

# Japan: economic and environmental analysis



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Japan, one of the most industrialized nations in the world, is a small island located in Eastern Asia. Surrounded by the Pacific Ocean, Sea of Japan, China, North Korea, South Korea and Russia, Japan consists of roughly 6,800 islands, many of them mountainous and volcanic. Of these islands, only four of them make up the majority of Japan's land mass (97%); Honshu, Hokkaido, Kyushu and Shikoku. Japan's landmass totals about 364,000 square km, in size comparison to the United States, it is somewhat smaller than California. Natural resources are scarce and consist of a few minerals and an abundance of fish. Japan's capital city is Tokyo, the most populated and largest metropolitan area in the world. The greater Tokyo area has a population of over 35 million people and was recently named the world's most expensive city to live in. Japan is a highly developed country that takes great pride in its high standards of living. Japan, the land of the rising sun, has experienced a devastating history of turmoil (including two nuclear bomb explosions), but nonetheless, the nation has redeveloped itself into one of the most important and influential markets in the world.

### Social Environment

Japan is the 10th most populated country in the world and has a population of about 127 million people (2% of the world's population). Since 2005, Japan's population has been facing a negative growth rate - currently estimated to be -0.242%. This decline in growth is mainly caused by a falling birth rate. While the death rate has also been declining, the birth rate has been declining faster and pulling the nation toward the problem of an ageing population. In order to mitigate the consequences a shrinking population has on economic growth, the government implemented a policy called the Angel

Plan. Under this act, citizens are encouraged to have children through various benefits such as child allowances and child care programs. Even though the birth rate is falling, the population has not declined at the same margin due to immigration (which is currently about 15% of the population). About 22% of the population is in the age group of 65 and above. Since deaths are outnumbering births, this rate is estimated to increase to 28% by 2025. Japan's population has a life expectancy of 82 years, which is one of the highest in the world.

Japan's population is fairly homogenous, 98.5% are Japanese, 0.5% are Korean, 0.4% are Chinese, and 0.6% are from other ethnicities. The major religions practiced are Shintoism (83.9%) and Buddhism (71.4%), where many people belong to both. The Japanese educational system is highly advanced and is considered on par with the western world. Since 2005, Japan has been achieving a 100% literacy rate and one of the highest university enrolment rates. Education is free to every citizen until the age of 15 (primary education). After secondary education (age 18), students either start a working career or attend college. Japan also has one of the best healthcare systems in the world. 7% of Japan's GDP gets spend on a national state of the art healthcare system. The government enforces a mandatory universal health insurance system, in which every citizen is offered a basic benefits package. 80% of the healthcare industry consists of privately run hospitals while only 20% are state-run/publicly owned.

Political Environment

Japan is a representative democracy with a constitutional monarchy. The emperor (Akihito) is the country's head of state. He is the head of the Japanese royal family and his function is wholly symbolic. The prime minister (Yukio Hatoyama), appointed by the Diet, is head of the government. Hatoyama runs for the Democratic Party of Japan (DPJ) and has been in office since September 2009. Japan's administrative powers are divided and shared among the legislative branch and executive branch. The legislative branch, also called the Diet (kokkai), is a bicameral parliament that consists of the House of Representatives and the House of Councils. The House of Representatives (the lower house) has 480 members, who are elected for 4 year terms. The House of Councils (the Upper house) has 242 members, who are elected for 6 year terms. The executive branch is the head of government and reports to the Diet. There are seven major political parties represented in the Diet, the 3 major parties are: Democratic Party of Japan (DPJ) (308), Liberal Democratic Party (LDP) (119), and New Komeito (21). Since post World War 2, the LDP dominated Japan's political system. In 2009, DPJ won a total of 308 seats and ended LDP's reign.

Japan's judicial system, which is mainly based on European civil law, consists of numerous levels of courts (the Supreme Court being the major judicial authority). Japan's federal system is divided into 47 administrative divisions, each having a governor and a unicameral assembly. Japan has positive economic and military relationships with almost all independent nations. Japan's key ally is the United States, one of its largest trading partners. Through its foreign policy, Japan focuses on promoting world peace and prosperity for itself and the United Nations. In order to promote peace and

security, Japan has one of the highest military budgets in the world. Japan has been an active member of the United Nations since 1956, a member of the Security Council for 19 years, and a member of the G8.

