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# Economic Report 2022

## JAPAN

8 August 2022

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### Executive Summary

Japan is the **third largest economy**. Its GDP grew by 1.7% in 2021 and has not fully recovered to pre-pandemic levels yet. The government has further **expanded its fiscal policy** with significant assistance during the pandemic. Debt stands at over 260% of GDP and is held domestically for the most part. In 2022, inflation rose above 2% for the first time since 2008. Even in light of a significant depreciation of the Yen, the Bank of Japan has **maintained its loose monetary policy**.

The new Prime Minister Fumio Kishida advances an agenda of **"New Capitalism"**. He seeks to enhance growth and distribution, including with a shift from savings to investments, wage raises and ambitious targets in human capital, science, startups as well as green and digital transformation. In light of economic interdependence with China and concern about economic coercion measures, he has **accelerated efforts in economic security**, including by diversifying supply chains.

Japan has significantly expanded its network of free trade agreements. In a **shift in foreign economic policy priorities**, it increasingly coordinates with selected partners and seeks to shape standards in fields such as economic security, supply chain resilience or digital and green economy. It continues to proactively promote exports of agricultural products and infrastructure, and attract investments.

2021 saw **record-high exports and imports**, with semiconductor-related products playing an important role. China remained the most important trading partner. 2021 marked the largest **service trade deficit** for Japan since 2007. **Foreign Direct Investments (FDI)** in Japan grew in 2021, but remained comparatively low. Outward FDI grew significantly. A third of investments are in the US.

Japan was **Switzerland's eleventh largest trading partner** in 2021, with exports recovering and marking the third highest value on record. Pharmaceutical products dominate both exports and imports. Trade in services saw a significant increase in both directions, with licence fees dominating. Early comparative advantages generated by the pioneer 2009 **bilateral free trade agreement** are eroding with regard to certain product categories.

Switzerland was **seventh largest investor** in Japan in 2021. FDI declined overall, but investments in key sectors pharmaceutical and chemicals, electric machinery, wholesale and retail as well as finance and insurance continued to grow. For Japan, Switzerland is the eighth most important investment destination. Its FDI see a high concentration and significant growth in wholesale and retail.

In terms of **opportunities**, health services and the chemicals sector have been steady drivers of growth in Japan over past years. The finance and insurance sector attracts a large part of inbound FDI and grew in 2020. The policy priorities of the government, for instance in terms of unlocking savings, stimulating innovation or accelerating green transformation, signal new opportunities.

Switzerland plans to participate in the **World Exposition 2025 in Osaka**, providing Swiss companies the opportunity to showcase examples of how innovation serves prosperity and sustainability.

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## 1 ECONOMIC OUTLOOK AND ECONOMIC POLICY DEVELOPMENTS

### Return to pre-pandemic GDP uncertain after modest growth in 2021

Japan was the third largest economy in the world and the second largest in Asia in 2021 with a GDP of \$4.9 trillion (+1.7%).<sup>1</sup> Japan's economy has been expanding and contracting in parallel to the evolution of the Covid-19 pandemic and government measures, such as limitations in capacity and opening hours or entry restrictions. Infection waves have swayed the direction of consumption, which makes up more than half of GDP. Fiscal assistance that began in spring 2020 and totalled up to 20% of GDP, has helped to largely keep the jobless rate unaffected and below 3% throughout 2021.<sup>2</sup>

For the first quarter of 2022, the nation's Cabinet Office estimates that the economy has shrunk to \$4.5 trillion (-0.2% in yen terms), impacted by the wave of infections with the Omicron variant. The latest yearly figure still trails Japan's pre-pandemic peak of \$5.1 trillion, reached in 2019, by 3.5%. The IMF projects Japan's economy to grow at 1.7% for calendar year 2022 while the Cabinet Office expects a 2% growth in fiscal year 2022 (April 2022 to March 2023).<sup>3</sup> Prospects to return to previous GDP levels depend on multiple factors, including the pace of further loosening Covid-19 measures subject to public health concerns, recovery in the service sector and the global geopolitical and economic environment.

### Fiscal policy: Return of "normal" deficit spending without meaningful debt-cutting plan

Relatively speaking, fiscal year 2021 (April 2021 to March 2022) saw a return to pre-pandemic "normalcy" in government spending. Parliament (hereafter the Diet) approved a \$970.5 billion regular budget and one extra spending bill, though for a record \$326.9 billion, for a stimulus in December 2021.<sup>4</sup> In contrast, it had approved a regular and three supplemental budgets in fiscal year 2020, totalling \$1.6 trillion.<sup>5</sup> A record \$609.7 billion tax revenue<sup>6</sup> financed less than half of the spending in fiscal year 2021.<sup>7</sup>

For the current fiscal year 2022 (April 2022 to March 2023), the Diet has approved an \$889.4 billion regular budget. With an increase of 0.9% (in yen terms), this is the tenth consecutive record budget. The government also expects record high-tax revenue for the third straight year (in yen terms), at \$538.9 billion. Reflecting Japan's challenge of a rapidly ageing society and its fiscal situation, more than half of expenditures go to social security (33.7%) and debt service (22.6%), which also see above average increases (+1.2% and +2.4% respectively). This leaves little room for manoeuvre in funding new policy priorities, including an ambitious target of increasing defence spending by more than 10%, and raises questions fiscal sustainability.<sup>8</sup> On 31 May 2022, the Diet approved a first extra budget of \$22.3 billion, including to finance non-discriminatory oil subsidies in response to rising commodity prices.<sup>9</sup>

The government has not crafted a coherent action plan to reduce the national debt, which stands at \$10.3 trillion as of April 2022.<sup>10</sup> At 262.5%, Japan has the highest rate of debt to GDP worldwide.<sup>11</sup> It considers the 2014 and 2019 consumption tax hikes as progress to keeping up with growing social security costs.<sup>12</sup> It further maintains an assumption of a continuous medium-to-long-term real GDP growth of 2% as a pathway towards fiscal consolidation even though this only occurred once in the last decade.<sup>13</sup> Meanwhile, no more than 15% of Japanese government bonds are held abroad and the Bank

<sup>1</sup> Converted from JPY 541.9 trillion, based on an average currency exchange rate for 2021 at JPY 109.8/USD; Cabinet Office, "Quarterly Estimates of GDP", [www.esri.cao.go.jp/en/sna/data/sokuhou/files/2022/toukei\\_2022.html](http://www.esri.cao.go.jp/en/sna/data/sokuhou/files/2022/toukei_2022.html), accessed on 12 May 2022; see also IMF, "Gross Domestic Product and Components- Selected Indicators, Japan", [data.imf.org/regular.aspx?key=61545852](http://data.imf.org/regular.aspx?key=61545852), accessed on 29 July 2022.

<sup>2</sup> Ministry of Internal Affairs, "Labor Force Survey 2021", [www.stat.go.jp/data/roudou/sokuhou/nen/ft/pdf/youyaku.pdf](http://www.stat.go.jp/data/roudou/sokuhou/nen/ft/pdf/youyaku.pdf), accessed on 3 June 2022.

<sup>3</sup> Cabinet Office, Fiscal 2022 Mid-year estimate (25 July 2022), [www5.cao.go.jp/keizai-shimon/kaigi/minutes/2022/0725/shiryo\\_03-2.pdf](http://www5.cao.go.jp/keizai-shimon/kaigi/minutes/2022/0725/shiryo_03-2.pdf), accessed on 29 July 2022.

<sup>4</sup> Converted from JPY 106.6 trillion, based on an average currency exchange rate for 2021 at JPY 109.8/USD.

<sup>5</sup> Converted from JPY 175.7 trillion, based on an average currency exchange rate for 2020 at JPY 106.75/USD; Ministry of Finance (MOF), "Fiscal 2020 Balance Sheet", [www.bb.mof.go.jp/hdocs/bxss010br2a.html](http://www.bb.mof.go.jp/hdocs/bxss010br2a.html), accessed on 12 May 2022.

<sup>6</sup> Converted from JPY 67 trillion, based on an average currency exchange rate for 2021 at JPY 109.89/USD.

<sup>7</sup> MOF, "Fiscal 2021 Tax Revenue Closing Balance" (5 July 2022), [www.mof.go.jp/tax\\_policy/reference/taxes\\_and\\_stamp\\_revenues/202205.pdf](http://www.mof.go.jp/tax_policy/reference/taxes_and_stamp_revenues/202205.pdf), accessed on 5 July 2022.

<sup>8</sup> MOF, "Fiscal 2022 budget summary", [www.mof.go.jp/policy/budget/budger\\_workflow/budget/fy2022/seifuan2022/01.pdf](http://www.mof.go.jp/policy/budget/budger_workflow/budget/fy2022/seifuan2022/01.pdf), accessed on 7 June 2022.

