

Japan

August 2022

Executive Summary

This snapshot provides key trade, investment, and tourism related statistics for Japan. Specifically, it shows global trade flows including an analysis of top markets and products for Japan in relation to the Western Cape, highlighting the largest and fastest growing products and sub-sectors. The key highlights in the fact sheet are provided below:

Economy

- Japan's real GDP is estimated to have grown by 1.62% in 2021, following a contraction of 4.50% in 2020.
- At the start of 2022, the country's real GDP contracted, owing to confinement measures, weak external demand and surging prices for energy amidst the Russia-Ukraine conflict. The economy is however expected to recover, with GDP growth projected at 2.39% in 2022, and 2.32% in 2023.

Trade

- Western Cape export receipts from its trade with Japan stood at ZAR2.18bn in 2021, an increase of 19.13% y-o-y from the 2020 value of ZAR1.83bn. Associated import costs stood at ZAR0.81bn in 2021, an increase of 15.71% y-o-y from the 2020 value of ZAR0.70bn.
- The Western Cape's leading export product to Japan in 2021 was preparations of fruit and vegetables at a value of ZAR732.37m.

Tourism

- Tourist arrivals from Japan have recovered slowly since the start of 2022 as is the case for most of Asia and the Pacific region. This is largely due to strict travel restrictions still in place in the region. Japanese tourist arrivals to Cape Town grew by +467% in the first five months of 2022, though numbers were still 90% below 2019.

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1. ECONOMIC OVERVIEW

Japan is one of the largest and most developed economies in the world. Its well-educated, industrious workforce and large affluent population makes it one of the world's biggest consumer markets. Japan's economy was the world's second largest (behind US) from 1968 until 2010, when it was overtaken by China. With its phenomenal economic revival from World War II, Japan was one of the first Asian countries to climb the value chain from cheap textiles to advanced manufacturing and services, which now account for the majority of Japan's GDP and employment. Primary industries, including agriculture, account for just 1 per cent of GDP (Asialink Business, 2022).

Following a contraction of 4.50% in 2020, real GDP growth is estimated to have grown by 1.62% in 2021. However, at the start of 2022, the country's real GDP contracted, owing to the pandemic and external environment which continue to thwart recovery. Confinement measures, weak external demand and surging prices for energy, materials and commodities in the context of COVID-19 and the Russia-Ukraine conflict weighed on domestic demand early in the year. Despite these conditions, pent-up demand has risen, further boosted by substantial policy support. As a result, the economy is forecast to recover from the slow start seen in early 2022 the year, with GDP growth projected at 2.39% for full year 2022, and 2.32% in 2023 (International Monetary Fund (IMF), 2022).

According to the Organisation for Economic Co-operation and Development (OECD), the direct effect of the Ukraine – Russia conflict on the Japanese economy is likely to be limited in the short-term but cautions that the economic damage could be more serious in the longer term. To contextualise this, a mere 1.8% of Japan's global imports are sourced from Russia, and only 1% of the country's total global exports are destined for Russia. Further, the country's dependence on Russia for fossil fuels is modest at 11%, 9% and 4% respectively for coal, natural gas and oil in 2021, and the government reportedly aims to gradually reduce and eventually aims to stop importing coal from Russia.

Japan also imports some non-ferrous metals from Russia including palladium, which is used in catalytic converters for cars. While disruptions to trade in these metals could be covered by using stocks or recycling in the short term, Japan would have to find other suppliers or substitute resources for energy and materials over the longer term. Oil prices will continue to rise in 2022 and in early 2023 because of the oil embargo in EU countries, but the Japanese government subsidy for fuel will continue to damp the price increases faced by consumers, so that inflation is expected to be around 2%. The subsidy is assumed to be extended beyond its current expiry date at the end of September.

While weak external demand, especially in large trade partners, and high import prices will weigh on trade in the near term, both exports and imports will grow as energy prices stabilise and domestic and external demand recover. Investment will accompany the recovery of exports and production, supported by government subsidies, especially in the green and digital areas. The labour market will continue improving, but overall wage growth will remain subdued as lower-wage workers are hired, and corporate profits are squeezed by the high prices of energy and other commodities (Organisation for Economic Co-operation and Development (OECD), 2022).