### Economic Environment

Japan has the second largest economy in the world (the United States is the largest). As of 2009, its nominal GDP is estimated to be \$5, 068 trillion. Since the end of World War 2, Japan has grown and developed itself into one of the most important and most influential countries. Through government driven industries, a highly motivated work ethic, and a mastery of advanced technology, Japan became one of the most technologically advanced economies. Japan's economy thrives on international trade, which mainly relies on its industrial/technological products that are designed and engineered by its highly educated workforce. Since Japan heavily depends on exports, its economy was highly affected by the recent economic crisis. In 2009, Japan's GDP had a negative growth rate of -5. 4%, but has since recovered to an estimated rate of 3. 5%. Japan's agricultural sector contributes only 1% to GDP and mainly consists of the rice and fishing industries. The industrial sector contributes 27% to GDP and is mostly dominated by the electronics and automotive industries. The services sector, at 72%, is the major contributor to GDP. It includes large industries such as banking, insurance, real estate, retailing, transportation and telecommunications.

Japan is home to some of the largest and most recognized firms in the world (such as Toyota, Nintendo, Canon, Sony, Panasonic, Sharp, etc). Even though

Japan's labor force is shrinking (currently consisting of about 67 million workers), it has a low unemployment rate of 4% and the highest salary per hour in the world. Japan is also home to some of the world's largest banks, and the Tokyo Stock Exchange is the second largest stock exchange in the world (in terms of market capitalization). Japan ranks 18th on the ease of doing business index (2011). Japan's largest export markets are China, United States, South Korea, Taiwan, and Hong Kong. Its main exports include transport equipment, motor vehicles, semi-conductors, and chemicals. Japan's largest import markets are China, United States, Australia, Saudi Arabia, UAE, South Korea, and Indonesia. Its main imports include raw materials, fuels, food products, textiles, and machinery.

(See appendix for key financial data)

#### Marketing & Advertising Environment

Japan, one of the world's largest consumer markets, has the second highest advertising expenditures in the world. It is probably one of the most overcrowded marketing environments in the world (this is especially true for Tokyo). In 2009, Japan spent 5,922 billion Yen on advertising. Due to the recession, advertising expenditures in 2009 decreased by 11.5%.

Advertising expenses across all media types, except Internet and Satellite media, declined. Advertising in newspapers experienced the largest drop (-18.6%), while satellite media-related advertising had the largest rise (4.9%). Across all industry categories, the only industry that experienced a gain in advertising expenditures was government affiliated organizations (4.6%).

(See appendix for advertising expenditures by medium)

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## Cultural Analysis of Japan

### Power Distance Index (PDI)

Japan's power distance is at a moderate level of 54. This indicates that there is moderate level of inequality between societal levels and organizations.

Power in Japan's society is dispersed unequally, as Japanese society tends to base relationships on factors such as hierarchical position, status, educational background and seniority.

### Individualism (IDV)

Japan's individualism is at a moderate level of 46. This indicates that Japan is somewhat of a collectivist society. Japanese people prefer to be integrated into groups and work collectively. Japanese families or business organizations have more of a communal attitude and hence closer bonds with each other.

### Masculinity (MAS)

Japan's masculinity is at a high level of 95. This indicates that Japan is an extremely masculine society (it is said to be the most masculine in the world). Japanese society has a high degree of gender differentiation, in which the male is the dominant figure. Japanese people are very competitive and don't easily give up, therefore they are forceful and lack concern for others. This makes women less assertive, causing them to stick to their female role.

### Uncertainty and Avoidance Index (UAI)

Japan's uncertainty and avoidance is at a high level of 92. This indicates that Japan favors rules/regulations and society aims to control all outcomes and results. Japanese people prefer to use rules and procedures to avoid making any mistakes. They do not like uncertainty and act hostile in unexpected situations. They also tend to have a high level of intolerance toward certain ideas and beliefs.

#### Long-Term Orientation (LTO)

Japan's long-term orientation is at a high level of 80. This indicates that Japan is a long-term oriented society. Japanese people tend to have a high respect for social obligations and traditions. They tend to be future oriented but highly focused on the task at hand. They believe that hard work will lead to long term benefits.

Sources: