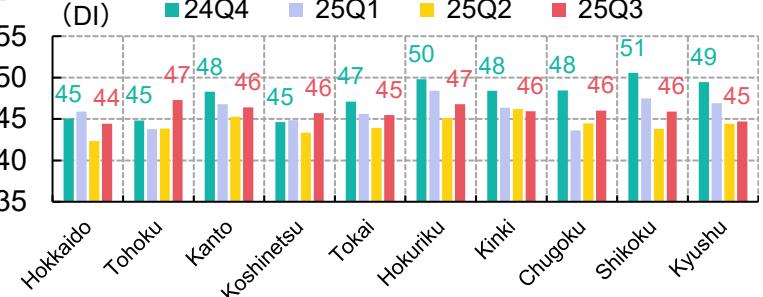
Will real wage recovery continue amid inflation measures?



Inbound tourism reaches a plateau after major events



Current economic assessment (by region)

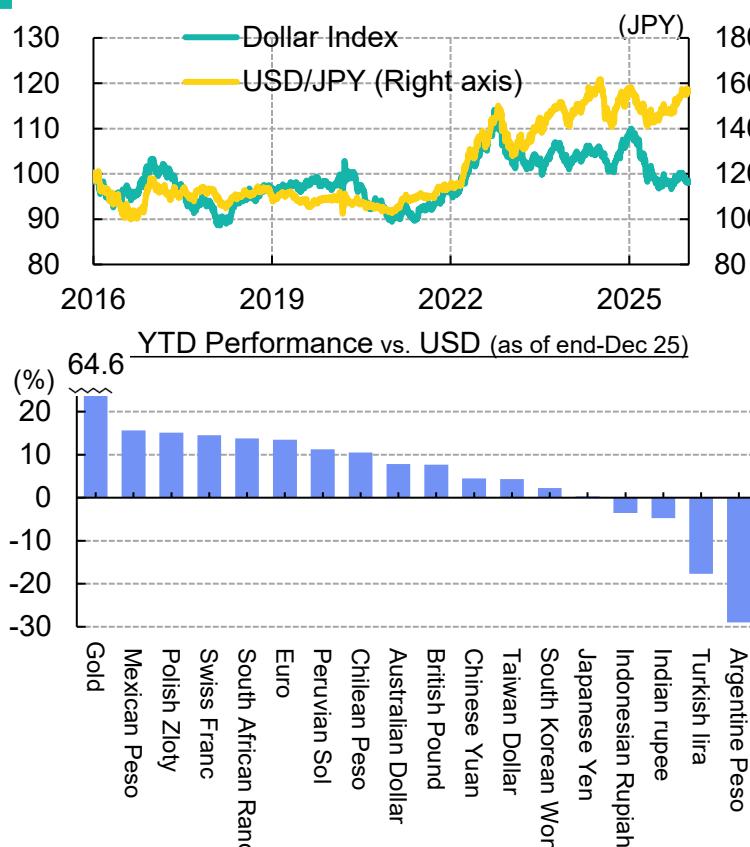


※ Monthly data adjusted to quarterly averages

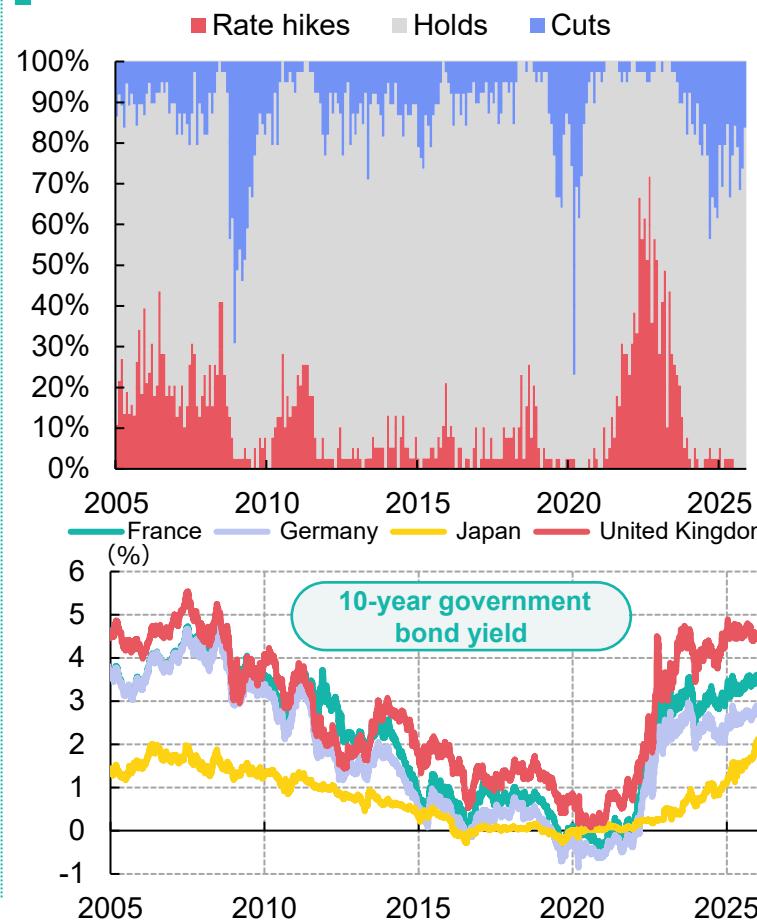
Markets (1) FX & Interest Rates

- FX: Geopolitical tensions are lifting gold prices. Despite talk of “de-dollarization,” carry trades remain in play.
- Interest Rates: Global easing continues; Japan is fine-tuning its gradual normalization, with long-term yields edging higher.
- Government Bonds: Higher spending and interest costs deepen reliance on debt and raise sustainability concerns.

FX: Weaker Dollar, Weaker Yen



Policy Rates : Global Rate-cutting cycle



Sovereign Bonds: Fiscal Pressures and Rating Changes

Major Sovereign Rating Changes in 2025