<sup>9</sup> Converted from JPY 1.9 trillion, based on an average currency exchange rate for 2021 at JPY 109.89/USD.

<sup>10</sup> MOF, "Current balance of government bonds, borrowed money, and government-guaranteed debts", [www.mof.go.jp/igbs/reference/gbb/202103.html](http://www.mof.go.jp/igbs/reference/gbb/202103.html), accessed 30 July 2021.

<sup>11</sup> IMF, WEO April 2022, [www.imf.org/en/Publications/WEO/Issues/2022/04/19/world-economic-outlook-april-2022](http://www.imf.org/en/Publications/WEO/Issues/2022/04/19/world-economic-outlook-april-2022), accessed on 12 May 2022.

<sup>12</sup> Cabinet Secretariat, "Comprehensive Reform of Social Security and Tax" (December 2021), [www.cas.go.jp/jp/seisaku/syakaihosyou/index.html](http://www.cas.go.jp/jp/seisaku/syakaihosyou/index.html), accessed on 29 July 2022.

<sup>13</sup> Cabinet Office, "Economic and Fiscal Projections for Medium to Long-term Analysis" (January 2022), [www5.cao.go.jp/keizai3/projection-e/projection202201sum.pdf](http://www5.cao.go.jp/keizai3/projection-e/projection202201sum.pdf), accessed 27 January 2022.

of Japan itself is the largest owner among the domestic share.<sup>14</sup> Furthermore, Japan remains the world's biggest creditor, holding more than \$3 trillion in net assets in foreign currency reserves and direct investment abroad.<sup>15</sup>

### Monetary policy: Bank of Japan keeps loose monetary policy despite 2% inflation

Since 2013, the Bank of Japan (BoJ) has maintained a policy of fighting deflation and a target to achieve a self-sustaining 2% inflation. Monetary easing measures include lowering and keeping short-term interest rates at -0.1% as instituted in 2016. There were little signs of significant inflation during all of 2021. As a consequence of the Russian military aggression against Ukraine and increased commodity prices, inflation rose slightly above two percent in the second quarter 2022. The price hikes contrast with inflation below one percent in the first quarter. In fact, it is the first increase above 2% since September 2008.<sup>16</sup> In the wake of rate hikes by the US Federal Reserve and other central banks, the Yen depreciated significantly, hitting a 42 year historic low against the Swiss Franc in June 2022. Nevertheless, the BoJ maintains its monetary policy stance, conscious of the delicate economic recovery and assessing inflation to be mostly energy-driven and not sustainable. In order to maintain its stance, the BoJ had to significantly increase its frequency and size of interventions in bond markets.

The BoJ also develops tools for longer-term challenges. In line with a Strategy on Climate Change, adopted in July 2021, it made a first intervention five months later, lending \$18.6 billion<sup>17</sup> interest-free to financial institutions for financing companies' carbon-free investments or their issuing of climate bonds.<sup>18</sup> The BoJ also continued to conduct trials on central bank digital currency (CBDC).

### "New Capitalism": Can Prime Minister Kishida turn his vision into reality?

The Diet elected Mr. Fumio Kishida of the ruling Liberal Democratic Party (LDP) as the 100th Prime Minister on 4 October 2021. In late October, he led the LDP to a solid result in the elections of the Lower House of the Diet. Kishida launched his premiership with a vision of a "New Capitalism". He called for Japan to take a lead globally in shaping a new type of economics distinct from neoliberalism, which - over-relying on markets - accelerated climate change, widened disparities and impaired the middle class, thus threatening sound democracy. In his view, rejuvenating capitalism becomes even more important in the face of an increasingly powerful challenge by "authoritarian state capitalism". In order to return to a sustainable growth trajectory, Kishida envisages the private and public sectors to cooperate in generating a "virtuous" cycle of growth and distribution. Initially he focused on the latter dimension, hinting for instance at increasing financial asset-related taxation. After the markets accepted such ideas with little enthusiasm, he has gradually shifted his focus on the growth dimension of the vision. In June 2022, Kishida presented a first blueprint. It highlights investments in people as a key to growth, which could lead to more shareable wealth.<sup>19</sup> Its five pillars contain the following elements among others:

1. **People:** Upskilling (incl. \$3.6 billion<sup>20</sup> for measures over the next three years, new rules on non-financial information disclosure), workstyle reform, wage increases (enhance incentives and raise hourly national average minimum wage to \$9.10 from today's \$8.46<sup>21</sup>)<sup>22</sup> and shift from savings to investment (adopt plan by end of 2022).
2. **Science, technology and innovation:** Expand public-private investments (focus: quantum, artificial intelligence, biotechnology, medical care), increase focus on outer space and ocean, develop globally competitive research universities and support to young researchers.
3. **Startups:** Increase number tenfold in five years (develop plan by end of 2022), facilitate procurement of funding, secure relevant human resources and vitalize open innovation.
4. **Green transformation:** Public-private roadmap for decarbonization (develop by end of 2022), raise \$1.4 trillion in public-private investment (incl. transition bonds, carbon pricing).<sup>23</sup>
5. **Digital transformation:** Review laws and regulations to ensure compliance with digital principles within three years, digitalization of administration, data platforms for medical care.

<sup>14</sup> MOF, Trends of value and share of JGBs held overseas (March 2022),

[www.mof.go.jp/jgbs/reference/appendix/holdings02.pdf](http://www.mof.go.jp/jgbs/reference/appendix/holdings02.pdf), accessed 4 August 2022.

<sup>15</sup> MOF, International Investment Position of Japan 2021 (27 May 2022),

[www.mof.go.jp/english/policy/international\\_policy/reference/iip/e2021.htm](http://www.mof.go.jp/english/policy/international_policy/reference/iip/e2021.htm), accessed 4 August 2022

<sup>16</sup> Disregarding the impact of consumption-tax hike observed in April 2014.

<sup>17</sup> Converted from JPY 2.05 trillion, based on an average currency exchange rate for 2021 at JPY 109.89/USD.

<sup>18</sup> BOJ, "Loan Disbursement under the funds-Supplying Operations to Support Financing for Climate Change Responses" (23 December 2021), [www.boj.or.jp/en/announcements/release\\_2021/rel211223a.pdf](http://www.boj.or.jp/en/announcements/release_2021/rel211223a.pdf), accessed 29 July 2022.

<sup>19</sup> Cabinet Office, "A New Capitalism - Grand Design and Action Plan" (7 June 2022),

[www.cas.go.jp/jp/seisaku/atarashii\\_sihonsyugij/pdf/ap2022.pdf](http://www.cas.go.jp/jp/seisaku/atarashii_sihonsyugij/pdf/ap2022.pdf), accessed 8 June 2022.

<sup>20</sup> Converted from JPY 400 billion, based on an average currency exchange rate for 2021 at JPY 109.89/USD.

<sup>21</sup> Converted from JPY 1000 and 930 respectively, based on 2021 average currency exchange rate of JPY 109.89/USD.

<sup>22</sup> Ministry of Health, Labour and Welfare, "Chart of minimum wages by prefecture" (July 2021),

[www.mhlw.go.jp/stf/seisakunitsuite/bunya/koyou\\_roudou/roudoukijun/minimumchiran/](http://www.mhlw.go.jp/stf/seisakunitsuite/bunya/koyou_roudou/roudoukijun/minimumchiran/), accessed 29 July 2022.

<sup>23</sup> Converted from JPY 150 trillion, based on an average currency exchange rate for 2021 at JPY 109.89/USD.

Mr. Kishida managed to expand the LDP's Upper House majority in 10 July 2022 elections, which had been seen as a first judgement of his premiership. His second nationwide win came two days after the assassination of the former and highly influential Prime Minister Shinzo Abe. Observers expect Kishida to now start shaping and implementing his agenda more concretely and assertively as he is exempt from regular elections until as far as fall 2025. The new few months will determine if Kishida is indeed empowered to build his own legacy, including by taking some of the bolder measures, which may be unpopular in the corporate establishment.

### **Economic Security: Investment screening, industrial policy, and more**

In light of its economic interdependence with China and concerned by the country's use of economic coercion measures, Japan has put an increasing focus on what it calls "economic security". On the one hand, the government has enhanced its screenings of investments (see Chapter 5). On the other hand, it has allocated a \$4.7 billion<sup>24</sup> budget and provided four rounds of subsidies for companies, including foreign ones, to boost the resilience of supply chains by diversifying and investing in Japan.<sup>25</sup> In the latest round in July 2022, more than 65% of recipients were from the semiconductor business. Indeed, Japan sees the semiconductor industry as critically important. Much of the \$5.6 billion public fund allocated in 2021 to revive this industry will finance about half of the cost of new research and production facilities of the global market leader Taiwan Semiconductor Manufacturing Company in Japan.<sup>26</sup>

Prime Minister Kishida has pursued these efforts that have preceded his tenure, even appointing an economic security minister when he took office. The Diet approved a comprehensive economic security legislation in May 2022. It will empower the government to declare some infrastructure as critical to national security, screen procurements and intervene if necessary. It also foresees the non-disclosure of certain patents to better protect dual-use technologies and public-private partnerships in certain advanced technology. Finally, it consolidates efforts to enhance the resilience of supply chains of strategic goods. Over the next nine months to two years, relevant agencies will set dozens of implementation rules and regulations, which will determine the impact of the legislation. Japan proactively coordinates these efforts at the international level, first and foremost with western economies such as the US, the EU and individual European countries, and in particular on supply chains.