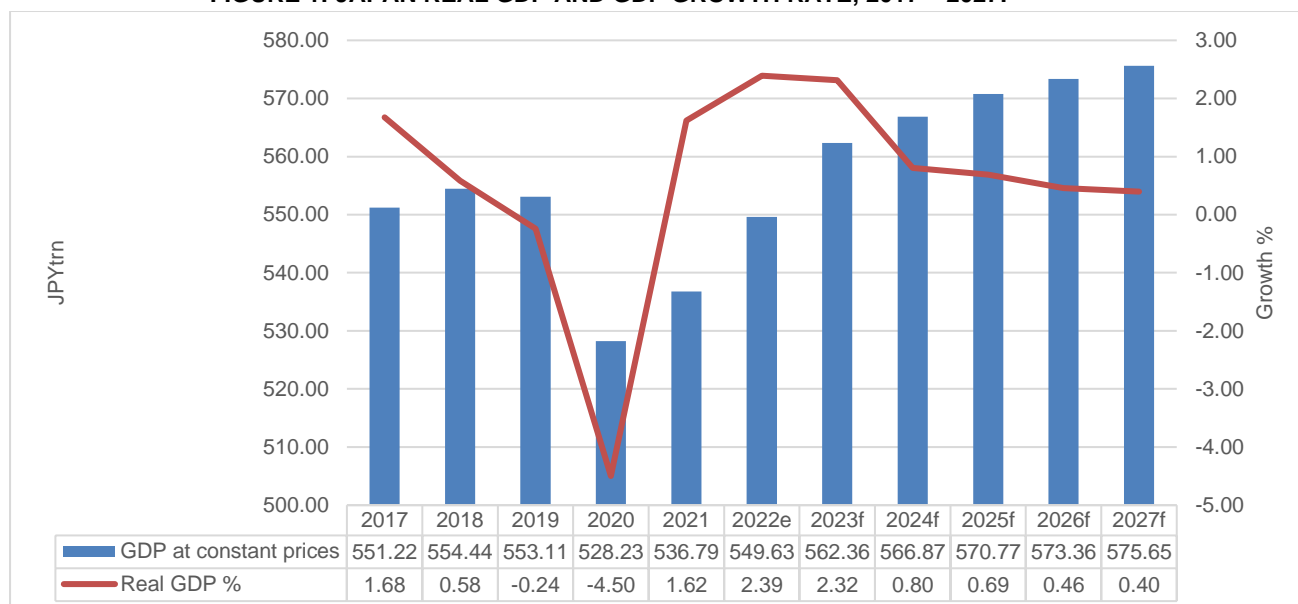
A prolonged war in Ukraine and higher-than-foreseen import prices are downside risks. Supply chain disruptions due to further COVID-19 shocks or geopolitical instability could depress trade, production and investment.

TABLE 1: ECONOMIC INFORMATION	
GDP, constant prices (national currency) (2022 est.)	JPY549, 633.00bn
Real GDP growth (2022 est.)	2.39%
GDP per capita, constant prices (2022 est.)	JPY4, 391, 043.55
Inflation, consumer average prices (2022 est.)	0.98%
Short-term policy interest rate (22 July 2022)	-0.1%
Population	125.17 million
Unemployment rate (2022 est.)	2.5%
Total Exports (2021)	USD745.46bn
Total Imports (2021)	USD772.68

Sources: IMF 2022; Bank of Japan, 2022; Trade Map 2022

The Japanese economy is recovering from the pandemic amid strong policy support and high vaccination levels. Following a contraction of 4.50% in 2020, real GDP growth is estimated to have grown by 1.62% in 2021. GDP growth is projected at 2.39% in 2022 amid continued strong policy support, the high vaccination rate and easing global supply constraints (IMF, 2022).

FIGURE 1: JAPAN REAL GDP AND GDP GROWTH RATE, 2017 – 2027F



Source: IMF, 2022

Japan's GDP sectoral contribution is shown in Figure 2 below. These are some of the most important industries in Japan:¹

Manufacturing has been the most remarkable and internationally renowned feature of Japan's economic growth. Today, Japan is a world leader in the manufacture of electrical appliances and electronics, automobiles, ships, machine tools, optical and precision equipment, machinery and chemicals. In recent years, however, Japan has ceded some economic advantage in manufacturing to China, the Republic of Korea and other manufacturing economies. Japanese firms have countered this trend to a degree by transferring manufacturing production to low-cost countries.

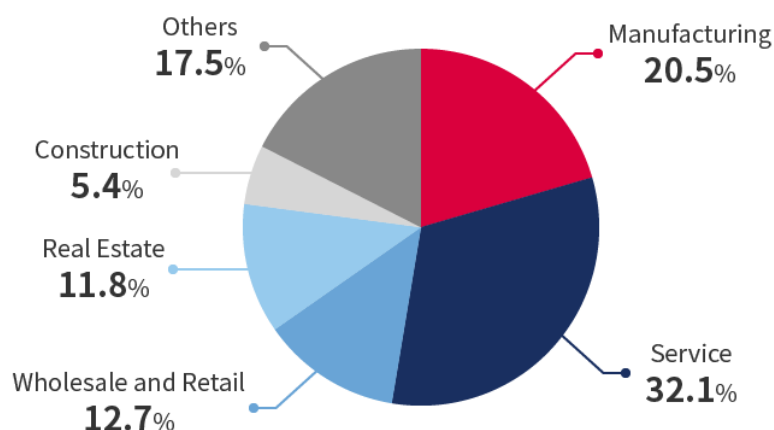
Japan's **services sector**, including **financial services**, also plays a far more prominent role in the economy. The Tokyo Stock Exchange is one of the world's foremost centres of finance.

International trade contributes significantly to the Japanese economy, with exports holding a considerable share of GDP. Key exports include vehicles, machinery and manufactured goods.

Japan has few **natural resources**, and its **agricultural sector** remains heavily protected. Japan's main imports include mineral fuels, machinery and food.

¹ Asialink Business, 2022

FIGURE 2: JAPAN GDP SECTORAL CONTRIBUTION, 2020



Source: Japan External Trade Organization, 2022

1.1 MAJOR COMPANIES IN JAPAN

The Forbes Global 2000 is an annual list of the world's 2000 largest publicly listed corporations. The largest publicly traded Japan companies as per the Forbes 2000 Global rankings in 2022 are tabled below:

