

Country Insight Snapshot

Japan

August 2023



OVERALL COUNTRY/REGION RISK INDICATOR

Current Risk Indicator:



- Last change: October 2021 (DB2d → DB3b)
- Amber indicates that there is a **Balanced** mixture of negative/positive factors/influences
- Rating outlook is **STABLE**

SLIGHT RISK Enough uncertainty over expected returns to warrant close monitoring of country risk. Customers should actively manage their risk exposures.

WorldWatch Headline

Japan and NATO's mid-July agreement to strengthen regional cooperation may raise tensions with Moscow and Beijing, given Japan's stance that security in Europe and Asia-Pacific are closely linked.

Recent Changes

- The new Japan-NATO agreement may escalate tensions with Moscow and Beijing.
- In July 2023, Japan and India agreed to strengthen cooperation in the production of semiconductors; this is a further indication of Japan's desire to decouple from China in this space.
- Latest data from Tokyo Shoukou Research shows that there were 4,006 corporate bankruptcies in H1 2023, up 31.6% y/y; this was the first time in five years that bank the 4,000 mark was exceeded.

Events to Watch

- Domestic economic risks are balanced; inflation may have broadly peaked (although this is far from certain), whereas higher company profits from a weaker yen in 2022 will help support investment activity over the rest of 2023.
- The central bank's late-July policy shift represents some tightening of monetary policy, but interest rates will remain very low.
- Despite Japan's ongoing efforts to move away from dependency on China for rare earth metals, it will take a lot of time and money to achieve this; in the meantime, Japan will remain exposed to China in the critical semiconductor space, especially EVs.

Call to Action

- Expect a mild improvement in economy-wide payments performance as real GDP growth accelerates in 2023, compared with 2022; factor in slower growth of 1.2% in 2024.
- Expect a prolonged negative impact of the Ukraine conflict on oil and food prices, but note that the recent disruption to Ukraine's grain exports will not have an immediate impact on Japan, as it imports most of its wheat from Canada and the US.
- Watch out for announcements relating to a possible early general election, despite the next vote not being scheduled until October 2025; note that the Liberal Democratic Party (LDP) is comfortably ahead in the opinion polls.

COUNTRY INSIGHT HEADLINES

CREDIT ENVIRONMENT

Current Risk Indicator:



- Last change: February 2022 (DB3d → DB3b)
- Amber indicates that there is a **Balanced** mixture of negative/positive factors/influences
- Rating outlook is **STABLE**

SLIGHT RISK Enough uncertainty over expected returns to warrant close monitoring of country risk. Customers should actively manage their risk exposures.

Risks and Opportunities

- Domestic risks are balanced; inflation may have broadly peaked (although this is far from certain), whereas higher company profits from a weaker yen in 2022 will help support investment activity over the rest of 2023.
- Another upside is a rebound in inbound tourism as Japan has opened up; inbound visitor numbers stood at 2.07m in June 2023, exceeding 2m for the first time since February 2020.
- Various external downside risks include fragile economic activity in China, rising geopolitical tensions, the possibility of more dangerous Covid-19 variants emerging and cyberattacks.
- The push for carbon neutrality in the auto sector by 2050 - which means a complete shift to EVs - has raised concerns about possible job losses.
- The move towards greater digitisation will be hampered by continuing low levels of pay in Japan's IT sector, making it difficult to attract young talent, although recent significant pay rises may help alleviate this situation.

Trade Terms

Description	Terms
Minimum Terms	OA
Recommended Terms	OA
Usual Terms	0-90 days

Note: OA: Open Account; SD: Sight Draft (Documentary Collection); LC: Letter of Credit; CLC: Confirmed Letter of Credit; CiA: Cash in Advance. **Source:** Dun & Bradstreet

Export Credit Cover

Agency	Cover
US Eximbank	Full cover available
Eksport Kredit Fonden (EKF)	Full cover available, conditions apply
ECGD	Medium- or long- term cover only
Euler Hermes AG	Medium- or long- term cover available, limited short-term cover

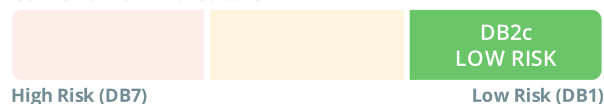
Source: Export Credit Agencies

Call to Action

- Expect a mild improvement in economy-wide **payments performance**, as real GDP growth accelerates in 2023, compared with 2022; factor in slower growth of 1.2% in 2024.
- Consider revising payment terms when trading with firms in the services sector, especially tourism, as economic activity picks up this year.
- Note that the central bank's late-July 2023 policy shift represents some tightening of monetary policy; however, expect interest rates to remain very low.
- Monitor the government's efforts to address Japan's unfavourable demographic trends; any results may take many years to come to fruition.
- Track any opportunities created by the government's efforts to accelerate digitisation across the economy; note that higher salaries may have to be offered to secure workers with appropriate IT skills.