### **Spotlight: Impact of Russia's military aggression against Ukraine**

In close coordination with other countries, in particular the G7, Japan has taken unprecedented sanctions against Russia, effectively reversing its policy of engagement with Moscow. Sanctions include asset freezes of individuals and banks, prohibition of certain investments and export of certain goods and services as well as bans or the phasing out of certain imports, including coal and oil.<sup>27</sup> In 2021, Russia comprised 1% of Japan's total exports (\$755.3 billion) and 1.8% of its imports (\$773.5 billion).<sup>28</sup> Japan mainly exports autos and related parts, both of whom constitute relatively small shares of total exports of those goods (3.3% and 2.8%, respectively). Meanwhile, Russia is one of the five largest supplier of coal (11%), liquefied natural gas (8.8%), and crude oil (3.6%) for Japan.<sup>29</sup> Japan's outbound foreign direct investments in Russia totalled \$3.8 billion in 2021, less than 0.2% of the total.<sup>30</sup> One example of this commitment is the Sakhalin-2 LNG project, in which Mitsui & Co. and Mitsubishi Corp. have a combined 22.5% stake. After Shell pulled out as the largest stakeholder and Russia announced plans to change ownership in June 2022, the Japanese government announced that it will support its companies' efforts to maintain their share. The project, located north of Japan in the Russian far east, provides a significant part of the Russian LNG imports to Japan.

<sup>24</sup> Converted from JPY 516.8 billion, based on an average currency exchange rate for 2021 at JPY 109.89/USD.

<sup>25</sup> METI, "Domestic investment promotion subsidy project for supply chain measures", [www.meti.go.jp/covid-19/supplychain/index.html](https://www.meti.go.jp/covid-19/supplychain/index.html), accessed 7 July 2022.

<sup>26</sup> METI, "METI-related Fiscal 2021 Supplementary Budget, Fiscal 2022 Full-Year Budget summary" (22 March 2022), [https://www.meti.go.jp/main/yosan/yosan\\_fy2022/pdf/01.pdf](https://www.meti.go.jp/main/yosan/yosan_fy2022/pdf/01.pdf), accessed 9 June 2022.

<sup>27</sup> Cabinet Office, [https://japan.kantei.go.jp/ongoingtopics/pdf/jp\\_stands\\_with\\_ukraine\\_eng.pdf](https://japan.kantei.go.jp/ongoingtopics/pdf/jp_stands_with_ukraine_eng.pdf), accessed 27 July 2022.

<sup>28</sup> Converted from JPY 83 and 85 trillion respectively, based on 2021 average currency exchange rate of JPY 109.89/USD; MOF, "Trade Statistics for 2021" (11 March 2022) p.12, 20, [www.customs.go.jp/toukei/shinbun/trade-st\\_e/2021/2021\\_118e.pdf](http://www.customs.go.jp/toukei/shinbun/trade-st_e/2021/2021_118e.pdf), accessed 20 May 2022.

<sup>29</sup> METI's Agency for Natural Resources, "Developments in Fuel Sources of Electricity and Gas", (17 May 2022), p.21, [www.meti.go.jp/shingikai/enecho/denryoku\\_gas/denryoku\\_gas/pdf/049\\_03\\_02.pdf](http://www.meti.go.jp/shingikai/enecho/denryoku_gas/denryoku_gas/pdf/049_03_02.pdf), accessed 29 July 2022.

<sup>30</sup> MOF, "Regional Direct Investment Positions" (27 May 2022), [www.mof.go.jp/policy/international\\_policy/reference/iip/rdip2021.xls](http://www.mof.go.jp/policy/international_policy/reference/iip/rdip2021.xls), accessed 30 May 2022.

## 2 PRIORITY SECTORS AND OPPORTUNITIES FOR SWISS COMPANIES

Overall, the Japanese market continues to offer interesting opportunities for Swiss companies, especially in terms of high quality products and services.

### Growth and import trends in key sectors (2015-2020)

An analysis of the economic structure (see Annex 1) and its evolution from 2015 to 2020 (latest available data) allows to identify priority sectors in terms of significance and growth.<sup>31</sup> The manufacturing sector saw an overall increase in GDP until 2019, but fell below the 2015 level during the pandemic year 2020 with a share of 26%. Growth was driven by the sectors chemicals (+24.5%), electronic components (+19.3%) and electronic machinery (+16.4%). The four categories of general-purpose machinery, transport equipment, chemicals and food/beverages constitute about half of the sector both in terms of GDP as well as employment.<sup>32</sup> Similarly, the service sector grew until 2019 and dropped below the 2015 level in 2020. Its share of GDP declined to 73% in 2020. Contributors to growth were health and social services (+9.5%), information and communications (+5.7%), construction (+8.1%) as well as electricity, gas and water supply and waste management (+6.2%). The four categories of real estate, wholesale and retail trade, health and social services as well as professional, scientific and technical activities generate more than half of the sector's value. The latter three generate over half of the jobs in the sector.

In terms of share of overall imports of goods and services, food and beverages (61.7%), mining (13.8%), professional services (10.8%), chemicals (8.2%) and IT equipment (7.3%) were the most important sectors in 2020.<sup>33</sup> The final three categories have seen positive growth between 2015 and 2020. The three categories that have seen the strongest gains in import values over the same period are finance and insurance (+89%), information and communications (+21%) and professional activities (+17%).

### Spotlight: Finance and insurance sector

In 2020, the finance and insurance sector made up 4.6% of GDP. While its value declined by 1.1% between 2015 and 2019, it grew in 2020 (+7%). During these years, imports grew significantly. With a share of around 40%, the sector attracts most inbound FDI. While the sector remains highly regulated, Japan has been renewing efforts to position itself as a global financial hub and strives to improve framework conditions for foreign companies and managers, even providing subsidies to new entries, in particular in Green Finance and Fintech. A Swiss company was selected as a recipient in 2021.

As part of his "New Capitalism" agenda, Prime Minister Kishida has vowed to motivate consumers to shift from savings to investments, seeking to unlock some of what is estimated to be USD \$9.9 trillion in cash and deposits as of April 2022, in order to stimulate growth.<sup>34</sup> A corresponding action plan is expected before the end of 2022. Driven by the Japan Government Pension Investment Fund, the largest institutional investor in the world, and support by government initiatives, there has also been an almost sixfold increase in ESG investments to about USD 3 trillion between 2016 and 2020.<sup>35</sup>

### Opportunities in green transformation as efforts to decarbonize accelerate

The policy priorities of the new Kishida government reveal potential opportunities for Swiss companies (see Chapter 1). Apart from science and technology as well as digital transformation and startups, green transformation remains critically important. Japan has set a net-zero emissions target for 2050. Until 2030, it seeks to reduce emissions by 46% compared to the levels of 2013. The challenge is significant. In terms of energy for example, Japan still depended on a share of 84.8% of fossil fuels in fiscal year 2019, virtually all imported.<sup>36</sup> The government is now drafting a roadmap for decarbonization until the end of 2022 and seeks to raise \$1.4 trillion in public-private investment.

The Ministry of Economics, Trade and Industry (METI) has already preceded such efforts with the 2021 launch of a multi-year \$14.2 billion assistance program called the "Green Innovation Fund". Managed by the New Energy and Industrial Technology Development Organization (NEDO), it supports small companies, start-ups, universities, and research institutes in priority fields (electrification, greening

<sup>31</sup> Cabinet Office, "Real Gross Domestic Product classified by Economic Activities" (January 2022),

[www.esri.cao.go.jp/en/sna/data/kakuhou/files/2020/tables/2020fcm3rn\\_en.xlsx](http://www.esri.cao.go.jp/en/sna/data/kakuhou/files/2020/tables/2020fcm3rn_en.xlsx), accessed 13 July 2022.

<sup>32</sup> Cabinet Office, "Employed Persons, Employees and Hours Worked classified by Economic Activities" (January 2022), [www.esri.cao.go.jp/en/sna/data/kakuhou/files/2020/tables/2020s3\\_en.xlsx](http://www.esri.cao.go.jp/en/sna/data/kakuhou/files/2020/tables/2020s3_en.xlsx), accessed 13 July 2022.

