



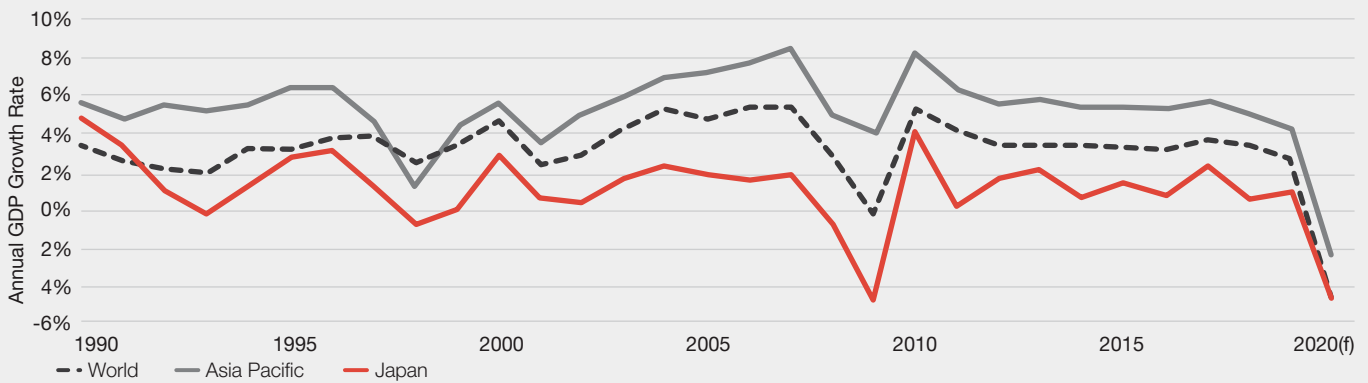
# Time to Act

# Japan

## A nation on the move

Japan has been a leading contributor to Asia Pacific's rise into global prominence, with its focus on product design and higher value-added manufacturing playing a key role in establishing the region as a global production powerhouse. The country recorded robust economic growth in the post-war era till the 1980s, driven by investments in industry, infrastructure and technology – and strong support from government policies focused on improving Japan's competitive strength for exports. Japan today features as the second largest economy, production centre and exporter in Asia Pacific, after China. In addition to economic advancement, Japan has also significantly enhanced human development levels to feature amongst leading Asia Pacific nations at present – giving rise to a high income and quality-conscious consumer market.<sup>1</sup>

## Economic growth trends for Japan, compared to regional and global averages

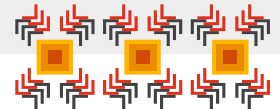


Source: International Monetary Fund (October 2020)

## Economic and Human Development Index (HDI) performance of key Asia Pacific markets



Source: International Monetary Fund (October 2020); United Nations



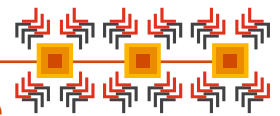
## The need for change

Economic growth for Japan has been sluggish over the past few decades, staying mostly below the world average since the 1990s. Overcoming key growth challenges therefore needs to be of utmost priority as Japan seeks to revive growth and design a stronger future trajectory – creating an urgency to act now.

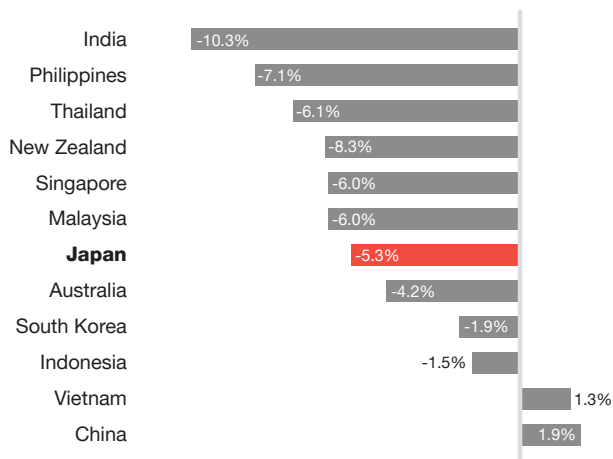
**COVID-19 disruptions:** The most immediate challenge for Japan is to minimise the economic and social impact of the pandemic. COVID-19 disruptions have severely impacted Japan, with economic output projected to decline by a significant 5.3 per cent in 2020. The pandemic is also having an impact on the financial viability of organisations and individual livelihoods – significantly increasing government debt burdens, reducing corporate profits and investments, and causing heavy job losses.<sup>2</sup>

