Europe-Japan Dialogue
- Opportunities in Japan -

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Problems or Opportunities?

1. Lost Decades
2. Aging Society
3. Strong Yen
4. Public Debt
5. Energy Policy
6. Trade Deficit

etc...
1. Lost Decades: Japan’s GDP growth

Source: Cabinet Office, Japan
2. Aging Society
The Ratio of aged 65 or older to the Whole Population in Major Countries

Aging of the population in Japan is fastest among the major developed countries and it will keep increasing at the highest level.

2. Aging Society: Demographic Change in Japan

3. Strong Yen:
Yen / Dollar Average Exchange Rate

Source: IMF
4. Public Debt/GDP

External Dependence of Public Debt
Japan: < 10%
US and UK: about 1/3
Italy, Spain: about 40%

<table>
<thead>
<tr>
<th>Year</th>
<th>Japan</th>
<th>US</th>
<th>UK</th>
<th>Germany</th>
<th>France</th>
<th>Italy</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>0.95%</td>
<td>1.92%</td>
<td>2.18%</td>
<td>1.94%</td>
<td>2.91%</td>
<td>5.69%</td>
</tr>
</tbody>
</table>

Source: OECD
Japan has lost all nuclear power on 5 May 2012, but 2 reactors have come back on 3 August 2012.
6. Trade Deficit in 2011, the First Time in 31 Years

¥ Trillion

¥ Trillion

2012 Figure

Current Account
Trade Balance
Income Balance

Jan    Feb    Mar    Apr    May    Jun
## Japan’s Economic Strength:
### Size of Consumer Market

<table>
<thead>
<tr>
<th></th>
<th>Individual Consumption</th>
<th>Japan as 100%</th>
<th>Sales of Cars per 1,000 people</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>3.1 billion US$</td>
<td>100%</td>
<td>4.6 million</td>
</tr>
<tr>
<td>China</td>
<td>2.1 billion US$</td>
<td>68%</td>
<td>10.3 million</td>
</tr>
</tbody>
</table>

Source: Itocyu

### Japan-China Trade Relationship (2011)
- Export to China: 161 billion US$
- Import from China: 183 billion US$
Japan’s Economic Strength: The Balance-Sheet of Wealth

### The balance-sheet of wealth

<table>
<thead>
<tr>
<th>Country</th>
<th>Inclusive wealth 2008, $trn*</th>
<th>1990-2008 growth†, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>117.8</td>
<td>0.7</td>
</tr>
<tr>
<td>Japan</td>
<td>55.1</td>
<td>0.9</td>
</tr>
<tr>
<td>China</td>
<td>20.0</td>
<td>2.1</td>
</tr>
<tr>
<td>Germany</td>
<td>19.5</td>
<td>1.8</td>
</tr>
<tr>
<td>Britain</td>
<td>13.4</td>
<td>0.9</td>
</tr>
<tr>
<td>France</td>
<td>13.0</td>
<td>1.4</td>
</tr>
<tr>
<td>Canada</td>
<td>11.1</td>
<td>0.4</td>
</tr>
<tr>
<td>Brazil</td>
<td>7.4</td>
<td>0.9</td>
</tr>
<tr>
<td>India</td>
<td>6.2</td>
<td>0.9</td>
</tr>
<tr>
<td>Australia</td>
<td>6.1</td>
<td>0.1</td>
</tr>
</tbody>
</table>

#### Inclusive wealth per person 2008, $000*

- **Japan**: 450 (Human: 200, Natural: 150, Physical: 200)
- **United States**: 350 (Human: 150, Natural: 100, Physical: 200)
- **Canada**: 300 (Human: 100, Natural: 100, Physical: 100)
- **Norway**: 400 (Human: 200, Natural: 150, Physical: 50)
- **Australia**: 300 (Human: 100, Natural: 100, Physical: 100)
- **Germany**: 350 (Human: 150, Natural: 100, Physical: 100)
- **Britain**: 300 (Human: 100, Natural: 100, Physical: 100)
- **France**: 350 (Human: 150, Natural: 100, Physical: 100)
- **Brazil**: 250 (Human: 50, Natural: 100, Physical: 100)
- **India**: 200 (Human: 50, Natural: 50, Physical: 100)
- **Venezuela**: 150 (Human: 50, Natural: 50, Physical: 50)