<sup>33</sup> Cabinet Office, "Supply and Demand of Goods and Services" (January 2022), [www.esri.cao.go.jp/en/sna/data/kakuhou/files/2020/tables/2020s1\\_en.xlsx](http://www.esri.cao.go.jp/en/sna/data/kakuhou/files/2020/tables/2020s1_en.xlsx), accessed 4 August 2022.

<sup>34</sup> BoJ, "Flow of Funds for the First Quarter of 2022" (27 June 2022), [www.boj.or.jp/en/statistics/sj/sjexp.pdf](http://www.boj.or.jp/en/statistics/sj/sjexp.pdf), accessed 8 August 2022; converted from average currency exchange rate for 2021 at JPY 109.89/USD.

<sup>35</sup> METI, "Promotion of Sustainable Finance" (22 April 2022), [www.meti.go.jp/shingikai/sankoshin/sangyo\\_gijutsu/green\\_transformation/pdf/007\\_03\\_00.pdf](http://www.meti.go.jp/shingikai/sankoshin/sangyo_gijutsu/green_transformation/pdf/007_03_00.pdf), accessed 4 August 2022.

<sup>36</sup> METI, "Japan's Energy", [www.enecho.meti.go.jp/en/category/brochures/pdf/japan\\_energy\\_2021.pdf](http://www.enecho.meti.go.jp/en/category/brochures/pdf/japan_energy_2021.pdf), viewed 28 July 2022.

of electric power, hydrogen, CO<sub>2</sub> capture and reuse). By June 2022, it has disbursed more than \$1 billion to 15 projects in areas including hydrogen and ammonia supply chains, wind power generation and CO<sub>2</sub>-absorbing concrete.<sup>37</sup> Under certain conditions, foreign entities with promising technologies can form partnerships with Japanese entities, or apply directly to the fund from its Japan branch or subsidiary.<sup>38</sup>

The Swiss Business Hub in Japan has recently published a series of articles outlining opportunities for Swiss SMEs in terms of clean energy and decarbonization.<sup>39</sup> In April 2022, a survey among Swiss companies in Japan confirmed that sustainability is seen as an opportunity across sectors, including increasing demand for sustainable and high quality consumer goods and services.

### Challenges and opportunities in an ageing society

In 2021, the nation has shrunk by almost 710,000 to 125.4 million people.<sup>40</sup> This is a 2% decline from the peak of 128 million in 2010. During that same period, the population of those between ages 15 to 64 (working age) has shrunk by 4% to a share of under 60%. Those 65 years and older rose from 23% to almost 29% of the total.<sup>41</sup> These demographic trends and the tight labor market have not shifted people's reluctance to immigration. In 2021, only 3% of people between 15 and 64 (2.3 million), were non-Japanese. A new legal regime that took effect in April 2019 meant to bring in up to 345,000 "skilled" foreign workers in 14 sectors over five years. It has had a slow start, even before the pandemic. As of March 2022 less than 65,000 foreign nationals worked in Japan under this scheme, 63% of whom are from Vietnam.<sup>42</sup> The Kishida regime is redoubling its efforts by proactively reaching out to partner countries, in particular in Southeast Asia. Separately, the 2021 FDI strategy (see Chapter 5), also calls for doubling the number of foreign workers with managerial skills to 200,000 by 2030.

In terms of opportunities, Swiss companies point to an increased demand in the health sector, including in terms of (open) innovation, but also the potential to provide high quality services to senior people above 60 years old, who hold 65% of savings. Given the burden on social security, financial service providers also expect an increasingly investment-friendly mindset to build private wealth for future needs. Labor scarcity stimulates digitalization and automation, providing opportunities in corresponding sectors.

### Spotlight: The Road to the World Exposition 2025 in Osaka

The World Exposition 2025 in Osaka is the most significant upcoming international public event in Japan. In fiscal year 2018 (latest data), Osaka and the five prefectures that make up the Kansai region generated \$757 billion<sup>43</sup> or 15.2% of the national GDP<sup>44</sup> (108% of the 2018 Swiss GDP<sup>45</sup>). It is the second largest metropolitan area with 20.5 million residents.<sup>46</sup> Organizers expect 28 million visitors for the Expo themed "Designing Future Society for Our Lives" from 13 April to 13 October 2025. Subject to approval by parliament, Switzerland plans to participate with a pavilion positioning the country as a leading innovation hub and showcasing how Swiss innovation serves prosperity and sustainability. It aims to include concrete examples from the private sector in the domains "life" (life sciences, health, nutrition), "planet" (environment, sustainability, climate, energy) and "augmented human" (robotics, artificial intelligence). Along these lines, the Embassy of Switzerland in Japan will launch a multi-year communication campaign named "Vitality.Swiss". Collaborating with various stakeholders, including Swiss companies, it aims to build up the Swiss profile on the road to Osaka 2025 focusing on health and sustainability.

In March 2022, the government designated Osaka as a "Super City" deregulation experimental zone based on a 2020 special economic zone law revision. The designation, to be awarded to seven cities, provides opportunities to test cutting-edge technologies on mass scale that otherwise would face numerous bureaucratic and regulatory hurdles. Osaka, for example, is looking to have flying automobiles transport visitors to the Expo venue. Details of the "Super City" program are expected by the end of 2022.

<sup>37</sup> METI, "Progress Reports of Green Innovation Fund projects" (13 June 2022),

[www.meti.go.jp/policy/energy\\_environment/global\\_warming/gifund/pdf/gif\\_progress\\_0613.pdf](http://www.meti.go.jp/policy/energy_environment/global_warming/gifund/pdf/gif_progress_0613.pdf), accessed 27 June.

<sup>38</sup> METI, "Green Innovation Fund Basic Guidelines" (p. 8),

[www.meti.go.jp/policy/energy\\_environment/global\\_warming/gifund/pdf/basicpolicies\\_211213.pdf](http://www.meti.go.jp/policy/energy_environment/global_warming/gifund/pdf/basicpolicies_211213.pdf), accessed 27 June.

<sup>39</sup> Switzerland Global Enterprise, [www.s-ge.com/en/overview/japanese-energy-industry](http://www.s-ge.com/en/overview/japanese-energy-industry)

<sup>40</sup> MIC, "Population Projections December 2021", [www.stat.go.jp/data/jinsui/new.html](http://www.stat.go.jp/data/jinsui/new.html), accessed 26 May 2022.

<sup>41</sup> MIC, "Population Projections April 2011", [www.stat.go.jp/data/jinsui/pdf/201104.pdf](http://www.stat.go.jp/data/jinsui/pdf/201104.pdf), accessed 26 May 2022.

<sup>42</sup> Ministry of Justice, "Number of Foreign Residents under Specified Skilled Worker Program" (31 March 2022), [www.moj.go.jp/isa/content/001348990.pdf](http://www.moj.go.jp/isa/content/001348990.pdf), accessed 29 July 2022.

<sup>43</sup> Converted from JPY 83.6 trillion, based on an average currency exchange rate for 2018 at JPY 110.42/USD.

<sup>44</sup> Cabinet Office, "Prefectural Economic Calculation" (May 2021),

[www.esri.cao.go.jp/jp/sna/data/data\\_list/kenmin/files/contents/tables/2018/soukatu2.xlsx](http://www.esri.cao.go.jp/jp/sna/data/data_list/kenmin/files/contents/tables/2018/soukatu2.xlsx), accessed 27 July 2022.

<sup>45</sup> Federal Statistical Office, "Gross Domestic Product", [www.bfs.admin.ch/bfs/en/home/statistics/national-economy/national-accounts/gross-domestic-product.html](http://www.bfs.admin.ch/bfs/en/home/statistics/national-economy/national-accounts/gross-domestic-product.html), accessed 27 July 2022; GDP converted from 2018 average rate of 1.02 USD/CHF.

<sup>46</sup> Cabinet Office, "Prefectural Economic Calculation" (May 2021),

[www.esri.cao.go.jp/jp/sna/data/data\\_list/kenmin/files/contents/tables/2018/soukatu9.xlsx](http://www.esri.cao.go.jp/jp/sna/data/data_list/kenmin/files/contents/tables/2018/soukatu9.xlsx), accessed 27 July 2022.