Foreign currency-denominated long-term sovereign ratings			
	S&P	Moody's	Fitch
Advanced economies			
Japan	A+	A1	A
U.S.	AA+	Aaa→Aa1	AA+
Austria	AA+	Aa1	AA→AA
Belgium	AA	Aa3	AA→A+
France	AA→A+	Aa3	AA→A+
Greece	BBB→BBB	Ba1→Baa3	BBB→BBB
Spain	A→A+	Baa1→A3	A→A
Italy	BBB→BBB+	Baa3→Baa2	BBB→BBB+
Emerging Market and Developing Economies			
Asia/ Middle East	A+	A1	A+→A
China	BBB→BBB	Baa3	BBB-
India	CCC+→B-	Caa2→Caa1	CCC+→B-
Pakistan	B+→BB-	B2→B1	B+
Mongolia	B+	Ba3	BB→B
Uzbekistan	BB-	Ba1→Baa3	BB+→BBB-
Oman	BBB-	Ba1→Baa3	BB+→BBB-
Africa	B-→B	Caa1	B
Egypt	B-	Caa1→B3	B-→B
Nigeria	CCC+→B-	Caa2→Caa1	RD→B-
Ghana	BB→BB	Ba2	BB-
South Africa	SD→CCC+	Caa2	RD→B-
Zambia	CCC+	Caa2	CCC+→CCC
Mozambique	CCC+	Caa2	CCC+→CCC
Botswana	BBB+→BBB	A3→Baa1	-
Senegal	B→B-→CCC+	B1→B3→Caa1	-
South America	CCC	Ca→Caa3→Caa1	CCC→CCC+
Argentina	CCC+→CCC-	Caa3→Ca	CCC→CCC-
Bolivia	BB+→BB	Baa2→Baa3	BB+→BB
Colombia	BB+→BB	Baa2→Baa3	BB+→BB

