

**COUNTRY PROFILE:****JAPAN****DATED:****SEPTEMBER 2011****CREDIT GUARANTEE:**

IES/02: ATTACHMENT A

<b>Export Department Comment/Opinion</b>	Rating 1A. Japan 1A. Open Cover. High value of exposure and commitments. This is not a claims free market. (Euler Hermes: AA; Atradius: 2; Coface: A1/A1.) Sanctions: None
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**Recent Political Highlights**

- Japan is a traditional society with strong social and employment hierarchies. The men in Japan tend to work for the same employer for their entire working life.
- Japan elected a new prime minister; former Finance Minister Yoshihiko Nado will be now faced with the challenge of overseeing the country's recovery from the earthquake and tsunami including the clean-up of radiation from the Fukushima Daiichi nuclear plant. Mr Nado is to replace Mr Naoto Kan after receiving a vote of no confidence because the people feel he lacked leadership when the country was facing the crises. Mr Nado takes over as prime minister in September 2011.
- A former finance ministry bureaucrat, Motohisa Furukawa, will become the new economic minister taking over the task of tackling the many ills plaguing Japan's economy. He will also hold the banking portfolio.

**Recent Economic Highlights**

- In March this year, the country suffered from an earthquake and tsunami which also led to a nuclear crisis. Many people were affected both in and outside the country and by July 2011 about 22 000 Japanese were reported dead and missing and many others remained housed in temporary shelters. A typhoon also hit the country recently (5 September 2011) killing 27 people and washing away numerous buildings and homes and causing damage to roads and bridges that could take many months to rebuild. The new prime minister must see the country through these crises and also address the long-term problems of 2 decades of stagnation, an aging population and the rise of neighbouring China.
- Japan is an island in Asia and has a population of 126 475 664 people. The population growth rate is at -0.278%, which implies a dwindling labour force and the concomitant consequences of an aging population.
- The literacy rate in the country is very high at 99% and the life expectancy is 82.25 years. GDP was \$4.146trillion in 2009 with real growth of -6.3% followed by real growth of 3.9% in 2010. Inflation increased from -1.3% in 2009 to -0.7% in 2010.
- The services sector is the largest employer with a labour force of 69.8% of the working population. Industry employs 26.2% of the working population while agriculture only employs 3.9%. The unemployment rate was at 4.7% year-on-year in July 2011 having decreased from a 5.1% reported in July 2010; reconstruction in the country should assist firms to go back to functioning the way they were before the crises. It is believed that to rebuild the whole nation could take about 5 years and \$145billion but the current economic situation poses a challenge to this. BNP Paribas in Tokyo says that if the recovery does not pick up, unemployment will rise as companies will have to stop hiring or cut jobs.
- The natural disasters were followed by a strong yen which was caused by risk adverse investors. Industry is under pressure as export demand is low due to high prices.
- The 2 decades of long term stagnation can be attributed to Japan's budget deficit. The country's budget deficit has increased enormously over the last 20 years through a combination of fiscal easing and stagnant growth in GDP. The low growth has left revenues depressed and expenditures difficult to control which is partly why the government has a debt that is expected to be 220% of its GDP in 2012. The country increased spending at a pace lower than inflation but politically, it found it difficult to announce cuts in spending with the widening budget deficit partly in response to ongoing stagnation in the private sector
- The aging Japanese working class will give rise to an era of even slower economic growth, reduced availability of savings and rising social contribution rates. The latter can be avoided by deep structural reforms of the pension and health system, but the resources still have to be transferred from the working population to the ageing population. Whatever the nature of the claim for the elderly, it needs to be financed by reduced consumption of the working class.
- China has grown to become the 2<sup>nd</sup> largest economy in the world. However, China still lags behind Japan in many respects and their growing interdependence makes them partners as much as rivals. The Japanese economy would be even weaker without exports to China and the influx of Chinese tourists. China's expansion is one of the cornerstones for simultaneous growth in the region.

**Latest Trade Developments**

- Export commodities include: transport equipment, motor vehicles, semiconductors, electrical machinery textiles and raw materials.
- Import commodities include: machinery and equipment, fuels, food stuffs and chemicals.
- Main trading partners: China; US; South Korea; Saudi Arabia; Australia and Hong Kong.
- SA's exports to Japan totaled R33.9bn in 2009, R46.3bn in 2010 and R26.8bn in YTD June 2011.
- SA's imports from Japan totaled R26.3bn in 2009, R31bn in 2010 and R15.1bn in YTD June 2011.