*Source: UN

*Constant 2000 $  †Average annual rate

Source: The Economist
### Japan’s Economic Strength: World’s Market Size in 2050

**HSBC’s Report “The World in 2050” (Jan 2011)**

<table>
<thead>
<tr>
<th>Position</th>
<th>Country</th>
<th>Size of Economy 2050 (US$ 1trillion)</th>
<th>Population (Mn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>China</td>
<td>24.6</td>
<td>1,417</td>
</tr>
<tr>
<td>2</td>
<td>US</td>
<td>22.2</td>
<td>404</td>
</tr>
<tr>
<td>3</td>
<td>India</td>
<td>8.1</td>
<td>1,614</td>
</tr>
<tr>
<td>4</td>
<td>Japan</td>
<td>6.4</td>
<td>102</td>
</tr>
<tr>
<td>5</td>
<td>Germany</td>
<td>3.7</td>
<td>71</td>
</tr>
<tr>
<td>6</td>
<td>UK</td>
<td>3.5</td>
<td>72</td>
</tr>
</tbody>
</table>

Size of Economy in 2050 (US$ 1trillion)

Population (Mn)

**HSBC’s Report “The World in 2050” (Jan 2011)**
Japan’s Economic Strength: Strong R&D Basis

R&D/GDP in Major Countries

- Japan: 3.6% (2009)
- Korea: 3.4% (2008)
- Germany: 2.8% (2009)
- US: 2.8% (2009)
- France: 2.2% (2009)
- EU27: 1.9% (2009)
- UK: 1.8% (2010)
- China: 1.7% (2009)

Source: Ministry of Internal Affairs, Cabinet Office, OECD
Economic Recovery from the Earthquake

Annual growth rate of real GDP

Quarterly Real GDP Growth

Source: Statistics from the Cabinet Office, IMF World Economic Outlook(April 2012)
Auto Production Exceeding Previous Year in the past 10 months

Source: Statistics from the Japan Automobile Manufacturers Association
Japan as a major investor to UK

UK → JPN: No.4 Investor out of EU (¥76.5 billion)
JPN → EU: No.2 destination in EU (¥3.09 trillion)
【EU→JPN: No.1 Investor (¥6.7 trillion) 】
【JPN→EU: No.3 Investor (¥15 trillion) 】
(Stock as of 2010, MOF, BOJ balance of payments)

Japanese overseas affiliates in the UK

Japanese companies: 1,272 (EU: 5,609)
Number of employees: 132,532 (EU: 446,111)

Number of Employees by Japanese affiliates

EU (total) 446,111
UK 132,532
Netherland 89,551
Germany 61,965
Belgium 29,612
France 24,519
Development in Africa

- Agreed to cooperate in the area of Development toward the 5th Tokyo International Conference on African Development (TICAD V) in June and G8 in 2013.

Joint Statement

“A Leading Strategic Partnership for Global Prosperity and Security

Defence and Security Cooperation

- New Framework for the future of joint development and co-production of defence and security equipment.
- First Dialogue on Defence and Security Cooperation

Civil Nuclear Cooperation

- Encourage the active participation of experienced UK companies in the process of nuclear decontamination and reactor decommissioning.
- First UK-Japan Dialogue on Nuclear Cooperation

Cooperation in the area of Infrastructure

- UKTI and JBIC’s MOU to promote investment in the area of infrastructure.
Examples of Japanese investment in the UK

- **Toyota**
  announced additional investment of £100 million at its Burnaston plant for the production of a new generation hatchback.  
    ➔ 1,500 new jobs  
  (November 2011)

- **Honda**
  started production of the new Civic model at Swindon plant.  
    ➔ 500 new jobs (aims roughly to double its 2012 production volume)  
  (December 2011)

- **Nissan**
  announced additional investment to start production of a new compact car at Sunderland plant.  
    ➔ 400 new jobs (2000 new jobs including jobs in supply chain)  
    ➔ 1,125 new jobs including jobs in supply chain to produce hatchbacks  
  (March 2012, April 2012)

- **Mitsubishi Heavy Industries (MHI)**
  entered into memorandum understanding on offshore wind power generation project with the UK Government; agreed on cooperation with Scottish and Southern Energy (SSE) and acquired Artemis Intelligent Power.  
  (Since February 2010)

- **Hitachi**
  was named the preferred bidder for a train supply contract of IEP (Intercity Express Programme) with £4.5bn and 600 carriages; currently in the final negotiation with Department of Transport (DfT); plans to be built in a factory at County Durham.  
    ➔ approx. 500 new jobs at the factory
Example of British investment in Japan