**Evolving demographics:** Japan also faces the issue of an ageing demographic, with old-age dependency ratio for the country projected to reach 53 per cent by 2030 – the highest in Asia Pacific and way above the world average of only 18 per cent by then. This presents a major challenge to the economy in the form of slower growth in labour productivity, rising healthcare and retirement costs and threats to overall fiscal stability in the years ahead.<sup>3</sup>

**Environmental sustainability:** As per a study published by the Japanese government in 2018, average temperature in Japan is rising faster than the global average, leading to fast changing weather patterns. With this, Japan faces an increasing risk of more frequent natural calamities which can lead to loss of life and property, along with growing food security and economic concerns. Taking cognizance of this emerging challenge, policymakers have recently announced Japan's target of becoming a net-zero (or carbon neutral) economy by 2050 – and more focus will now be required on adopting effective monitoring and implementation mechanisms that can deliver impact.<sup>4</sup>

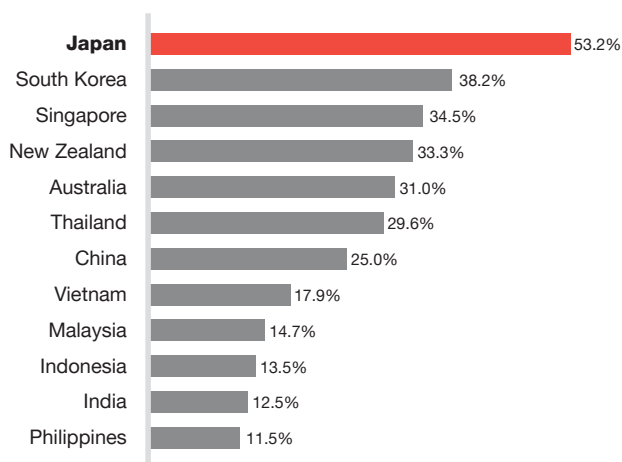


## Annual GDP growth rate, 2020f



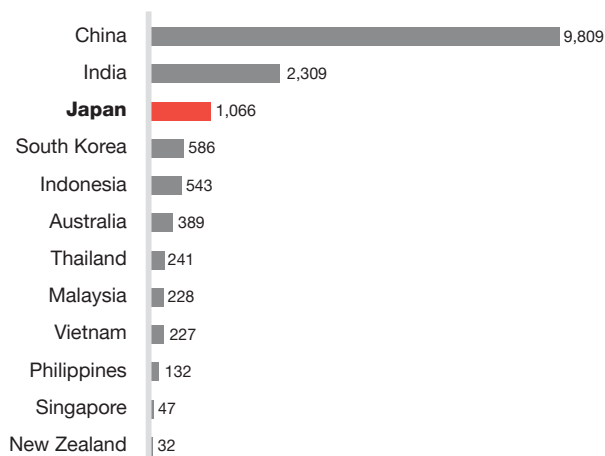
Source: International Monetary Fund (October 2020)

## Old-age dependency ratio, 2030



Source: International Labour Organization

## CO<sub>2</sub> emissions, million tonnes, 2019



Source: International Energy Agency

## Building a new future

Tackling these growth challenges has become necessary to repair, revive and rebuild Japan's economy for a post-COVID-19 future – while enabling a more socially inclusive and environmentally sustainable growth trajectory. This requires all stakeholders (the government, businesses and the society) to shift from old, conventional growth models and build new growth pillars for the future.

Pillar	1		<p><b>Advancing the digital economy</b></p> <ul style="list-style-type: none"> <li>Building digital value chains for resilience</li> <li>From digital risk to digital trust – collectively enabling the pathway</li> </ul>
Pillar	2		<p><b>Enabling regional enterprise growth</b></p> <ul style="list-style-type: none"> <li>Propelling companies for growth within Asia Pacific</li> <li>Boosting regional trade in services as a new growth lever</li> </ul>
Pillar	3		<p><b>Rebalancing supply chains and fostering innovation</b></p> <ul style="list-style-type: none"> <li>Developing balanced and resilient regional supply chains</li> <li>Fostering a collaborative innovation ecosystem</li> </ul>
Pillar	4		<p><b>Expanding and future-proofing the labour force</b></p> <ul style="list-style-type: none"> <li>Upskilling today to be relevant tomorrow</li> <li>Preparing the employees of tomorrow</li> </ul>
Pillar	5		<p><b>Building climate change resilience towards a net-zero future</b></p> <ul style="list-style-type: none"> <li>Building solutions for a net-zero circular economy</li> <li>Adopting technology to address food and agriculture concerns</li> </ul>