### 3 FOREIGN ECONOMIC POLICY

#### 3.1 Host country's policy and priorities

In the latest Diplomatic Bluebook from December 2021<sup>47</sup>, the Ministry of Foreign Affairs lists the rise of economic protectionism, trade conflicts and the pandemic, including supply chain problems, as the main global economic challenges. In response, rule-making with a view to expand the free and fair economic order is defined as one of seven priorities of overall Japanese foreign policy. Priorities within the realm of economic diplomacy include trade promotion, coordinated resource diplomacy to ensure energy security (primary energy self-sufficiency ratio 12.1% in fiscal year 2019) and food security (self-sufficiency rate 38% in fiscal year 2021), as well as investment promotion. Trade promotion is focused on the Infrastructure System Overseas Promotion Strategy, with the goal of garnering \$309.4 billion of infrastructure orders by 2025 (11 of the global top 250 EPC companies are Japanese), and the export of agricultural products (see Chapter 4).<sup>48</sup>

#### Consolidation of gains in free trade, and shift from market access to rules-setting

Japan's free trade agreements now cover 79% of its trade by monetary value, almost a fourfold increase from 2016.<sup>49</sup> In light of these achievements, Japan has gradually been shifting from a negotiation phase to an implementation and consolidation phase. Japan was one of the earliest countries to ratify the Regional Comprehensive Economic Partnership (RCEP), which entered into force at the start of 2022. It is Japan's first free trade deal with both China and South Korea. In 2021, Japan chaired the Comprehensive and Progressive Agreement of the Trans-Pacific Partnership (CPTPP). In February 2021, the United Kingdom (UK) became the first additional applicant for membership, resulting in the formation of a working group, which continues to be chaired by Japan. In February 2022, the CPTPP members invited the UK to submit offers regarding market access and non-conforming measures (requests to be exempted from certain rules). Shaping the process, the working group creates a precedent for accession bids submitted by China, Taiwan and Ecuador in 2021 and beyond.

Japan has not succeeded in convincing the US to reverse its withdrawal from the TPP or continue the second phase of bilateral free trade negotiations. Instead, the two countries created a number of new bilateral economic fora since autumn 2021 with a focus on economic security, including supply chain resiliency, climate change and the digital economy. In February 2022, Japan won a partial lifting of tariffs for steel exports to the US imposed in 2018. Tokyo has actively supported Washington in shaping its new Indo-Pacific Economic Framework (IPEF) in mobilizing buy-in and then in launching it in May 2022 in Tokyo together with twelve other countries. IPEF aims to set standards and enhance cooperation in four pillars: high-standard trade rules, supply chains, clean energy, as well as anti-corruption and tax.

Meanwhile, Japan continues to attach importance to the reform of the World Trade Organization (WTO), focusing on shaping rules on digital economy based on the principles of "Data Free Flow with Trust" (DFFT), curtailing non-market policies and practices or the reform of the permanent dispute settlement system. In May 2021, it appointed its first special advisor to the Director-General.<sup>50</sup>

#### 3.2 Outlook for Switzerland

Switzerland and Japan concluded a bilateral Free Trade and Economic Partnership Agreement (FTEPA) in 2009. It was the first such agreement between Japan and a European country. In certain product categories, agreements concluded more recently by Japan and their gradual implementation challenge some of the early comparative advantages enjoyed by Swiss exporters. The Economic Partnership Agreement (EPA) with the EU, which entered into force in February 2019, is particularly relevant in that regard. Japan estimates that its exporters' utilization rate of the EPA has increased to 63% in 2021 from 39% two years earlier, while the importers' utilization rate has increased to 71% from 54%.<sup>51</sup> The two parties held virtual joint committees in February 2021 and 2022, extending the annex of geographical indications among other things. Since November 2018, Switzerland has actively tried to convince Japan to engage in a process to modernize the bilateral FTEPA - for the time being in vain. As Japan shifts its priorities away from gaining market access, the endeavour remains challenging.

<sup>47</sup> MoFA, "Diplomatic Bluebook 2021", [www.mofa.go.jp/policy/other/bluebook/2021/pdf/en\\_index.html](http://www.mofa.go.jp/policy/other/bluebook/2021/pdf/en_index.html), accessed 22 July 2022.

<sup>48</sup> Converted from JPY 34 trillion based on 2021 average currency exchange rate of JPY 109.89/USD.

<sup>49</sup> Japan External Trade Organization (JETRO), "Global Trade and Investment Report 2017", [www.jetro.go.jp/ext\\_images/world/gtir/2017/dai1\\_2.pdf](http://www.jetro.go.jp/ext_images/world/gtir/2017/dai1_2.pdf), accessed 4 August 2022.

<sup>50</sup> MOFA, "CV of Tomochika Uyama", [www.sf.us.emb-japan.go.jp/files/000336699.pdf](http://www.sf.us.emb-japan.go.jp/files/000336699.pdf), accessed 2 August 2022.

<sup>51</sup> METI, "EU-Japan EPA" (June 2022), [www.meti.go.jp/policy/trade\\_policy/epa/epa/eu/ipeuepa\\_2022.pdf](http://www.meti.go.jp/policy/trade_policy/epa/epa/eu/ipeuepa_2022.pdf) (p. 15), accessed 2 August 2022.



## 4 FOREIGN TRADE

### 4.1 Developments and general outlook

In relation to its GDP, Japan has one of the lowest levels of trade in goods and services among OECD countries. In 2020, imports and exports amounted to 16% of GDP each (Switzerland: 54% and 62%).<sup>52</sup>

#### 4.1.1 Trade in goods

Both exports and imports for 2021 have recovered from the slumps in 2019 and 2020 to highest values on record (see Annex 3).<sup>53</sup> The rise in exports was driven by the four best-selling categories of motor vehicles (share of 12.9%), semiconductor parts (5.9%), steel (4.6%) and semiconductor production machineries (4%). Steel exports rose in monetary value by almost 50% from 2020. Imports by Japan outpaced gains in exports. Reflective of public health and supply chain challenges, Japan increased its purchase of its top three import categories of semiconductor parts (share of 4%), pharmaceuticals (4.9%) and LNG (5%) by more than 30% and bought 70% more petroleum products. Overall, Japan recorded a trade deficit of \$15.2 billion for 2021, in contrast to \$3.6 billion surplus the year before.

Japan's largest export markets China (share of 22%) and the US (18%) bought more in 2021.<sup>54</sup> Sales of semiconductor-related machinery (+35.8%) and semiconductors (+15.4%) contributed to the export jump to China. Together with plastics, they constitute the best-selling export goods to Japan's neighbour in the west. Sales of passenger car, truck, and buses constituted almost a quarter of exports from Japan to the US and rose by 3.4%. Exports of the second and third-best selling goods, auto parts (share of 6.1%) and power-generating machines (5.6%), rose by 28.4% and 23.6% respectively.

Japan also bought more from its most important import partners China (share of 24%) and the US (11%). Imports of the top four US goods all saw substantial increases, with pharmaceuticals (share of 9.6%) rising by 51.3%, grains (5.8%) by 46.8%, liquefied petroleum gas (5.6%) by 73.9%, and LNG (5.3%) by more than 100%. With regard to China, imports of telecommunication devices rose by 24.4%, outpacing a 19.5% growth of semiconductor purchases. The former is Japan's top import product category from China (share of 11.9%), followed by computers (9.1%) and clothing (7.8%).

The European Union (EU) remains the third largest trading partner for Japan. Both exports and imports rose by 21.4%. Among the EU member states, Germany stayed comfortably ahead of the Netherlands as Japan's largest trade partner in the bloc. Motor vehicles, Japan's best seller (11.8% share) to the EU, declined in value by 1.9%. The next two best-selling exports of motor vehicle parts (5.9%) and scientific and optical instruments (3.9%) rose 16.6% and 29.7% respectively. Japan bought more from the EU in its top import categories of pharmaceuticals (share of 23.5%, +43%) and motor vehicles (9.4%, +17%).

#### Spotlight: Ambitious targets for farm exports after milestone is reached

In 2021, Japan finally achieved its 2006 target of \$8.5 billion<sup>55</sup> in sales of agricultural products abroad.<sup>56</sup> China became the largest customer for the first time, followed by Hong Kong, the US and Taiwan. The most important category of exports were scallops, beef and alcoholic beverages.

In March 2020, Japan had set new export targets of \$18.2 billion by 2025 and \$45.5 billion by 2030.<sup>57</sup> In this context, Japan lobbies at all levels for a full lifting of food import restrictions related to the 2011 Fukushima incident, which remain in place in twelve trading partners, including the EU and Switzerland. It also seeks to identify more products that could succeed on par with the perennial best-selling categories and ease procedures. A first "one-stop" export processing facility opened at Tokyo Narita Airport in January 2022. In May 2022, the Diet also amended an export promotion law, authorizing the government to certify export organizations that bring together stakeholders for a given product. Seeking to better prevent unauthorized access to (and copying of) genetic materials<sup>58</sup>, the Diet strengthened the law to penalize unauthorized exports of seeds and seedlings in 2020 (enforcement in April 2022).<sup>59</sup>

<sup>52</sup> OECD, "Trade in Good and Services", [data.oecd.org/trade/trade-in-goods-and-services.htm](https://data.oecd.org/trade/trade-in-goods-and-services.htm), accessed 22 July 2022.