- **Arup (Construction engineering)** cooperated with Shigeru Ban Architects and the Voluntary Architects’ Network in the building of 189 multi-storey temporary housing units for people left homeless by the earthquake and tsunami in Onagawa-cho. It is in charge of the structural engineering work for the project. (October 2011)

- **Gordon Murray Design (Automotive-related)** reached agreement with Toray Industries on technical cooperation for vehicle research and development. (January 2012)

- **Intelligent Energy Holdings (Hydrogen fuel cell electric vehicles)** established a joint-venture enterprise, Smile FC System Corporation, with Suzuki Motor Corporation for the development and manufacture of fuel cells. (February 2012)

- **GlaxoSmithKline (Pharmaceuticals)**
  GSK and Daiichi Sankyo joined forces to establish Japan Vaccine Co., in Japan. (March 2012)
Opportunity 2
EU-Japan Economic Partnership Agreement

Shared Value
- Democracy
- Rule of law
- Human rights
- Market based economy
- Sustainable development

Common Challenges
- Growth deceleration
- Rise of emerging countries
- Strains on financial markets
- Fiscal constrains
- Global warming

Global Partnership
Japanese Manufacturing Industries in Europe and Turkey (the end of 2010)
Opportunity 3  Aging Society

Declining Population, but Stable Market Size
- Lifestyle-related diseases
- Growing medical expenditure for the ageing population
- Growing nursing care
- 27.5% of men and 13.1% of women aged 65 or over are participating in labour force (2011)

World’s 2nd Largest Pharmaceutical Market and 3rd Largest Medical Device Market
- In 2011, Japan’s pharmaceutical import surpassed its export by 1.3 trillion JPY (major exporter: Germany, US, Swiss, France, UK)

Alleviating Entry Barriers for Foreign Companies
- Deregulation of Pharmaceutical Affairs Law
- Conforming with International Standards
- Expediting Examination Process
- Introducing Global Clinical Trials
Facing the Ageing Society
Opportunity 4

Renewable Energy
-Energy Policy Review-

Strong Interest in Local Communities
(e.g. Fukushima Prefecture)

Regulatory Reform for facilitating
development of
Renewable Energy
(e.g. National Park Law etc)

The Innovative Strategy on Energy and Environment
~Three pillars~

1. Realisation of society not dependent on nuclear power
2. Realisation of green energy revolution
3. For ensuring stable supply of energy

Certified Capacity since July 2012

- Bar chart showing certified capacity in MW for various regions (Kyusyu, Shikoku, Chugoku, Kinki, Kanto, Tohoku, Hokkaido)

- Wind and PV capacity represented in the chart.
Opportunity 5  Two-way Investment: Open Reconstruction

- **Finance:** 0.7% Interest Subsidy for Reconstruction Business
- **Taxation:**
  - 0% Corporate Tax for 5 years for newly established companies in coastal SRZ
  - 100% Depreciation for Investment (or 15% of investment will be deducted from tax)
  - 10% of Personnel Expenses will be deducted from tax for employing those who lost their jobs due to the quake.
  - Local Taxation (Fixed Property Tax, Business Tax, Real Estate Acquisition Tax) will be reduced.
- **Expedited development approval**

Earthquake stricken areas are extremely interested in Renewables, Energy Efficiency and Health Care!!
Incentives in the Special Zone for Reconstruction

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Subsidy for Foreign Companies to choose Japan as Asian Operations Hub & High Value-added Business Locations

◆ Eligibility Criteria
  - Must have corporate status in Japan
  - Must belonging to a corporate body consisting of group companies that are running an actual business in 2 or more countries.

◆ Rate of Subsidy
  - Subsidy rate: up to 1/2 for SMEs; up to 1/3 for non SME (Limit: 1 billion yen)
  - Reduced cooperate tax

◆ Recent Beneficiaries
  - Eurocopter (France)
  - Sanofi-Aventis (France)
  - Medasys (France)
  - Vilmorin & Cie (France)
  - DSM Engineering Plastics (Netherlands)
  - Intelligent Energy Holdings Plc (UK)
  - Umicore N.V. (Belgium)
  - Volvo Technology AB (Sweden)
Opportunities:
1. Area for expansion for Japan-UK Economic Relations
2. EU-Japan Economic Partnership Agreement
3. Aging Society
5. Two-way Investment – Open Reconstruction-

“A Leading Strategic Partnership for Global Prosperity and Security”
- Advanced Technology
- Size of Consumer Market
- Part of manufacturing network in Asia
- FTA/EPA
- Common area for business expansion
With No Country Risk!
Embassy of Japan in the UK