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DRIVING THE BUSINESS OF TRADE AND INVESTMENT

Country Targeting Strategy 2011/12

Country Intelligence

Japan



January 2012

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Country background and economic overview

In 1603, after decades of civil warfare, the Tokugawa shogunate (a military-led, dynastic government) ushered in a long period of relative political stability and isolation from foreign influence. For more than two centuries this policy enabled Japan to enjoy a flowering of its indigenous culture. Japan opened its ports after signing the Treaty of Kanagawa with the US in 1854 and began to intensively modernize and industrialize. During the late 19th and early 20th centuries, Japan became a regional power that was able to defeat the forces of both China and Russia. It occupied Korea, Formosa (Taiwan), and southern Sakhalin Island. In 1931-32 Japan occupied Manchuria, and in 1937 it launched a full-scale invasion of China. Japan attacked US forces in 1941 - triggering America's entry into World War II - and soon occupied much of East and Southeast Asia. After its defeat in World War II, Japan recovered to become an economic power and an ally of the US. While the emperor retains his throne as a symbol of national unity, elected politicians hold actual decision-making power. Following three decades of unprecedented growth, Japan's economy experienced a major slowdown starting in the 1990s, but the country remains a major economic power. In March 2011, Japan's strongest ever earthquake and an accompanying tsunami devastated the northeast part of Honshu island, killing thousands and damaging several nuclear power plants. The catastrophe hobbled the country's economy and its energy infrastructure, and severely strained its capacity to deal with the humanitarian disaster.

In the years following World War II, government-industry cooperation, a strong work ethic, mastery of high technology, and a comparatively small defense allocation (1% of GDP) helped Japan develop a technologically advanced economy. Two notable characteristics of the post-war economy were the close interlocking structures of manufacturers, suppliers, and distributors, known as keiretsu, and the guarantee of lifetime employment for a substantial portion of the urban labor force. Both features are now eroding under the dual pressures of global competition and domestic demographic change. Japan's industrial sector is heavily dependent on imported raw materials and fuels. A tiny agricultural sector is highly subsidized and protected, with crop yields among the highest in the world. Usually self sufficient in rice, Japan imports about 60% of its food on a caloric basis. Japan maintains one of the world's largest fishing fleets and accounts for nearly 15% of the global catch. For three decades, overall real economic growth had been spectacular - a 10% average in the 1960s, a 5% average in the 1970s, and a 4% average in the 1980s. Growth slowed markedly in the 1990s, averaging just 1.7%, largely because of the after effects of inefficient investment and an asset price bubble in the late 1980s that required a protracted period of time for firms to reduce excess debt, capital, and labor. Measured on a purchasing power parity (PPP) basis that adjusts for price differences, Japan in 2010 stood as the third-largest economy in the world after China, which surpassed Japan in 2001. The Japanese financial sector was not heavily exposed to sub-prime mortgages or their derivative instruments and weathered the initial effect of the recent global credit crunch, but a sharp downturn in business investment and global demand for Japan's exports in late 2008 pushed Japan further into recession. Government stimulus spending helped the economy recover in late

2009 and 2010. Prime Minister KAN's government has proposed opening the agricultural and services sectors to greater foreign competition and boosting exports through free-trade agreements, but debate continues on restructuring the economy and funding new stimulus programs in the face of a tight fiscal situation. Japan's huge government debt, which exceeds 200% of GDP, persistent deflation, reliance on exports to drive growth, and an aging and shrinking population are major long-term challenges for the economy. A 9.0-magnitude earthquake and an ensuing tsunami devastated the northeast coast of Honshu Island on 11 March 2011, washing away buildings and infrastructure as much as 6 miles inland, killing thousands, severely damaging several nuclear power plants, displacing and leaving homeless more than 320,000 people, and leaving a million households without running water. Radiation leaks at the Fukushima Daiichi nuclear power plant prompted mass evacuations and the declaration of a no-fly zone - initially for people and planes within 12.5 miles of the plant but later expanded to 19 miles. Radioactive iodine-131 has been found as far as 100 miles from the plant in samples of water, milk, fish, beef, and certain vegetables, at levels that make these foods unfit for consumption and create uncertainty regarding possible long-term contamination of the area. Energy-cutting efforts by electric companies and train lines slowed the pace of business throughout Honshu Island, and the stock market gyrated, dropping as much as 10% in a single day. In order to stabilize financial markets and retard appreciation of the yen, the Bank of Japan injected more than \$325 bn in yen into the economy. Estimates of the direct costs of the damage - rebuilding homes and factories - range from \$235 bn to \$310 bn. Some economic forecasters, who previously had anticipated slower growth for Japan in 2011, now believe GDP may decline as much as 1% for the year.

