



Economic Report 2024

JAPAN

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Executive Summary

The **Japanese economy grew by 1.8%** in 2023. The **outlook is clouded by weak consumption as real wages have been declining** for more than two years.

In US Dollar terms, Japan has lost its status as the third-largest economy, given **continued and significant depreciation of the Yen** despite government interventions in foreign exchange markets.

The government has continued its **expansive fiscal policy**, renewing energy subsidies to fight inflation, offering an income tax rebate and shelving tax hikes, despite **debt at 257% of GDP**.

With **3.1% inflation** in 2023, a four-decade high, and **record nominal wage hikes**, the central bank has taken **steps to normalize its monetary policy**, while maintaining an accommodative stance. This has contributed to historical gains at Tokyo stock markets.

Implementation of the **comprehensive economic security legislation** comes with new subsidy programs to strengthen critical supply chains and disclosure requirements in critical infrastructure. New laws on **security clearances** and **food security** further expand the scope of economic security.

Japan continues to promote a **rules-based international order**, supporting the WTO and negotiating free trade agreements. At the same time, it **drives enhanced collaboration on economic security**, building critical minerals partnerships or operationalizing new supply chain governance structures.

Japan saw record-high exports and solid imports in 2023. China was overtaken by the United States as the most important export market, but remained by far the most important origin of imports.

The **bilateral trade volume** between Japan and Switzerland was **CHF 14.6 billion in 2023**. Exports declined, but were still above the level of 2021. Imports continued to increase, further reducing the trade surplus. Pharmaceutical and chemical products remained the major trading good.

Japan reiterated and clarified its opposition to a modernization of the 2009 pioneer **Free Trade and Economic Partnership Agreement** sought by Switzerland since 2018.

Switzerland remained the eighth most important investor in Japan in 2023. In turn, Switzerland is the ninth most important investment destination of Japan, and fourth most important in Europe.

Based on statistical trends, the sectors of **machinery, chemicals and finance offer growth potential** in Japan. In addition, **decarbonization**, evolving **health** needs, aging **infrastructure** and significant investments to boost **start-ups** provide for **interesting opportunities for Swiss companies**.

The Swiss Pavilion at the **World Expo 2025 Osaka, Kansai** seeks to position Switzerland as a reliable and innovative partner and offers Swiss companies a variety of concrete collaborative possibilities.

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1 ECONOMIC OUTLOOK AND POLICY DEVELOPMENTS

Inflation dampens consumption in an otherwise solid growth year

The nation's Cabinet Office estimates that the nominal Gross Domestic Product grew 5.6% to JPY 593.4 trillion for the year 2023.¹ The growth rate is the strongest since 1994. It puts Japan's economy at a striking distance of the JPY 600 trillion nominal GDP political target adopted in September 2015 by the incumbent coalition government.² Real GDP grew by 1.8% to JPY 560.2 trillion (\$4 trillion).

Various sectors drove the GDP gains at different times in 2023. Personal consumption such as traveling, outside dining, and car sales spurred the one-percent quarter-on-quarter growth for the January to March period. It is a figure that could have been even higher had exports not suffered the worst drop in eleven quarters due to global semiconductor demand slump that depressed demand for Japan's chipmaking machines.³ The April to June period saw a 0.9% percent growth, this time due to the technical accounting for export gains and import declines. Contraction then marked the July to September period as lingering inflation depressed personal consumption, adjustments to the global semiconductor markets hurt investments in chipmaking devices, and overseas apps and subscription services drove up imports.⁴ An upturn in business investments kept the final quarter of the year from contraction.⁵

The first quarter of 2024 registered a contraction of -0.7%, as consumption, business investments, and exports all saw declines.⁶ As the latest International Monetary Fund (IMF) outlook projects Japan to grow by 0.9% in real GDP and by one percent in 2025, beating such expectations is subject to effective formulation of growth-targeted policies and their implementation at home and various external factors. In particular, experts are observing whether significant raises in nominal wages coupled with income tax cuts can beat inflation and contribute to a sustained recovery in consumption.

Drop in nominal USD ranking of largest economies veils real GDP growth

Growth in 2023, however, could not keep Japan from falling behind Germany to become the world's fourth largest economy in US dollar-based nominal GDP. The IMF estimates the country's GDP at \$4.21 trillion last year, behind Germany's \$4.46 trillion.⁷ It is the first ranking reversal between the two countries since 1968. The 19.7% decline in the yen's strength against the US dollar from 2021 to 2022 and a further 6.9% decline from 2022 to 2023 is the reason for this reversal.⁸ The IMF further projects India to leap past Japan in 2025 and Germany in 2027.