TABLE 2: LARGEST PUBLICLY TRADED JAPAN COMPANIES AS PER THE FORBES 2000 GLOBAL RANKING, 2022						
GLOBAL RANK	COMPANY	SALES (USDbn)	PROFITS	ASSETS (USDbn)	MARKET VALUE (USDbn)	SECTOR
10	Toyota Motor	281.75	28.15	552.44	237.73	Consumer Durables
44	Softbank	96.86	20.87	418.94	71.69	Telecommunications Services
52	Nippon Telegraph & Tel	110.39	10.15	204.46	103.98	Telecommunications Services
56	Sony	89.9	7.99	269.48	108.84	Semiconductors, Electronics, Electrical Engineering, Technology Hardware & Equipment
59	Mitsubishi UJF Financial	48.28	11.29	3, 176.37	75.75	Banking
103	Honda Motor	130.16	7.24	193.22	44.99	Automotive (Automotive and Suppliers)
104	Mitsubishi	146.94	5.9	178.13	50.87	Trading Companies
127	Sumitomo Mitsui Financial	35.5	6.4	2, 176.62	42.33	Banking
140	Mitsui	108.31	7.01	119.73	40.83	Trading Companies
141	Itochu	107.99	6.52	116.57	45.95	Trading Companies
145	Hitachi	91.9	5.87	151.17	45.78	Conglomerates
146	KDDI	491.17	5.98	94.14	74.12	Telecommunications Services
157	Japan Post Holdings	103.58	3.93	2, 614.33	26.56	Insurance
178	Tokio Marine Holdings	50.75	3.85	234.91	35.19	Insurance
186	Mizuho Financial	26.76	5.42	1, 957.58	31.38	Banking
213	Dai-ichi Life Insurance	66.73	4.47	571.45	19.9	Insurance
260	Seven & Holdings	31.55	3.99	110.27	45.32	Food Markets
265	Denso	78.47	1.89	75.88	39.19	Automotive (Automotive and Suppliers)
312	Marubeni	49.49	2.51	61.51	45.14	Trading Companies
320	Sumitomo	48.22	2.69	77.8	20.28	Trading Companies

Source: Forbes 2000, 2022

Note: The Methodology

We compile our Global 2000 list using data from FactSet Research systems to screen for the biggest public companies in four metrics: sales, profits, assets and market value. Our market value calculation is as of April 18, 2019, closing prices and includes all common shares outstanding.

All figures are consolidated and in U.S. dollars. We use the latest-12-months' financial data available to us. We rely heavily on the databases for all data, as well as the latest financial period available for our rankings (the final database screen was run in early-April). Many factors play into which financial period of data is available for the companies and used in our rankings: the timeliness of our data collection/screening and company reporting policies, country-specific reporting policies and the lag time between when a company releases its financial data and when the databases capture it for screening/ranking. We quality-check the downloaded financial data to the best of our ability using other data sources, including Bloomberg and available company financial statements.

Publicly traded subsidiaries for which the parent company consolidates figures are excluded from our list. For most countries, the accounting rules for the consolidation of a subsidiary is when the parent's ownership (control) of the subsidiaries stock is more than 50%. Some countries accounting rules allow for the consolidation of a subsidiary at less than 50% ownership.

1.2 JAPAN'S SOVEREIGN CREDIT RATING

"A sovereign credit rating is the credit rating of a country or sovereign entity. Sovereign credit ratings give investors insight into the level of risk associated with investing in a particular country and include political risks. At the request of the country, a credit rating agency will evaluate the country's economic and political environment to determine a representative credit rating" (Investopedia, 2020).

While a number of credit agencies exist, the three most recognised credit ratings agencies globally are Fitch Ratings, Moody's Investors Services (Moody's) and Standard & Poor's (S&P). Reasons for a country/sovereign to seek a credit rating from one of these three agencies include not only to access funding in international bond markets via the issuance of bonds in external debt markets, but it is a means to attract foreign direct investment. Obtaining a good sovereign credit rating instils confidence in investors seeking to invest in that country, with the credit rating a means for the country to demonstrate financial transparency and credit standing. Two key rating 'standards' exist, with the highest possible rating category being "AAA" according to S&P, which indicates that the rated country has extremely strong capacity to meet its financial commitments. A wide range of rating categories exists below this, with the categories ranging all the way down to SD (i.e., defaulted), which means the rated country has failed to pay one or more of its financial obligations when it came due.

On 25 March 2022, **Fitch Ratings** revised the outlook on Japan's long-term foreign currency issuer default rating (IDR) to stable from negative and affirmed the rating at 'A'. The key rating driver included the rising confidence in the stabilisation of Japan's government debt ratio over the medium term, as uncertainty over the impact of the Covid-19 pandemic on the macroeconomic and fiscal outlook is gradually fading. Also, the country's strengths as an advanced, wealthy economy, corresponding with robust governance standards and public institutions, against weak medium-term growth prospects and very high public debt. The central bank's monetary strategy and the private-sector investors support the government's financing capacity. Persistent current account surpluses, a large net external creditor position and the yen's status as a reserve currency underpin strong external finances. The economy's growth is expected to recover in 2022, forecasted with a growth forecast of 2.4% in the year and 1.8% in 2023. The recovery will be supported by loose fiscal policy, rebounding consumption and easing supply chain constraints to manufacturing and exports. Although geopolitical tensions will dampen recovery through higher commodity prices and lower global growth (Fitch, 2022).

While on 21 April 2021, **Standard & Poor** affirmed Japan's A+/A-1 sovereign debt ratings, crediting the country's current account surplus and an expected recovery from the COVID-19 pandemic. The outlook for Japan remained stable, reflecting prospects that the economy will achieve average nominal growth of about 1.8% over the period 2021-2024. However, these ratings are sensitive to factors such as Japan's very weak public finances, which are exacerbated by an aging population and persistently low inflation. The rating agency mentioned it may lower the ratings if Japan's economic growth persistently lags that of other major economies and a return to deflation puts long-term pressure on its fiscal health. The country's ratings may be raised, on the other hand, if the government's efforts to fix the country's finances proceed significantly faster than anticipated (Reuters, 2021).