Country statistics

Indicator	Measure	Rank
Geography		
Area	total: 377,915 sq km	62
	land: 364,485 sq km	
	water: 13,430 sq km	
Coastline	29,751 km	
Natural resources	negligible mineral resources, fish	
Land use	arable land: 11.64%	
	permanent crops: 0.9%	
	other: 87.46% (2005)	
Irrigated land	25,160 sq km (2008)	
Demographics and population development		
Population size	126,475,664 (July 2011 est.)	10
Population structure	0-14 years: 13.1%	
	15-64 years: 64%	
	65 years and over: 22.9% (2011 est.)	
Popn growth rate	-0.278% (2011 est.)	214
Net migration rate	0 migrants/ 1,000 population (July 2011 est.)	92
Urbanization	67% of total population (2010)	
	growth: 0.2% (2010-15 est.)	
Sex ratio	0.95 male(s)/female (2011 est.)	
Life expectancy at birth	82.25 years (2010 est.)	5
Total fertility rate	1.21 children born/woman (2010 est.)	218
HIV prevalence rate	less than 0.1% (2009 est.)	132
Literacy rate	99% (2002 est.)	
School life expectancy	15 years (2008)	
The economy		
Currency	Japanese yen: 87.78/US\$ (2010 est.), 93.57 (2009 est.)	
GDP (PPP)	total: \$4.31 trillion (2010 est.)	4
	growth: 3.9% (2010 est.); -6.3% (2009 est.); -1.2% (2008 est.)	101
	per capita: \$34,000 (2010 est.)	38
	agriculture: 1.4%	

Indicator	Measure	Rank
GDP composition	industry: 24.9%	
	services: 73.8% (2010 est.)	
Labour force	62.97 million (2010 est.)	9
	unemp rate: 5% (2010 est.), 5% (2009 est.)	44
Labour force by occupation	agriculture: 3.9%	
	industry: 26.2%	
	services: 69.8% (2010 est.)	
Poverty rate	15.7% (2007)	
Gross investment (% of GDP)	20.6% of GDP (2010 est.)	106
Public debt	199.7% of GDP (2010 est.);	2
Inflation rate	-0.7% (2010 est.); -1.3% (2009 est.)	9
Commercial bank prime rate	1.48% (Dec 2009)	187
Agricultural products	rice, sugar beets, vegetables, fruit; pork, poultry, dairy products, eggs; fish	
Industries	among world's largest and technologically advanced producers of motor vehicles, electronic equipment, machine tools, steel and nonferrous metals, ships, chemicals, textiles, processed foods	
Electricity	production: 982.3 bn kWh (2009 est.)	4
	consumption: 963.9 bn kWh (2009 est.)	4
Oil	production: 131,800 bbl/day (2010 est.)	48
	consumption: 4.452 million bbl/day (2010 est.)	4
	exports: 366,800 bbl/day (2009 est.)	37
	imports: 4.394 million bbl/day (2009 est.)	4
	reserves: 44.12 million bbl (1 Jan 2011 est.)	80
Natural gas	production: 3.397 bn cu m (2010 est.)	53
	consumption: 100.3 bn cu m (2008 est.)	6
Current account balance	\$140.6 bn (2009 est.)	3
Trade	exports: \$730.1 bn (2010 est.); \$545.3 bn (2009)	3
	imports: \$639.1 bn (2010 est.); \$501.6 bn (2009)	5
Export commodities	transport equipment, motor vehicles, semiconductors, electrical machinery, chemicals	
Import commodities	machinery and equipment, fuels, foodstuffs, chemicals, textiles, raw materials	

Indicator	Measure	Rank
Export partners	China 19.4%, US 15.7%, South Korea 8.1%, Hong Kong 5.5%, Thailand 4.4% (2010)	
Import partners	China 22.1%, US 9.9%, Australia 6.5%, Saudi Arabia 5.2%, UAE 4.2%, South Korea 4.1%, Indonesia 4.1% (2010)	
Reserves of forex & AU	\$1.063 trillion (31 Dec 2010 est.)	2
FDI stock	at home: \$199.4 bn (31 Dec 2010 est.)	21
	abroad: \$795.7 bn (31 Dec 2010 est.)	8
Communications		
Telephones	main lines in use: 40.419 million (2009 est.)	6
	mobile cellular: 121 million (2009 est.)	8
Internet	country code: .jp	
	hosts: 54.846 million (2010)	2
	users: 99.182 million (2009)	3
Infrastructure		
Airports	176 (2010)	34
	with paved runways: 144	
	with unpaved runways: 32	
Pipelines	gas 4,135 km; oil 171 km; oil/gas/water 53 km (2010)	
Railways	26,435 km	11
Roadways	1,203,777 km	5
Ports and terminals	Chiba, Kawasaki, Kobe, Mizushima, Moji, Nagoya, Osaka, Tokyo, Tomakomai, Yokohama	

Data sources

Central Intelligence Agency [CIA]; *the World Factbook*. www.cia.org. Accessed: January 17, 2012