Even as the ranking reversal is a nominal one based on USD currency conversion, soul-searching has echoed in the public discourse in Japan since then. However, Japan's economic performance in 2023 may be an example that nuance is needed in determining a country's prosperity beyond US dollar-based rankings. For example, real GDP in 2023 surpassed the previous historical high from 2018. The 1.8% growth last year is Japan's third strongest gain since 2011 behind 2% in 2013 and 2.7% in 2021.

Road to fiscal health still not clear after "Year of Tax" debates

In 2023, an organization based in Japan's ancient capital of Kyoto that declares the kanji character of the year chose the character for "tax". Only for the second time since such announcements began in 1994, that selection symbolized the yearlong debates over raising and lowering taxes.⁹ This vigorous discourse, however, did little to address Japan's long-held status as the most indebted country among all developed countries, with its debt estimated by the IMF to be 257% of GDP.¹⁰

A majority of lawmakers voted for a record full-year spending plan for the eleventh consecutive year for fiscal year 2023 (April 2023 to March 2024), totalling \$813.9 billion.¹¹ This budget included a 26%

¹ Cabinet Office, "Quarterly Estimates of GDP: January-March 2024 (The Second Preliminary- Revised)" (1 July 2024), https://www.esri.cao.go.jp/jp/sna/data/data_list/sokuhou/files/2024/qe241_2/pdf/jikei_1r.pdf, accessed 8 July 2024.

² White, Stanley and Tetsushi Kajimoto, "Japan PM unveils 600t yen GDP goal, short on details" (24 September 2015), <https://www.reuters.com/article/idUSKCN0RO036/>, accessed 23 April 2024.

³ Kitagawa, Kenichi, Asahi, "Exports see largest decline since the pandemic despite positive GDP" (18 May 2023), <https://www.asahi.com/articles/ASR5K65M1R5KULFA00K.html>, accessed 22 May 2023.

⁴ Nikkei, "GDP: first negative growth in three quarters" (15 November 2023), <https://www.nikkei.com/article/DGXZQOUA140PT0U3A111C2000000/>, accessed 15 November 2023.

⁵ FNN, "GDP turns to positive due to upward revisions of business investments" (11 March 2024), <https://www.fnn.jp/articles/-/669199>, accessed 11 March 2024.

⁶ Cabinet Office, "Quarterly estimates of GDP for January-March 2024: 2nd Preliminary Estimates (Revised)" (1 July 2024), https://www.esri.cao.go.jp/en/sna/data/sokuhou/files/2024/qe241_2/pdf/gaiyou2412_er.pdf, accessed 2 July 2024.

⁷ IMF, "World Economic Outlook Database: April 2024 Edition", <https://www.imf.org/en/Publications/WEO/weo-database/2024/April> (16 April 2024), accessed 23 April 2024.

⁸ Average USD/JPY- 109.84 (2021), 131.46 (2022), 140.52 (2023)

⁹ "Kanji of the Year" 1995 to 2023, Japan Kanji Assessment Certification Association, https://www.kanken.or.jp/project/edification/years_kanji.html, accessed 30 April 2024.

¹⁰ IMF, "World Economic Outlook Database: April 2024 Edition" (16 April 2024), <https://www.imf.org/en/Publications/WEO/weo-database/2024/April>, accessed 23 April 2024.

¹¹ MOF, "Fiscal 2023 General Accounting Budget" (28 March 2023), www.bb.mof.go.jp/server/2023/dlpdf/DL202311001.pdf, accessed 21 May 2024, converted from JPY 114.4 trillion at 2023 average currency exchange rate of JPY 140.52.

increase in defense spending from the previous fiscal year and a 1.7% increase to cover healthcare and social insurance costs, both monetary amounts being the highest-ever. The lawmakers later voted for a supplementary budget in December totalling \$215.3 billion to address inflation-related concerns by extending partial subsidies for electricity and gas bills to households until May 2024. The government collected \$512.9 billion in tax revenue this fiscal period, which covers 49.8% of this total spending.

Lawmakers and government officials have not shown a concrete path to balancing the budget.¹² Instead, Prime Minister Fumio Kishida called for income tax cuts in September 2023, saying that years of record tax revenue should alleviate residents from price increases.¹³ While both ruling and opposition officials criticized this initiative, including the Finance Minister saying that he is not aware of idle tax revenue, the directive almost indefinitely postponed previous discussions related to tax hikes.¹⁴

One immediate casualty is the planned raising of corporate, income, and tobacco taxes to generate funds for increased defense spending. The fiscal 2023 budget had authorized the three defense-related tax hikes, leaving it to government officials to set the implementation timetable, which could have allowed for a start date of April 2024.¹⁵ A historical and political consequence of more defense spending without adequate tax revenue is the first issuance of \$3.1 billion in construction bonds for this purpose during this budget cycle.¹⁶ While the bond-raised funds are to be used only for building new ships and refurbishing Self-Defense Forces' installations, this is a political shift as the government abandons a policy stance in place since the end of World War II to not use such bonds to enhance defense funding.¹⁷