<sup>53</sup> MOF (Customs bureau), "Trade Statistics for 2021" (11 March 2022), [www.customs.go.jp/toukei/shinbun/trade-st\\_e/2021/2021\\_118e.pdf](https://www.customs.go.jp/toukei/shinbun/trade-st_e/2021/2021_118e.pdf), accessed 20 May 2022.

<sup>54</sup> See Annex 3, page 18; MOF (Customs Bureau) separates trade data of mainland China from Hong Kong.

<sup>55</sup> Converted from JPY 1 trillion, based on an average currency exchange rate for 2006 at JPY 116.31/ USD.

<sup>56</sup> Ministry of Agriculture, Forestry, and Fisheries (MAFF), Export values of Agricultural products, fisheries, and food (4 February 2022), [www.maff.go.jp/j/press/yusyutu\\_kokusai/kikaku/attach/pdf/220204-3.pdf](https://www.maff.go.jp/j/press/yusyutu_kokusai/kikaku/attach/pdf/220204-3.pdf), accessed 4 February 2022.

<sup>57</sup> Prime Minister's Office, "6th Cabinet Ministers' meeting for export growth of agriculture, forestry, and fishery products" (6 March 2020) [www.kantei.go.jp/jp/singi/nousui/yunyuukoku\\_kisei\\_kaiqi/dai6/gijiyousi.pdf](https://www.kantei.go.jp/jp/singi/nousui/yunyuukoku_kisei_kaiqi/dai6/gijiyousi.pdf), accessed 12 July 2022.

<sup>58</sup> NHK, "Whose High-Brand Grape is it?", [www.nhk.or.jp/politics/articles/feature/49665.html](https://www.nhk.or.jp/politics/articles/feature/49665.html), accessed 12 July 2022.

<sup>59</sup> MAFF, "Revised Plant variety Protection and Seed Act" (1 March 2021), [www.maff.go.jp/j/kanbo/tizai/brand/attach/pdf/zenkoku-2.pdf](https://www.maff.go.jp/j/kanbo/tizai/brand/attach/pdf/zenkoku-2.pdf), accessed 7 June 2022.

#### 4.1.2 Trade in services

With exports of \$169.7 billion and imports of \$208.3 billion, Japan's service trade deficit was \$38.5 billion in 2021, the largest since 2007.<sup>60</sup> The deficit widened for the fourth straight year. Telecommunications, computers and information services posted the largest deficits on record.<sup>61</sup> This deficit has been growing almost continuously since 2003. Other significant contributors to the overall service deficit include insurance as well as maintenance and services. Intellectual property posted the largest service surplus, which has been the case for every year since 2005 except once. Financial services is the second largest surplus contributor though the 2021 surplus is the lowest since 2017. The third largest surplus contributor is construction, which almost recovered to its peak of 2019. After a 93% drop in surplus from its peak in 2019, travel services posted the lowest surplus in seven years.

The US remained Japan's largest services trade partner with a 28% share. Rounding out the top five were the EU (14.9%), Singapore (10.7%), the UK (7.6%), and China (6.9%). If EU member states are considered separately, Germany would be ranked fifth with 3.2% share.

### 4.2 Bilateral trade

#### 4.2.1 Trade in goods

With a trade volume of CHF 12.6 billion (+4.7%), Japan maintained its status as Switzerland's eleventh largest trading partner in 2021 (2% of total trade of Switzerland).<sup>62</sup> It was the fourth largest trading partner in Asia, behind China, India and Hong Kong. Swiss exports to Japan rose by 9.4% to CHF 7.7 billion while imports fell by 1.9% to CHF 4.8 billion, resulting in a CHF 2.8 billion trade surplus (see Annex 4). Both the export and import values are the third highest on record.

Exports of Swiss pharmaceutical and chemical products rose by 8.9%, taking a share of 52.6%. With CHF 3.7 billion (share of 47.8%), pharmaceuticals recorded the highest ever export value on record. The category of precision instruments, clocks and watches and jewellery increased by 16.3% and took a 32% share of exports. Growth in this category was driven by a stark increase of 19.1% of sales of clocks and watches at CHF 1.4 billion (share of 18.4%), just short of the record CHF 1.6 billion in 2019.

Switzerland also imported pharmaceuticals and chemical products the most from Japan, totalling 38.1% of imports (+1.9%). Pharmaceutical products alone accounted for CHF 1.4 billion (28.9% share) and only dropped 3.8% from the record in 2020 when imports had risen by 63%. Imports of precious metals and gemstones dropped by 26.9%, but remained the second largest source of Japanese imports (19.4% share). They had been the best-selling Japanese goods between 2011 and 2019. Machines, appliances, electronics (14.7% share, +18.6%), vehicles (share of 10.1%, -7.8%) and precision instruments, clocks and watches and jewellery (share of 9.6%, +28.1%) were other significant import categories. Until 2018, Japan had sold more in vehicles than in pharmaceuticals by monetary value to Switzerland.

#### 4.2.2 Trade in services

In 2021, Switzerland ran a service trade deficit of CHF 1.5 billion with Japan.<sup>63</sup> Service exports by Switzerland rose by 34.5% to CHF 2.9 billion, which overall is a 19% gain from five years earlier. License fees dominated service exports with a share of 41%. This category has grown by almost 60% since 2017. Other important categories include technical and trade-related services (share of 8.4%) and telecommunications and information technology (6.5%). Over the 2017-2021 period, the former has shrunk 45% while the latter has grown 18%. The sectors that saw declines of service exports compared to 2020 are insurance (-21%), financial services (-9.9%), and tourism (-3.4%).

Service imports rose by 28% to CHF 4.5 billion. The most important categories were license fees (share of 48%), technical and trade (8.9%) and research and development (8.3%). Import of insurance services dropped 40% from the four-year peak in 2020 to CHF 32 million. Import of research and development services also dropped by 24% from the year earlier, a second year of decline. Finally, consulting service imports declined by 12% from the four-year peak in 2020 to CHF 319 million last year.

<sup>60</sup> MOF, "Regional balance of Payments for 2021", p.2, [www.mof.go.jp/policy/international\\_policy/reference/balance\\_of\\_payments/regional/rbpcy2021.pdf](http://www.mof.go.jp/policy/international_policy/reference/balance_of_payments/regional/rbpcy2021.pdf), viewed 20 May 2022.

<sup>61</sup> MOF, "Balance of Payments trends" (April 2022), [www.mof.go.jp/policy/international\\_policy/reference/balance\\_of\\_payments/bp\\_trend/bpnet/sbp/s-2/6s-2-1.csv](http://www.mof.go.jp/policy/international_policy/reference/balance_of_payments/bp_trend/bpnet/sbp/s-2/6s-2-1.csv), accessed 30 May 2022.

<sup>62</sup> Federal Office for Customs and Border Security, "Swiss-Impex", [www.gate.ezv.admin.ch/swissimpex/public/bereiche/waren/query.xhtml](http://www.gate.ezv.admin.ch/swissimpex/public/bereiche/waren/query.xhtml), accessed 20 May 2022.

<sup>63</sup> Swiss National Bank, Zahlungsbilanz – Leistungsbilanz Dienste nach Ländern, <https://data.snb.ch>, viewed 11 July 2022.

## 5 DIRECT INVESTMENTS

### 5.1 Developments and general outlook

Inward foreign direct investments (FDI) amounted to \$368.6 billion (+0.8%) at the end of 2021 (see Annex 5).<sup>64</sup> This share of 7.5% of GDP is more than triple compared to 2005 (2.2%), but it is still the lowest among OECD (average 56%) and G20 economies (average 38%).<sup>65</sup> The US remains the largest investor with a share of 22.8%, followed by the UK (14%) and the Netherlands (9.7%). Investments in non-manufacturing outnumbered those in manufacturing by a factor of 1.5 to 2 in the last four years. FDI in finance and insurance comprised more than 40% in two of the last three years. In manufacturing, the largest stock fluctuates between chemicals and pharmaceuticals, and transportation equipment. Meanwhile, Japan's outward FDI stood at \$2.1 trillion (+11.7%) at the end of 2021, placing Japan in the average of OECD countries. This the second double-digit growth in three years, after minimal growth in 2020. The US is the top destination with a share of 33%, followed by the UK (9.3%) and China (7.3%).