**1****Pillar 1 - Advancing the digital economy**

Digitalisation has been a growing need for rapidly ageing nations such as Japan, to help address employment gaps and boost productivity. This has become even more vital in the future, with COVID-19-related disruptions making resilience a key priority for businesses. While Japan already features amongst leading Asia Pacific nations in terms of digital readiness, businesses now need to focus on digital adoption at the right points across their value chains while becoming more cyber resilient. The government is especially required to extend greater support to transform small and medium-sized enterprises (SMEs) and take steps to strengthen trust in digital systems, to establish a truly advanced and efficient digital economy. The Japanese government has initiated steps in this direction, and has recently announced plans to set-up a new digital agency to oversee policy reforms and accelerate the government's digitalisation agenda in consultation with the private sector.<sup>5</sup>

**2****Pillar 2 - Enabling regional enterprise growth**

Moving outside domestic shores has become crucial for business growth, prioritising expansion within Asia Pacific to target its extensive and fast growing needs. The services sector in particular can become a new growth lever for Japan, accounting for 70 per cent of gross domestic product (GDP, by value-added) but only 21 per cent of exports (below a world average of 25%) at present. Key areas of competitive strength such as research and development and construction services could lead the way in enhancing regional presence, but will need Japanese businesses to boost brand awareness and adopt more localised strategies in new markets.<sup>6</sup>

**3****Pillar 3 - Rebalancing supply chains and fostering innovation**

Leading Japanese manufacturers need to rebalance their fragmented global operations with more integrated regional networks to improve resilience. They also need to take a lead in fostering more agile innovation – working with the government, funding bodies and academic institutions to build more specialised ecosystems suited to Japan's and the broader region's fast changing requirements. Japanese suppliers need to become future-ready as well, building stronger propositions (e.g. engineering excellence or technology leadership) and participating in innovation initiatives to become preferred partners for leading global brands.<sup>7</sup>

**4****Pillar 4 - Expanding and future-proofing the labour force**

Aligned with Japan's changing growth requirements, its workforce also needs to be equipped to foster digitalisation and drive higher value addition. The government needs to take a lead in this regard, highlighting its growth vision and driving more targeted engagement with other ecosystem participants, all across the education journey. Businesses need to build a more focused and agile talent development plan, in line with their industry's growth trajectory and the evolution of specific roles – while helping SMEs in their supply chains to bridge key capability gaps.<sup>8</sup>

**5****Pillar 5 - Building climate change resilience towards a net-zero future**

Facing a growing risk of frequent natural disasters, Japan needs to prioritise action on minimising the economic and social costs of climate change. Plans to build a circular economy need to be better designed for more visible impact – creating incentives to form a tri-entirety partnership between governments, businesses and communities for large scale adoption. Japanese businesses also need to prioritise the sustainability agenda to remain relevant to a more conscious consumer, adopting new growth strategies and operations models to move towards a net-zero climate impact.<sup>9</sup>

**The way forward**

There is now an urgent need for action. The government needs to become more proactive in enabling change, businesses need to take a lead in driving new solutions and the society needs to become a more active collaborator to sustain long term impact. More advanced markets such as Japan also have a major role to play in making the entire region more resilient and future-ready – leading efforts to enhance research and development, revamp upskilling initiatives, bridge infrastructure gaps and foster institutional development for the rest of the region. Japan in particular has been a pioneer in waste management and can lead the way by sharing policy and implementation expertise with other Asia Pacific markets facing the burden of urbanisation.<sup>10</sup>

Much needs to be done. It's now the **'Time to Act'** and move together towards a stronger shared future.



## Endnotes

1. Asian Development Bank, Asia's Journey to Prosperity, January 2020; International Monetary Fund, World Economic Outlook, October 2020; United Nations Development Programme, Human Development Report, December 2019
2. International Monetary Fund, World Economic Outlook, October 2020; International Monetary Fund, Speech on the Global and Asia Economic Outlook – Tao Zhang, IMF Deputy Managing Director, July 2020
3. International Labour Organization, ILO Modelled Estimates, 2020
4. World Economic Forum, 'Japan's plan to become carbon neutral by 2050', October 2020; The Japan Times, 'Suga aims for greener Japan with carbon pledge, but details lacking', October 2020; Ministry of the Environment and Japan Meteorological Agency, Climate Change in Japan and Its Impacts, February 2018
5. The Japan Times, 'A digital agency would crown Japan's IT strategy', October 2020; Cisco, Digital Readiness Index 2019, January 2020; PwC discussions with subject-matter specialists
6. ITC Trade Map, Trade Statistics, 2020; World Bank, Statistics on services value added, 2020; PwC discussions with subject-matter specialists
7. PwC discussions with subject-matter specialists
8. Ibid
9. Ibid
10. Ibid



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