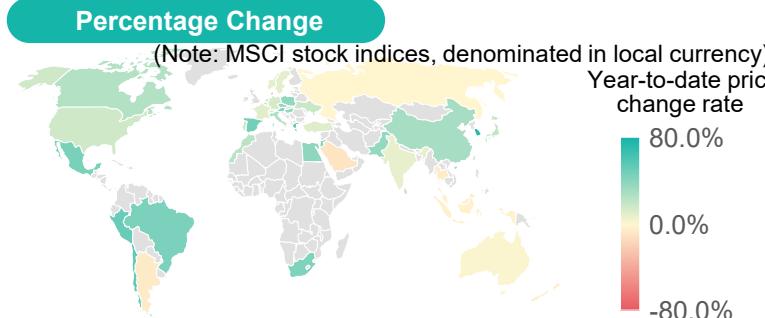
(Note: Highlighted areas : Blue = upgrades, Red = downgrades)

(Source: Compiled by SCGR from Bloomberg, BIS) 32

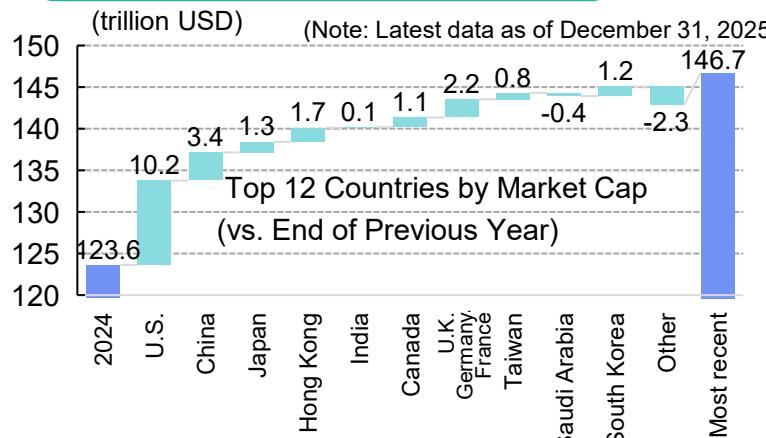
Markets (2) Equities & Commodities

- **Equities:** Global stocks rise despite sluggish growth. The U.S. accounts for 40% of the increase in global market cap.
- Investment capital is flowing into strategic sectors like AI and semiconductors. Rising electricity demand is also a major theme.
- **Commodities:** Markets reflect supply-demand divergence. Attention intensifies on critical minerals. Fossil fuels and grains face oversupply.

Stock Market Strength - Diverges from Real-economy sentiment



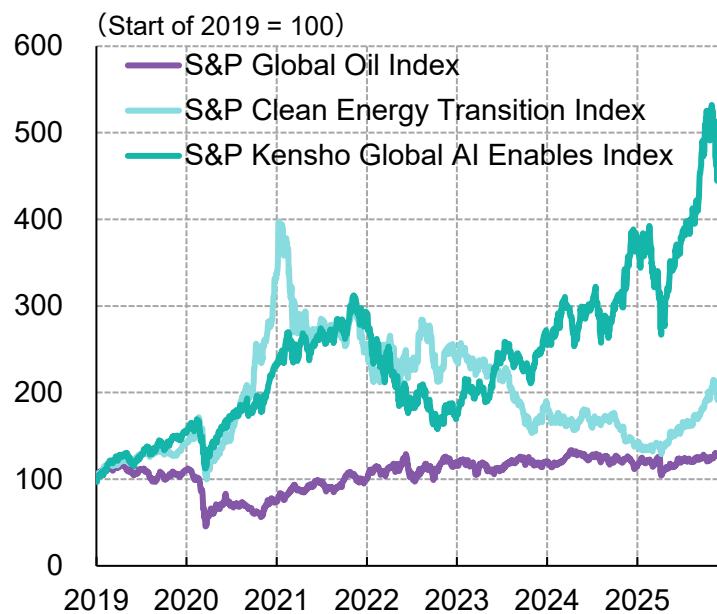
Global Equity Market Capitalization



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AI Boom and Renewed Interest in Clean Energy