Japan's credit ratings from the major agencies are as following:

TABLE 3: JAPAN SOVEREIGN CREDIT RATINGS, 2022			
CREDIT RATING AGENCY	STANDARD & POORS	MOODY'S INVESTOR SERVICES	FITCH RATINGS
CREDIT RATING	A+/A-1	A	A
OUTLOOK	Stable	Stable	Stable
DATE OF LAST CHANGE	2021-04-21	2021-10-30	2022-03-25

Sources: S&P Global Ratings, 2022; Fitch Ratings, 2022; Moody's Investor Services, 2022

2. TRADE

2.1 WESTERN CAPE TRADE

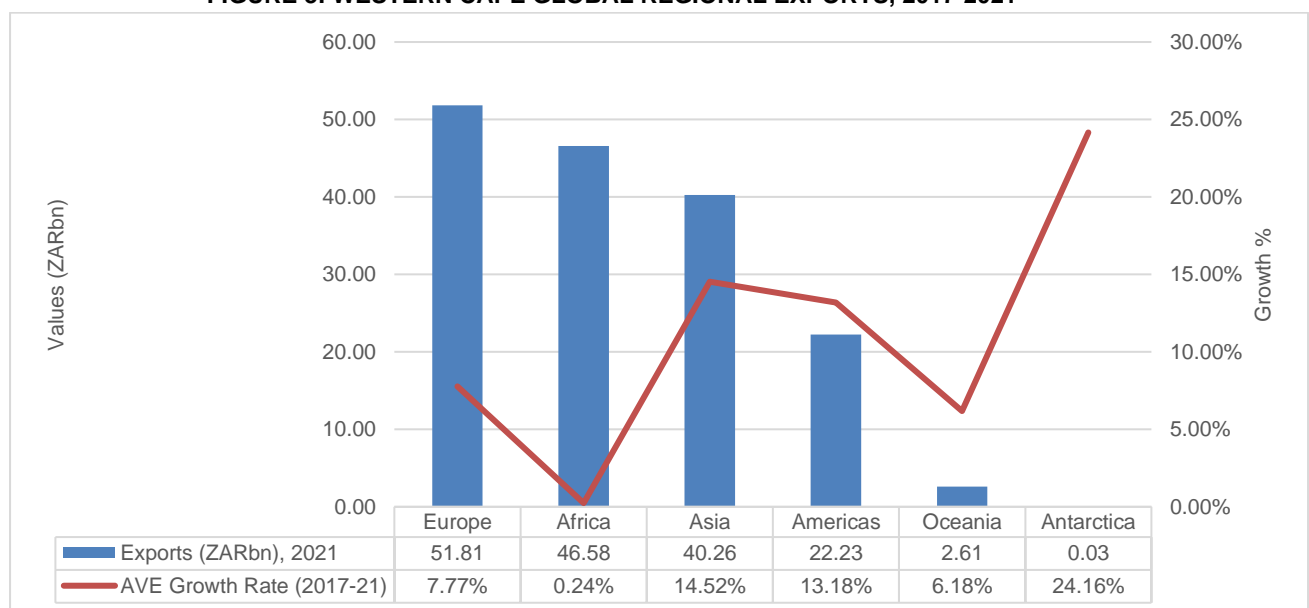
In 2021, the Western Cape exported ZAR166.66bn and imported ZAR235.60bn worth of goods globally. The strategic location of the Western Cape - with the province is home to three important South African ports - makes it the third largest province in South Africa in terms of exports (as measured by value) after Gauteng and the Northwest. The Western Cape's total share of South African exports was 9.19% in 2021.

The Western Cape has advantageous access to world markets through several preferential trade agreements between South Africa and other major markets, including amongst others, Europe, Africa, the United States and Asia, which includes Japan.

Bilateral trade between Japan and South Africa inclusive of the Western Cape has been expanding since the establishment of full diplomatic relations in 1992 (Department of International Relations and Cooperation (RSA), 2021). From the inception of the Japan-South Africa Partnership Forum in 1999, ministerial level discussions on bilateral issues such as trade and investment, as well as development and global challenges, including cooperation in the United Nations arena and stability of regional situations have been conducted regularly.

Figure 3 below articulates the province's trade with various regions across the globe. Although Europe overtook Africa as the number one destination region for Western Cape exports in 2021, Africa remains a large opportunity market for Western Cape exports. Africa was the second largest destination region for Western Cape exports in 2021 (ZAR46.58bn) followed by Asia at ZAR40.26bn. Bilateral trade between the Western Cape and Asia has been remarkably resilient in recent years recording 14,52% annual average growth over the 5 years period from 2017 – 2021 despite challenging global economic conditions.