SUPPLY ENVIRONMENT

Current Risk Indicator:



- Last change: April 2022 (DB2d → DB2c)
- Green indicates that **Positive** factors/influences dominate
- Rating outlook is **STABLE**

LOW RISK Low degree of uncertainty associated with expected returns. However, country-wide factors may result in higher volatility of returns at a future date.

Risks and Opportunities

- All Covid-19-related entry restrictions were abolished effective 8 May 2023, and the government now considers the virus a common disease.
- In February 2023, Japan reduced its coal imports from Russia to just 2% of total coal imports, from 9% in February 2022.
- Climate change is intensifying weather-related risks; southwest Japan experienced what may have been its heaviest ever rainfall in mid-July 2023, while 40 out of 47 prefectures were subject to heatstroke alerts in late July.
- Ports and other infrastructure are becoming increasingly vulnerable to cyberattacks, given their critical role in Japan's economy.
- Starting a new business in Japan can be a cumbersome process, with many layers of bureaucracy having to be navigated before a company can be established.

Call to Action

- Closely monitor the level of new Covid-19 infections following the early-May 2023 easing of restrictions on people entering Japan.
- Have **contingency plans** and backup facilities in place for catastrophic events, especially natural disasters such as flooding and earthquakes.
- Monitor the Russia-Ukraine conflict and Japan's efforts to secure energy supplies from alternative sources; however, note that Japan was still buying Russian coal and LNG as of mid-2023.
- Ensure to regularly assess the digital capabilities of potential business partners in Japan, especially their defences against cyberattacks.
- Note that employers are required to adhere to a complicated social and labour insurance system, including accident compensation, employment, health, nursing care and pension insurance.

MARKET ENVIRONMENT

Current Risk Indicator:



- Last change: August 2023 (DB3c → DB3b)
- Amber indicates that there is a **Balanced** mixture of negative/positive factors/influences
- Rating outlook is **STABLE**

SLIGHT RISK Enough uncertainty over expected returns to warrant close monitoring of country risk. Customers should actively manage their risk exposures.

Risks and Opportunities

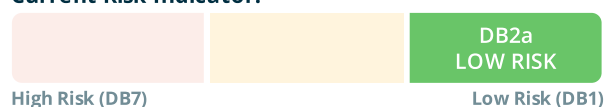
- Market access for investors in critical infrastructure areas will come under great scrutiny under the New Economic Security Law, which will be fully phased in by February 2024.
- The Foreign Exchange and Foreign Trade Act restricts foreign investment in a wider set of sectors deemed vital to Japan's national security.
- Despite Japan's ongoing efforts to move away from dependency on China for rare earth metals, it will take a lot of time and money to achieve this; in the meantime, Japan will remain exposed to China in the critical semiconductor space, especially EVs.
- Japan is highly dependent on importing food, along with oil and gas, and raw materials for industrial production; imports contracted 12.9% y/y in June 2023, the biggest monthly decline since September 2020.
- Japan has a world-class, sophisticated domestic and international payments system; capital and profit repatriation, and inward portfolio investment are free of restrictions.

Call to Action

- Become familiar with the provisions in the New Economic Security Law and prepare for its implementation, if relevant.
- Monitor China's countermeasures with respect to Japan's stance on its semiconductors; do not rule out some form of retaliatory action in the trade sphere.
- Take advantage of the subsidies available for Japanese manufacturers to relocate production from China to Japan.
- Expect a prolonged negative impact of the Ukraine conflict on oil and food prices, but note that the recent disruption to Ukraine's grain exports will not have an immediate impact on Japan, as it imports most of its wheat from Canada and the US.
- Factor in negligible transfer risk when conducting **trade and investment** transactions with Japan; do not expect any sudden changes in exchange regulations.