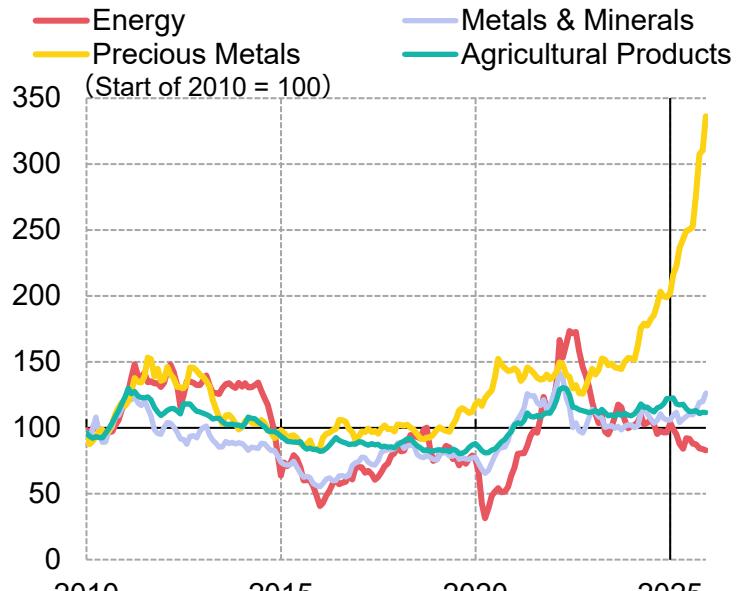
- AI-related names cooled somewhat after a rapid surge
- Renewed focus on clean energy amid expanding power demand
- Underinvestment in fossil fuels may pose future supply risks.



Commodity markets: Mixed picture

- Oversupply is weighing on fossil fuels, battery metals, and agricultural products.
- Future supply tightness is a concern for copper and aluminum.
- Precious metals lead gains on strong price momentum.

World Bank Commodity Price Index



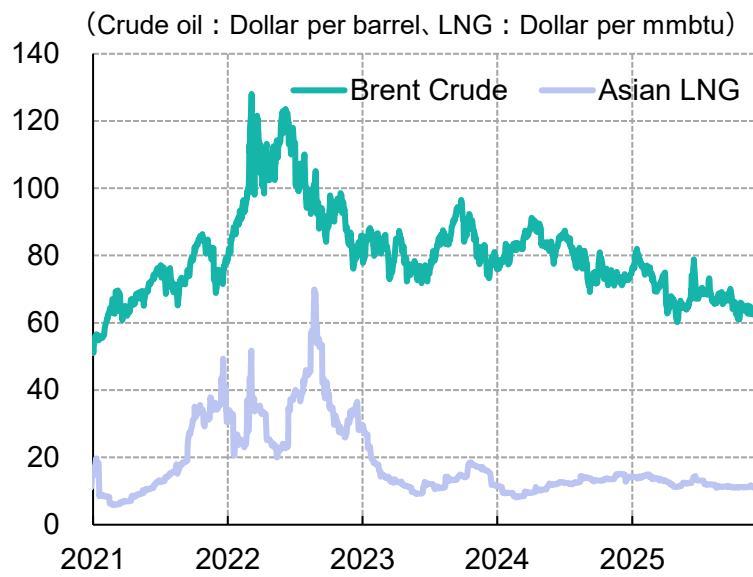
(Source: Compiled by SCGR from Bloomberg, World Bank) 33

Markets (3) Commodities

- Energy: After the recent energy crisis, fossil fuels have moved into an oversupplied phase. Near-term prices are stable, but prolonged low prices risk future supply shortages.
- Critical Minerals: Ensuring supplies for clean energy, semiconductors, and defense has become a key policy priority.
- Precious Metals : Gold has gained prominence as a currency and store of value free from sovereign risk.