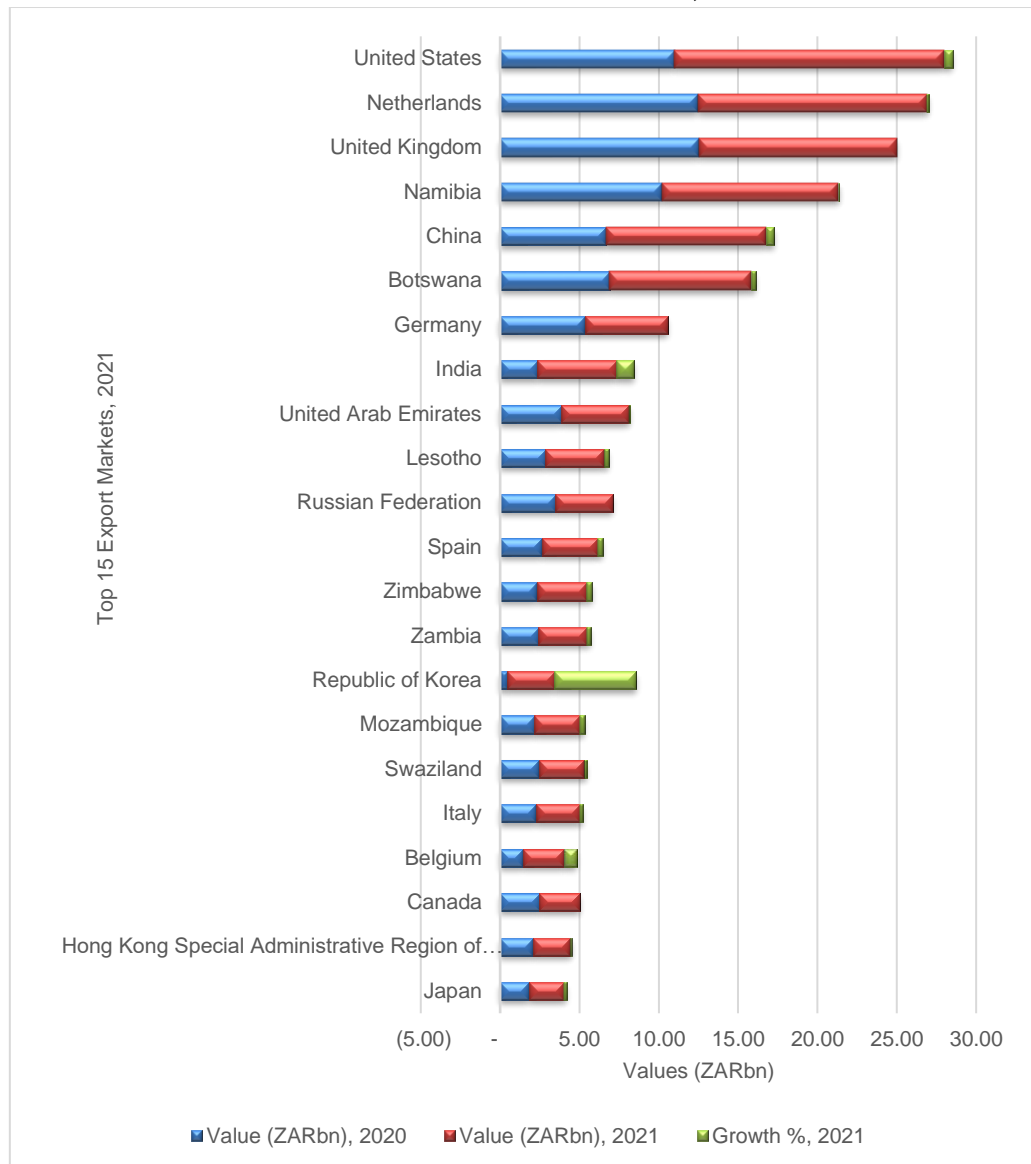
FIGURE 3: WESTERN CAPE GLOBAL REGIONAL EXPORTS, 2017-2021



Source: Quantec, 2022

Interestingly, out of the top 22 Western Cape export destination markets graphed below, 5 of them are Asian primary export markets. Japan was the 6th largest Asian market destination for Western Cape exports in 2021 with total receipts from the province valued at ZAR2,18bn. Figure 2 below illustrates key Western Cape export markets in 2021.

