



Economy of Japan in COVID-19 era and beyond

Team Finland Japan presents: Japan's
Outlook into 2021

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Economic situation

- Japan's economy is recovering; in year 2020 decrease was -4,8%
- In 2021 Q1 -5,8% decrease mainly due to the renewed state of emergency: economy suffered a milder hit than expected
- Forecast for 2021 Q2 is +5,8% - however 4th wave of COVID-19 clearly advancing, 4 prefectures to go into state of emergency
- Exports and imports both suffered in 2020
 - Exports 2020 -11,1%
 - Imports 2020 -13,7%
- March 2021 +16,1% year-on-year rise in exports thanks to China economy normalizing
 - Cars, plastics, semiconductors
- Bank of Japan current forecast for fiscal year 2021 +4%



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- Olympics will go on (?) without spectators from abroad – a huge hit for hospitality industry
- Travel restrictions remain in place: in March year-on-year drop 93,6% in overseas visitors to Japan
- Slow outroll of vaccines is causing heavy criticism, vaccinations might take until early 2022 to finish
- Three additional budgets in 2020, extensive support measures for businesses and households
 - Restaurants, bars, hospitals, domestic travel subsidy program etc.
- The amount of government bonds released in 2020 historically large
- Budget for 2021 106 trillion yen (1,03 trillion dollars)
 - Record high initial budget for the ninth straight year → Fiscal health?
- Bank of Japan will keep its monetary policy unchanged for now



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Trade agreements

- EPA: Two years in effect
 - Careful estimations due to COVID-19
 - Benefits achieved, but many foreign companies struggle with continuing difficulties accessing Japanese market
- Regional Comprehensive Economic Partnership (RCEP), Nov 2020
 - A victory for Japan both politically and economically
 - Step towards "normalization" of world trade
 - Japan's first FTA with China and South Korea
 - For example removal of tariffs between Japan and Korea 19% → 92%
- China – South Korea – Japan trilateral trade agreement?
 - There is appetite from Japan's side, but COVID-19 has postponed negotiations for a few times



Energy transition and carbon neutrality by 2050

- Attitudes towards renewable energy changing, pressure from United States working
 - Finally not just a cost, but also an opportunity for economic growth
 - Previously very strong opposition from business sector
- METI's Green Growth Strategy aims to support private sector's efforts towards carbon neutrality
- Battle between large climate-ambitious companies and traditional heavy industries
 - Investors and partners abroad demanding change
 - Keidanren and other more conservative stakeholders stress technological innovation (CCUS technology etc.)
- Regulation for RE use must be renewed
- Difficult questions about the role of nuclear: industry wants to start power plants, public opposes



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Digitalization strategy for the entire society

- An opportunity to ramp up productivity – but will Japan take it?
 - Industrial manufacturing, retail, health care and financial services
 - In big companies productivity at the same level as EU; SME's a lot lower
 - Benefits of digitalization can be unclear for many smaller companies
- New Digital Agency will commence operation in September 2021
- Digitalization could boost economy significantly
 - \$735 billion by 2030
- Japan 3rd largest economy but ranks 27th in digital competitiveness (IDM World Digital Competitiveness 2020)
 - Finland 10th
- How to build trust among the public to enable the use of personal data?



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Way forward on 2021 and beyond

- COVID-19 situation remains uncertain – Japan’s slow vaccination speed
- Development of China’s markets is key to East Asia region economies
- US-China relations have direct implications for Japan’s export-oriented economy
- How will Suga’s popularity affect the election results?
- When will tourism resume? No indication of Japan’s borders opening
- How will Tokyo Olympics go? Anxiety about spike in the pandemic
- Both energy transition and digitalization require thorough structural (even cultural) changes to happen in order to truly succeed – is Japan ready?