Energy: Prices stable despite geopolitical tensions

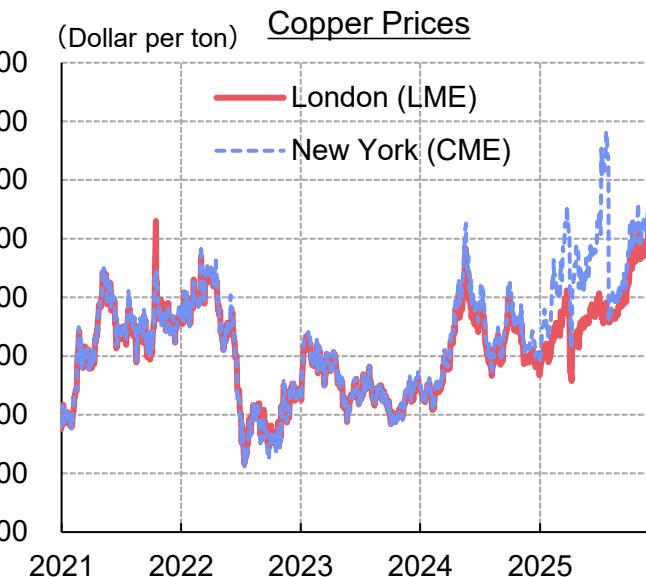
- Oil: Production growth from the Americas and OPEC+ has accelerated even as demand slows
- LNG: A new supply wave is coming on line
- Risks: Prolonged low prices may curb investment, while geopolitical tensions add further uncertainty.



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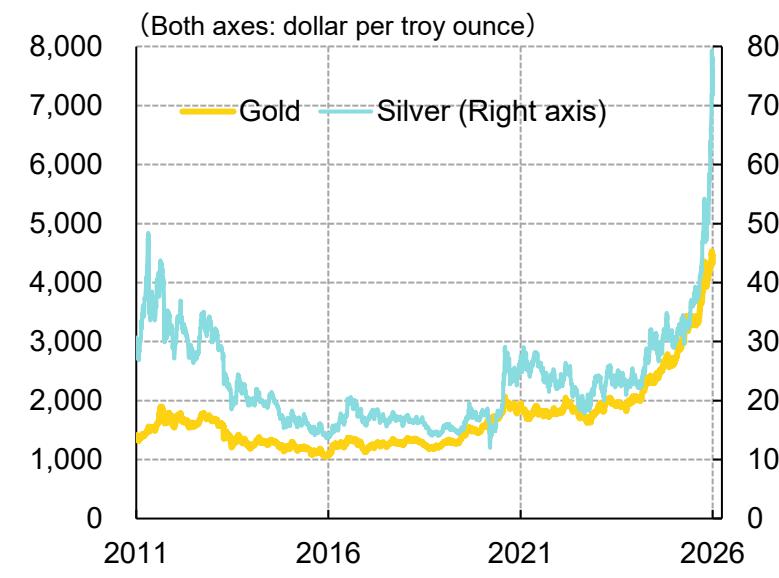
Metals: New Highs and Wider Regional Spreads

- Resource development challenges and intense competition in the smelting industry
- Despite slow growth, electrification, defense, and AI infrastructure support demand.
- U.S. tariffs, inventory distortions, and policy factors widen price differentials.



Precious Metals: Dramatic price surges

- Geopolitical tensions and de-dollarization concerns reinforce official-sector gold buying.
- A hedge against currency and sovereign risk, as well as financial-market volatility.
- Silver gains recognition as a critical mineral for the energy transition.



(Source: Compiled by SCGR from Bloomberg, EIA) 34