FIGURE 4: WESTERN CAPE KEY EXPORT MARKETS, 2020-2021

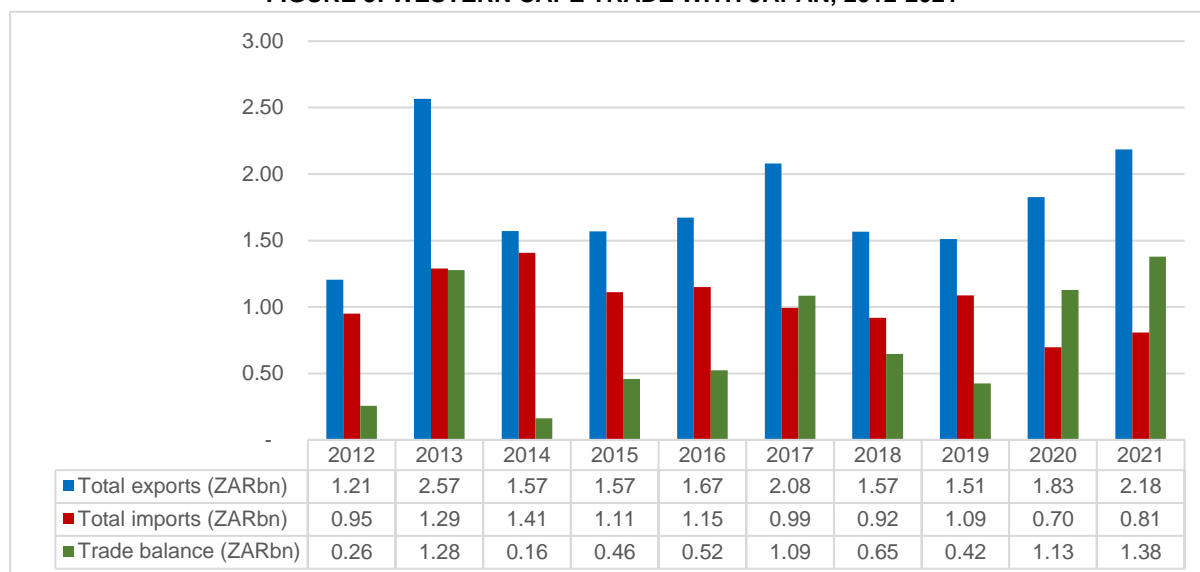


Source: Quantec, 2022

2.2 WESTERN CAPE TRADE WITH JAPAN

Over the last decade, total exports of the Western Cape to Japan increased at an average annualised rate of 13%, from ZAR1,21bn in 2012 to ZAR2,18bn in 2021. In 2021, the Western Cape's exports to Japan increased by 20% y-o-y to a value of ZAR2,18bn, up from ZAR1,83bn in 2020. This was mainly due to a huge demand of primary agricultural produce which South Africa as country is a top supplier to Japan, along with other products such as base metals. The Western Cape's imports from the East Asian country went up by 16% y-o-y to a value of ZAR0,81bn in 2021, from ZAR0,70bn in 2020. Over the past decade, the Western Cape has been a net exporter of merchandise to Japan.

FIGURE 5: WESTERN CAPE TRADE WITH JAPAN, 2012-2021



Source: Quantec, 2022

In 2021, the province's largest exports to Japan were preparations of fruit vegetables (ZAR732,37m), cereals (ZAR367,27m,) and essential oils and resinoids (ZAR259,03m). The largest growth in exports over the period 2017 - 2021 was recorded in the coffee, tea, maté and spices (375,05%), followed by live trees and other plants; (35,57%), and essential oils (19,93%). It is worth mentioning that the Western Cape exports mainly primary products to Japan whilst importing technology-intensive goods from the East Asian country.

The largest imports by the Western Cape from Japan were articles of stone, plaster, cement, asbestos (ZAR271,28m), medical devices (ZAR131,44m), and nuclear reactors, boilers, machinery (ZAR125,96m). The largest growth in imports over the period 2017 – 2021 were articles of stone, plaster, cement, asbestos (62,08%), beverages, spirits, and vinegar (51,86%), and tools, implements, cutlery, spoons (14,85%).

TABLE 4: TOP 10 WESTERN CAPE PRODUCTS TRADED WITH JAPAN, 2021

Top 10 Exports				Top 10 Imports			
Rank	Product	Value 2021 (ZARm)	Avg Growth Rate (2017-2021)	Rank	Product	Value 2021 (ZARm)	Avg Growth Rate (2017-2021)
1	Preparations of fruit vegetables	732,37	16,97%	1	Articles of stone, plaster, cement, asbestos	271,28	62,08%
2	Cereals	367,27	-	2	Medical devices	131,44	-5,11%
3	Essential oils and resinoids	259,03	19,93%	3	Nuclear reactors, boilers, machinery	125,96	4,92%
4	Beverages, spirits, and vinegar	168,55	1,87%	4	Electrical machinery and equipment and parts thereof	70,97	12,92%
5	Oil seeds and oleaginous fruits;	140,26	-7,38%	5	Plastics and articles thereof	47,90	14,66%
6	Edible fruit and nuts	116,06	-13,59%	6	Vehicles other than railway or tramway rolling stock	17,20	4,32%
7	Live trees and other plants; bulbs, roots	104,78	35,57%	7	Fish and crustaceans, molluscs, and other aquatic invertebrates	16,29	-8,55%
8	Coffee, tea, maté and spices	44,46	375,05%	8	Organic chemicals	15,80	-14,77%

Top 10 Exports				Top 10 Imports			
Rank	Product	Value 2021 (ZARm)	Avg Growth Rate (2017-2021)	Rank	Product	Value 2021 (ZARm)	Avg Growth Rate (2017-2021)
9	Fish and crustaceans,	33,38	-16,62%	9	Tools, implements, cutlery, spoons, and forks, of base metal	11,58	14,85%
10	Residues and waste from the food industries	25,21	-5,23%	10	Beverages, spirits, and vinegar	11,14	51,86%
Total Exports		2 184,68	7,31%	Total Imports		807,02	-4,58%

Source: Quantec, 2022

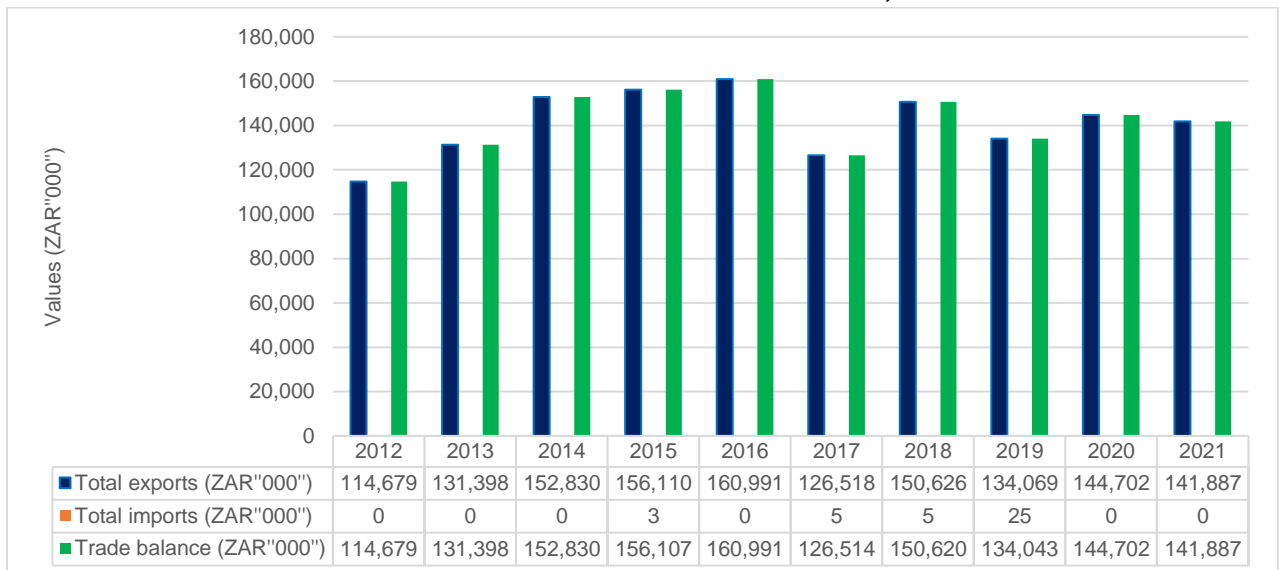
Western Cape wine trade with Japan

It is vital to mention that the Western Cape remains an agricultural powerhouse and agricultural products make up around 34% of the province's total receipts. Over the past decade, the province has been a net exporter of wines to Japan and noting that South Africa is the 18th largest wine exporter to Japan, with all of this wine originating from the Western Cape (Quantec, 2022). In terms of tariffs and taxes, South Africa, including the Western Cape, is charged 16% in ad valorem tax when exporting wines to Japan.

In terms of related promotional activities, Wines of South Africa (WOSA) promotes South African wines in the global market and has been staging a trade fair called Cape Wine in Cape Town every other year. The fair attracts a good number of international wine buyers, including those from Japan. The next Cape Wine will be held in October from the 5th- 7th in 2022.

Within the Western Cape, the Cape Winelands is the only district where Japan is the top destination market for its merchandise; the East Asian country is not in the top 5 markets for any of the other districts. More specifically Japan ranks as the Cape Winelands' 10th largest export market with wines being the 4th largest exported product at a value of ZAR111,22m in 2021.

FIGURE 6: WESTERN CAPE TRADE IN WINES WITH JAPAN, 2012-2021

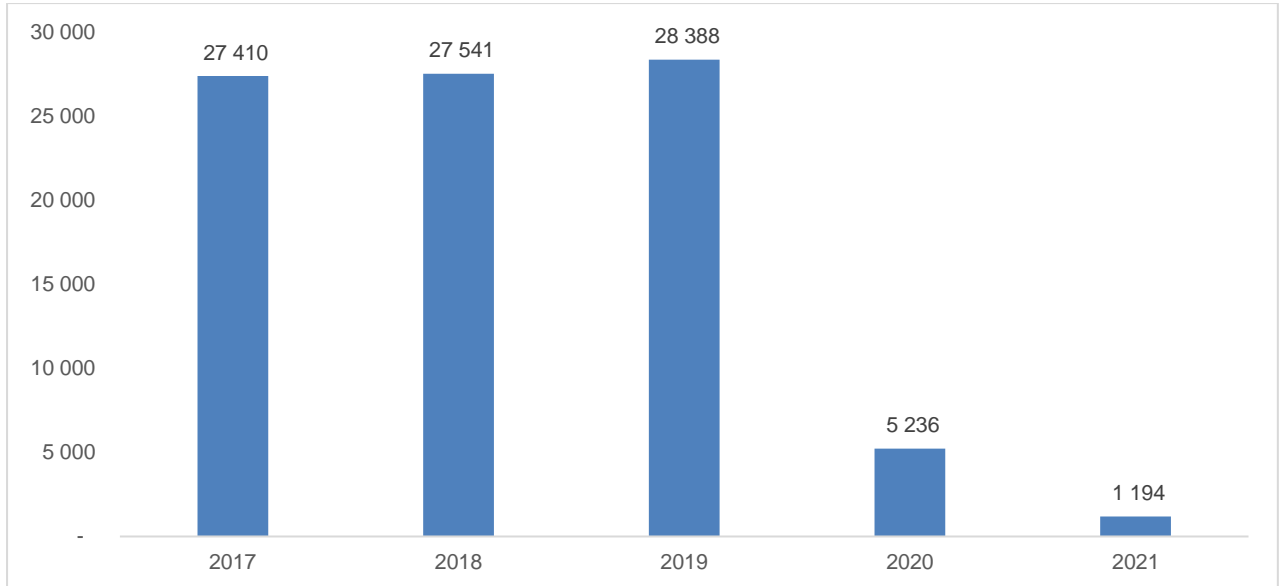


3. TOURISM FLOWS

3.1 JAPANESE TOURIST ARRIVAL TO SOUTH AFRICA

The graph below depicts total tourist arrivals from Japan into South Africa from 2017 - 2021. A -77,2% decline in tourist arrivals from Japan was recorded in 2021 due to the impact of the pandemic on international travel.

FIGURE 7: TOURIST ARRIVALS FROM JAPAN TO SOUTH AFRICA, 2017-2021

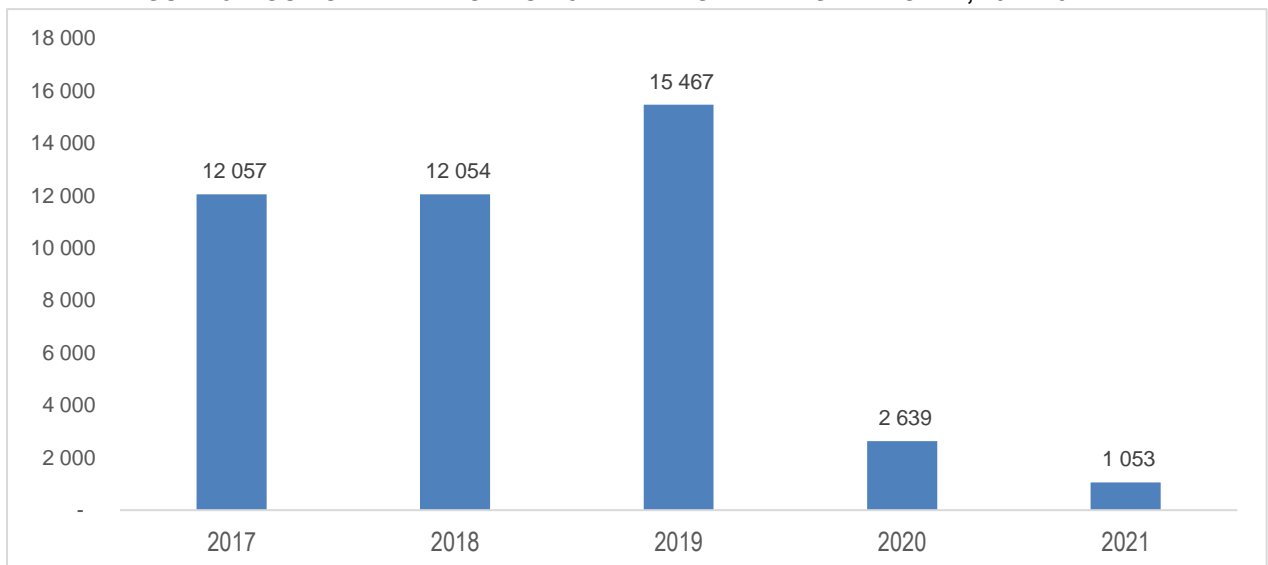


Source: South African Tourism, 2022

3.2 JAPANESE TOURIST ARRIVALS INTO THE WESTERN CAPE

Over the past few years, the Western Cape saw the strongest volume in Japanese tourists in 2019 with 15 467 arrivals. Despite a drastic decline since the start of the pandemic, tourist arrivals from Japan to the Western Cape made up 88% of Japanese arrivals to the country in 2021.

FIGURE 8: TOURIST ARRIVALS FROM JAPAN INTO THE WESTERN CAPE, 2017-2021

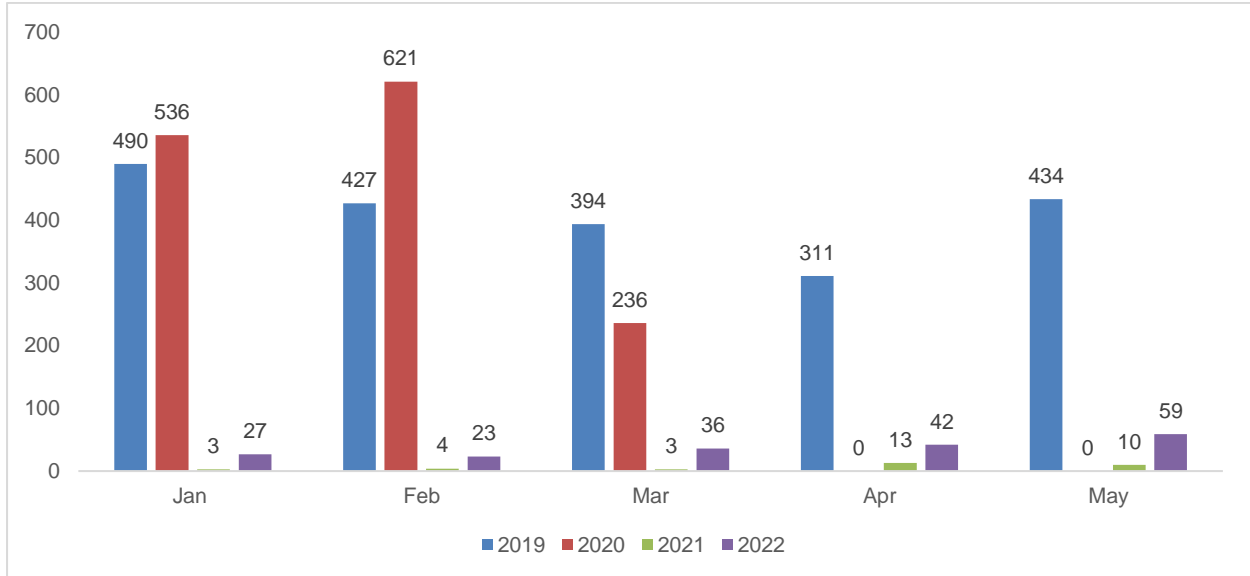


Source: South African Tourism, 2022

3.3 JAPANESE TOURIST ARRIVALS TO CAPE TOWN (VIA AIR)

Tourist arrivals from Japan have recovered slowly since the start of 2022 as is the case for most of Asia and the Pacific region. This is largely due to strict travel restrictions still in place in the region. Japanese tourist arrivals to Cape Town grew by +467% in the first five months of 2022, though numbers were still 90% below 2019.

FIGURE 9: TOURIST ARRIVALS FROM JAPAN TO CAPE TOWN (VIA AIR), JAN 2019 - MAY 2022



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