POLITICAL ENVIRONMENT

Current Risk Indicator:



- Last change: N/A → DB2a
- Green indicates that **Positive** factors/influences dominate
- Rating outlook is **STABLE**

LOW RISK Low degree of uncertainty associated with expected returns. However, country-wide factors may result in higher volatility of returns at a future date.

Risks and Opportunities

- A mid-July 2023 agreement between Japan and NATO will give a cause for concern in Moscow and Beijing, in particular its recognition that security in Europe and Asia-Pacific are closely linked.
- Changes to the defence framework will give Japan more room to act in the military sphere, especially given growing concerns over North Korea's nuclear programme and China's approach to Taiwan.
- The government is unlikely to impose a complete ban on Chinese apps, but its pre-existing ban on their use on government-issued equipment may be more strictly enforced.
- Political intervention in the judicial process is not an issue; contractual rights are respected, but slow procedures usually lead to out-of-court settlements.
- Current barriers to entry include regulations around foreign ownership of companies related to national security and public safety.

Call to Action

- Expect a consolidation of support by Japan for Taiwan and the US' security alliance system in Asia-Pacific as Japan looks to spend more on military modernisation.
- Track Japan's efforts to **strengthen relations** with South Korea; however, be aware that previous efforts have largely failed to put bilateral ties on a better footing.
- Watch out for announcements relating to a possible early general election, despite the next vote not being scheduled until October 2025; note that the Liberal Democratic Party (LDP) is comfortably ahead in the opinion polls.
- Use local legal and consultancy services if investing in Japan; expect any legal action to last longer than in most OECD countries.
- Track any new investor protections arising from bilateral and multilateral agreements; note that Japan prioritises security for its large overseas investment base.

STATISTICAL REFERENCE

KEY INDICATORS AND FORECASTS

Historical Data/Forecasts

Metric	2018	2019	2020	2021	2022	2023f	2024f	2025f	2026f	2027f
Real GDP growth (%)	0.6	-0.4	-4.3	2.2	1	1.5	1.2	1.3	1.4	1.5
Nominal GDP in USDbn	5,040	5,117	5,049	5,005	4,328	4,404	4,831	5,061	5,297	5,535
Nominal GDP in local currency	556.6tn	557.9tn	539.1tn	549.5tn	568.9tn	594.5tn	613.5tn	632.6tn	651.5tn	669.8tn
GDP per Capita in USD	39,923	40,679	40,315	40,168	34,914	35,718	39,395	41,493	43,676	45,899
Population (year-end, m)	126.3	125.8	125.2	124.6	124	123.3	122.6	122	121.3	120.6
Exchange rate (yr ave, USD-LCU)	110.4	109	106.8	109.8	131.5	135	127	125	123	121
Current Account in USDbn	177.8	176.3	149.9	196.8	90.6	135	165	185	200	220
Current Account (% of GDP)	3.5	3.4	3	3.9	2.1	3.1	3.4	3.7	3.8	4
FX reserves (year-end, USDbn)	1,238.9	1,285	1,344.3	1,356.2	1,178.3	1,230	1,260	1,290	1,305	1,326.1
Import Cover (months)	16	16.9	20.1	17.3	14.6	15.2	15.5	15.9	16	16
Inflation (annual ave, %)	1	0.5	0	-0.2	2.5	3	2	1.8	1.6	1.3
Govt Balance (% GDP)	-2.5	-3	-9.1	-6.2	-7.8	-6	-4	-2	-0.5	0.5

Source: Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Japan	Mainland China	S. Korea	Germany	US
Income per Capita (USD)	35,718	13,114	31,964	53,375	78,925
Country Population (m)	123.3	1,425.7	51.8	83.3	340
Internet users (% of population)	90.2	70.1	96.5	89.8	90.9

Source: Various sources/Dun & Bradstreet

Transfer Situation

Type	Delay
FX/Bank Delays	No delays reported
Local Delays	0-1 month

Note: Length of delay for completion of local and foreign transfers Source: Dun & Bradstreet

Trade Payment Restrictions

Trade Payment Restriction	Japan	Asia Pacific	OECD Average
Restrictions on non-Residents' Accounts	0	0.18	0.06
Restrictions on Payments for Imports	0	1.18	0.06
Restrictions on Payments for Invisible and other Current Transfers	3	1.55	0.35

Note: for a definition of the Trade Payment Restrictions please see the online [user guide](#) Source: International Monetary Fund



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User Guide

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