#### Spotlight: Balancing investment promotion and investment screening

In June 2021, the Japan adopted a new Strategy for Promoting Foreign Direct Investment in Japan. It seeks to attract \$728 billion (JPY 80 trillion) in investments by 2030, focuses on green and digital transformation as well as startups and proposes to improve conditions for foreign companies.<sup>66</sup> A concrete action plan is expected in spring 2023.<sup>67</sup> The business matching platform "J-Bridge" promotes open innovation and collaboration between domestic and foreign companies, including startups, as well as universities in fields such as digitalization (mobility, healthtech, agritech, fintech, smartcity, robotics) or decarbonization (renewable energies, energy saving and storage, hydrogen, smart infrastructure).<sup>68</sup>

In line with a 2020 revision of the Foreign Exchange and Foreign Trade Act, most foreign entities seeking to hold more than 1% of certain Japanese companies need to notify the Ministry of Finance prior to the transaction. The list of such investment targets totals almost 10,000 companies.<sup>69</sup> For fiscal year 2021, half of the 2,859 investment notifications involved Japanese cybersecurity companies, while noticeable increases also occurred in the shipping, petroleum and medical sectors.<sup>70</sup> The US and Cayman Islands combined had a 20% share of the 1,405 entities filing disclosures, with only a few registered as Chinese.

### 5.2 Bilateral investment

According to Japanese data, Switzerland had invested \$17.5 billion in Japan at the end of 2021 (-18%). Switzerland remains the fourth largest European investor and the seventh largest overall. The "Ultimate Investor" method even ranks it as the fifth largest investor.<sup>71</sup> The manufacturing sector amounted to about \$9.6 billion or 59.2% of Swiss FDI. Pharmaceuticals and chemicals (39.3%) and electric machinery (14.8%) were the most important industries. The former has seen two consecutive years of increase, while the latter has seen an increase by more than 3.7 times since 2018. The non-manufacturing sector amounted to \$6.3 billion, with the two largest industries being finance and insurance (19.9%) and wholesale and retail (17%). The latter has seen a 17% increase.

Japan's investment position in Switzerland totalled \$55.2 billion (-7.4%) at the end of 2021.<sup>72</sup> At 2.7% of total Japanese outbound FDI, this makes Switzerland the eighth most important destination. Within Europe, Japan only invests more in the UK and the Netherlands. The manufacturing sector totalled \$3.8 billion (share of 7.2%). Japanese FDI in the pharmaceuticals and chemicals grew more than sevenfold between 2018 and 2021, comprising a 3% share in 2021. Non-manufacturing totalled \$49.4 billion (share of 93%). Japanese FDI in wholesale and retail dominated at a share of 73.5%, followed by finance and insurance (14.5%). Wholesale itself has seen an almost 40-fold increase in investments since 2018.

<sup>64</sup> MOF, "Regional Direct Investment Positions" (27 May 2022),

[www.mof.go.jp/policy/international\\_policy/reference/iip/rdip2021.xls](http://www.mof.go.jp/policy/international_policy/reference/iip/rdip2021.xls), accessed 30 May 2022.

<sup>65</sup> OECD, "FDI in Figures", [www.oecd.org/investment/investmentnews.htm](http://www.oecd.org/investment/investmentnews.htm), accessed 6 July 2022; Ministry of Economy, Trade and Industry (METI), "Measures to promote foreign direct investment in Japan" (1 October 2021), [www.meti.go.jp/english/policy/external\\_economy/investment/index\\_FDI\\_into\\_Japan.html](http://www.meti.go.jp/english/policy/external_economy/investment/index_FDI_into_Japan.html), accessed 30 May 2022.

<sup>66</sup> Cabinet Office, "Main Policy Agenda for Promoting Foreign Direct Investment in Japan" (20 April 2022), [www.invest-japan.go.jp/documents/en\\_index.html](http://www.invest-japan.go.jp/documents/en_index.html), accessed 26 July 2022.

<sup>67</sup> Cabinet Office, Invest Japan advisory council (2 June 2022), accessed 6 June 2022.

<sup>68</sup> METI, "Measures to promote foreign direct investment in Japan" (1 October 2021).

<sup>69</sup> MOF, "List of prior notification of inbound FDI of companies based under Foreign Exchange Law" (2 November 2021), [www.mof.go.jp/policy/international\\_policy/gaitame\\_kawase/fdi/list.xlsx](http://www.mof.go.jp/policy/international_policy/gaitame_kawase/fdi/list.xlsx), accessed 30 December 2021.

<sup>70</sup> MOF, "Number of the Prior Notification under the Foreign Exchange and Foreign Trade Act for FY 2021" (10 June 2022), [www.mof.go.jp/english/policy/international\\_policy/fdi/20220610.pdf](http://www.mof.go.jp/english/policy/international_policy/fdi/20220610.pdf), accessed 14 June 2022.

<sup>71</sup> MOF, "Regional Direct Investment Position" (Ultimate Investor 8 June 2022), [www.mof.go.jp/policy/international\\_policy/reference/iip/rdip\\_ui.xlsx](http://www.mof.go.jp/policy/international_policy/reference/iip/rdip_ui.xlsx), accessed 9 June 2022.

<sup>72</sup> MOF, "Outward Direct Investment Position, breakdown by Region and Industry 2021" (27 May 2022), [http://www.mof.go.jp/policy/international\\_policy/reference/iip/dip2021.xlsx](http://www.mof.go.jp/policy/international_policy/reference/iip/dip2021.xlsx), accessed 30 May 2022.

## 6 ECONOMIC AND TOURISM PROMOTION

### 6.1 Swiss foreign economic promotion instruments

The Embassy of Switzerland in Japan works with Japanese authorities to further improve framework conditions for Swiss companies in Japan. It organizes selected events, showcasing Swiss companies, including - in collaboration with the Swiss Chamber of Commerce and Industry in Japan and the IMD Business School - an annual Switzerland-Japan Economic Forum. The upcoming fifth edition of the Forum will discuss vitality and the management of well-being in the wake of the pandemic.

Integrated into the Embassy, the Swiss Business Hub Japan (SBH) represents Switzerland Global Enterprise (S-GE) in Japan. It is mandated to promote Swiss exports to Japan and help Swiss companies enter the market, to promote investments by Japanese companies in Switzerland, and promote the country as an R&D location. In fulfilling its mission, the SBH advises and supports companies regarding their individual needs, organizes events and participates with Swiss Pavilions in trade fairs. In 2022, it will provide a platform for Swiss companies at the biotech exposition "BioJapan" in October and the machine tool fair "JIMTOF" in November. The SBH also acts as the secretariat for the Japan-Switzerland Economic Council (JSEC), a community of Japanese companies who have invested in Switzerland.

In line with its own strategies and Japanese policy priorities, Switzerland puts an increasing emphasis on collaboration in education, research and innovation. In addition to the Science and Technology Office at the Embassy in Tokyo, the newly opened Consulate in Osaka, Swissnex in Japan further strengthens this collaboration. Both are a part of the global Swissnex network. As part of their mandate, they bring Swiss high-tech startups and university spin-offs to the attention of Japanese partners and organize promotional events. The Swissnex in Japan also contributes to strengthening the Swiss presence in the Kansai region, not least in view of the Osaka 2025 World Exhibition.

Finally, the representation of Switzerland Tourism in Japan is also a part of the Embassy. It markets Switzerland as a destination for leisure and business travel, in close cooperation with partners in both countries.

The Swiss Chamber of Commerce and Industry in Japan (SCCIJ) provides a networking platform for Swiss companies in Japan or Japanese companies with ties to Switzerland. The SCCIJ hosts monthly luncheons, webinars and events for young professionals and facilitates a scholarship program. The chamber has about 200 members, of which about two-thirds are companies.

The European Business Council in Japan (EBC) has a mandate to improve the business environment in Japan for European companies. It regularly updates a digital white paper, issues recommendations and follows-up in contacts with Japanese authorities. Swiss companies are encouraged to bring up potential challenges and participate in any of the 22 committees covering many sectors.

### 6.2 The host country's interest in Switzerland

Switzerland continues to be perceived as providing not only high quality products, but also high quality services. In terms of tourism, it was primarily a summer destination for Japanese tourists, with 70% of trips taking place between June and August before the pandemic. In 2019, the hotel industry registered around 390'000 overnight stays by Japanese tourists (1.9% of foreign visitors). With daily expenses of around CHF 300, they focused on high quality. In the wake of incremental relaxation of restrictive Japanese border policies from the pandemic, international travel by Japanese tourists is expected to gradually pick-up again in the latter half of 2022. There is also a significant interest for high quality private education in Switzerland, with a number of boarding and hotel management schools represented in the Japanese market.

In terms of investment, Switzerland remains an attractive location for Japanese companies. They set up regional or global headquarters, and show an increasing interest in Switzerland's ecosystem for innovation, perceiving the country as a top research and development location.

The Swiss financial center enjoys a strong reputation both in terms of quality and specialization of services. Given restrictive cross-border regulations, a number of financial service providers have established a presence in Japan.

## ANNEX 1 – Economic structure

## Economic structure of Japan

	Year 2015	Year 2020
<b>Distribution of GDP</b>		
Primary sector	1.11%	0.96%
Manufacturing sector	25.64%	26.17%
Services	73.25%	72.87%
- of which public services	4.91%	5.16%

<b>Distribution of employment</b>		
Primary sector	4.07%	3.85%
Manufacturing sector	23.34%	23.24%
Services	72.59%	76.79%
- of which public services	2.96%	3.07%

Source: Cabinet Office, “Gross Domestic Product and Factor Income classified by Economic Activities” (January 2022), [https://www.esri.cao.go.jp/en/sna/data/kakuhou/files/2020/2020annual\\_report\\_e.html](https://www.esri.cao.go.jp/en/sna/data/kakuhou/files/2020/2020annual_report_e.html)

## ANNEX 2 – Main economic data

## Japan's main economic data

	2021	2022	2023
<b>GDP (USD bn)*</b>	<b>4,885</b>	<b>5,001</b>	<b>5,117</b>
<b>GDP per capita (USD)*</b>	<b>39,340</b>	<b>39,243</b>	<b>42,459</b>
<b>Growth rate (% of GDP)**</b>	<b>1.7%</b>	<b>1.7%</b>	<b>1.7%</b>
<b>Inflation rate (%)*</b>	<b>-0.26%</b>	<b>0.98%</b>	<b>0.83%</b>
<b>Unemployment rate (%)*</b>	<b>2.8%</b>	<b>2.5%</b>	<b>2.4%</b>
<b>Fiscal balance (% of GDP)*</b>	<b>-7.6%</b>	<b>-7.8%</b>	<b>-3.5%</b>
<b>Current account balance (% of GDP)*</b>	<b>2.9%</b>	<b>2.4%</b>	<b>2.7%</b>
<b>Total external debt (% of GDP)**</b>	<b>263.1%</b>	<b>262.5%</b>	<b>258.3%</b>

\* Source: IMF, World Economic Outlook (April 2022), [www.imf.org/external/pubs/ft/weo/](http://www.imf.org/external/pubs/ft/weo/); converted from 2021 average exchange rate of USD/ JPY 109.89

\*\* Source: IMF, Article IV Consultation (April 2022), [www.imf.org/en/Publications/CR/Issues/2022/04/06/Japan-2022-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-516216](http://www.imf.org/en/Publications/CR/Issues/2022/04/06/Japan-2022-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-516216)

\*\*\* Source: IMF, World Economic Outlook (July 2022 update), <https://www.imf.org/en/Publications/WEO/Issues/2022/07/26/world-economic-outlook-update-july-2022>

## ANNEX 3 – Trade partners

## Trade partners of Japan Year: 2021

Rank	Country	Exports from host country (USD million*)	Share	Change <sup>73</sup>	Rank	Country	Imports by host country (USD million*)	Share	Change <sup>74</sup>
1	China	163,658	21.6%	19.2%	1	China	185,435	24%	16.4%
2	US	134,966	17.9%	17.6%	2	U.S.	81,018	11%	19.4%
3	Taiwan	54,492	7.2%	26.4%	3	Australia	52,177	6.8%	49.7%
4	S. Korea	52,503	6.9%	21%	4	Taiwan	33,505	4.3%	28.6%
5	Hong Kong	35,403	4.7%	13.9%	5	S. Korea	32,043	4.1%	23.9%
6	Thailand	32,984	4.4%	33.1%	6	S. Arabia	27,476	3.6%	53.3%
7	Germany	20,739	2.7%	21.5%	7	UAE	27,096	3.5%	70.1%
8	Singapore	20,026	2.6%	16.6%	8	Thailand	26,319	3.4%	33.1%
9	Vietnam	19,081	2.5%	14.8%	9	Germany	23,619	3.1%	14%
10	Australia	15,238	2.0%	29.3%	10	Vietnam	22,973	2.5%	7.2%
25	Switzerland	4,400	0.5%	-5.9%	21	Switzerland	8,277	1.1%	14.4%
	EU	69,780	9.2%	21.4%		EU	85,739	11.1%	21.4%
	<b>Total USD</b>	<b>756,132</b>	<b>100%</b>	<b>21.5%</b>		<b>Total USD</b>	<b>771,323</b>	<b>100%</b>	<b>24.6%</b>
	<i>Total JPY</i>	<i>83,091,372</i>	<i>100%</i>	<i>21.5%</i>		<i>Total (JPY)</i>	<i>84,760,730</i>	<i>100%</i>	<i>24.6%</i>

Source: Ministry of Finance, Value of Exports and Imports by Area (Country),  
[https://www.customs.go.jp/toukei/shinbun/trade-st\\_e/2021/2021\\_118e.pdf](https://www.customs.go.jp/toukei/shinbun/trade-st_e/2021/2021_118e.pdf)

\* In millions of dollars, converted from a defined average currency exchange rate for 2021 at JPY 109.89/USD  
<https://www.exchangerates.org.uk/JPY-USD-spot-exchange-rates-history-2021.html>

<sup>73</sup> Change from the previous year in %

<sup>74</sup> Change from the previous year in %

## ANNEX 4 – Bilateral trade

## Bilateral trade between Switzerland and Japan

	<b>Export</b> (CHF million)	<i>Change (%)</i>	<b>Import</b> (CHF million)	<i>Change (%)</i>	<b>Balance</b> (in million)	<b>Volume</b> (in million)
2017	7,467	-0.6%	5,995	51.6%	1,472	13,462
2018	7,765	4.0%	4,669	-22.1%	3,096	12,434
2019	8,136	4.8%	4,526	-3.1%	3,610	12,662
2020	7,057	-13.3%	4,989	10.2%	2,068	12,046
<b>2021</b>	<b>7,716</b>	<b>9.4%</b>	<b>4,893</b>	<b>-1.9%</b>	<b>2,823</b>	<b>12,610</b>
<i>(Total 1)*</i>	<i>7,582</i>	<i>9.0%</i>	<i>3,936</i>	<i>6.7%</i>	<i>3,655</i>	<i>11,519</i>
<b>2022</b> (I-VI)	<b>4,422</b>	<b>16.4%</b>	<b>2,571</b>	<b>1.6%</b>	<b>1,851</b>	<b>6,993</b>

\*) 'Economic' total (total 1): not including gold bars and other precious metals, currencies, precious stones and gems, works of art and antiques

<b>Exports</b>	<b>2020</b> (% of total)	<b>2021</b> (% of total)
1. Chemical, pharmaceutical products	52.9%	52.6%
2. Precision instruments, clocks, watches, jewelry	30.0%	32.0%
3. Machines, appliances, electronics	6.9%	6.1%
4. Metals	2.6%	2.7%

<b>Imports</b>	<b>2020</b> (% of total)	<b>2021</b> (% of total)
1. Chemical, pharmaceutical products	36.7%	38.1%
2. Precious metal	26.0%	19.3%
3. Machines, appliances, electronics	12.2%	14.7%
4. Vehicles	10.7%	10.1%

Source: Federal Office for Customs and Border Security, <https://www.gate.ezv.admin.ch/swissimpex/>



## ANNEX 5 – Main investing countries

## Main investing countries in the host country Year: 2021

Rank	Country	Direct investment (USD millions*, stock)	Share	Variation (stock)	Inflows over past year (USD m)
1	United States	84,046	22.8%	-1.5%	-1,315.9
2	United Kingdom	51,471	14.0%	-3.3%	-1,732.6
3	Netherlands	35,705	9.7%	-7.6%	-2,963.0
4	Singapore	33,755	9.2%	-11.9%	-4561.8
5	France	28,859	7.8%	-4.3%	-1300.4
6	Hong Kong	25,114	6.8%	77.3%	10,9501.0
7	Switzerland	17,520	4.8%	-18.1%	-3,874.8
8	Cayman Islands	15,926	4.3%	26.1%	3,299.7
9	Germany	11,087	3.0%	21.8%	1,987.4
10	South Korea	8,462	2.3%	-0.7%	-59.2
	EU	91,574	24.8%	-5%	-4,785.7
	<b>Total USD</b>	<b>368,590</b>	<b>100%</b>	<b>0.8%</b>	<b>2,879.2</b>
	<i>Total JPY</i>	<i>40,504 billion</i>	<i>100%</i>	<i>0.8%</i>	<i>316.4 billion</i>

Source: Ministry of Finance, Regional Direct Investment Position (Liabilities),  
[http://www.mof.go.jp/international\\_policy/reference/iip/rdip2021.xls](http://www.mof.go.jp/international_policy/reference/iip/rdip2021.xls),  
[http://www.mof.go.jp/international\\_policy/reference/iip/rdip2020.xls](http://www.mof.go.jp/international_policy/reference/iip/rdip2020.xls)

\*Based on a defined average currency exchange rate for 2021 at JPY 109.89/USD