For fiscal year 2024 (April 2024 to March 2025), the lawmakers voted for a \$751 billion full-year spending plan.¹⁸ The second highest-ever budget in yen terms that the Japanese parliament has approved, it includes an one-time tax rebate worth almost \$267 for each residential worker with a yearly income of no more than \$133,500 and their dependent(s) to be disbursed from June 2024.¹⁹ Non-tax paying households will receive a cash handout while low-tax paying households get a combination of tax cuts and cash handouts at varying timetable during the fiscal year. This tax rebate is estimated to cost \$22 billion in tax revenue.²⁰ The budget providing for a smaller reserve fund that the government can use at its discretion, for instance for natural disaster-related emergencies, kept this budget from beating the previous record high in yen terms as social spending, defense, and debt-servicing expenditures again rose to records by 2.3%, 16.6%, and 6.9% respectively. Construction bonds will once again fund a portion of the defense budget, totalling \$3.4 billion.²¹ Tax revenues are expected to cover 61.7% of the budget.

In sum, Japan's debt continues to rise to new records in the absence of significant expenditure reform or tax raises, with the latest figure in February 2024 totalling \$8.7 trillion.²² Almost 90% of this debt is held in Japanese government bonds. At the same time, households own a record total of \$14.7 trillion in assets as of first quarter 2024, with 51% being in the form of cash.²³ The country also extended its status as the world's largest creditor country last year with net foreign assets increasing by more than 12% to \$3.4 trillion, 33 years in a row.²⁴

Central bank takes steps to normalize monetary policy

The 32nd governor of the Bank of Japan (BOJ) Kazuo Ueda has executed significant shifts in the country's monetary policy stance without disrupting recent market trends. His predecessor had attempted to replace the country's decades-long deflation with a self-sustaining two percent inflation through

¹² MOF, "Fiscal 2022 budget and settlement figures" (3 July 2023),

https://www.mof.go.jp/tax_policy/reference/fy2022_budget_and_settlement.pdf, accessed 30 April 2024; converted from JPY 71.1 trillion at 2023 average currency exchange rate of JPY 140.52.

¹³ Remarks by Prime Minister Kishida (25 September 2023), www.jimin.jp/news/press/206688.html, accessed 1 May 2024.

¹⁴ Suzuki, Shun-ichi, MOF press conference (6 October 2023),

https://www.mof.go.jp/public_relations/conference/my20231006.html, accessed 5 May 2024.

¹⁵ Converted from JPY 1 trillion, based on year-to-date average currency exchange rate for 2024 of JPY 149.86.

¹⁶ MOF, "Fiscal 2023 defense-related budget elements" (December 2022),

https://www.mof.go.jp/policy/budget/budger_workflow/budget/fy2023/seifuan2023/19.pdf, accessed 7 May 2024; converted from JPY 434.3 billion at 2023 average currency exchange rate of JPY 140.52.

¹⁷ Asahi, "Defense spending and JGB: dangers of abandoning post-war unwritten rule" (22 February 2023),

<https://digital.asahi.com/articles/DA3S15562520.html>, accessed 7 May 2024.

¹⁸ Converted from JPY 112.6 trillion, based on year-to-date average currency exchange rate for 2024 at JPY 149.86.

¹⁹ Converted from JPY 40,000 and 20 million, based on year-to-date average currency exchange rate for 2024 at JPY 149.86.

²⁰ Suzuki, Shun-ichi, FSA press conference (28 May 2024),

<https://www.fsa.go.jp/common/conference/minister/2024a/20240528-1.html>, accessed 20 June 2024.

²¹ Ohinata, Hirofumi, Asahi, "Construction bonds grow 1.2 times for defense spending" (7 May 2024),

<https://digital.asahi.com/articles/ASS561VPLS56ULFA001M.html>, accessed 7 May 2024; converted from JPY 511.7 billion, based on year-to-date average currency exchange rate for 2024 at JPY 149.86.

²² MOF, "Central government debt as of 31 March 2024 (10 May 2024),

<https://www.mof.go.jp/english/policy/jgbs/reference/gbb/e202403.html>, accessed 21 May 2024; converted from JPY 1297.2 trillion, based on year-to-date average currency exchange rate for 2024 at JPY 149.86.

²³ BOJ, "Flow of funds accounts- 1st quarter 2024" (27 June 2024), www.boj.or.jp/en/statistics/sj/sjall.pdf, accessed 10 July 2024; converted from JPY 2199.1 trillion, based on year-to-date average currency exchange rate for 2024 at JPY 149.86.

²⁴ MOF, "Net foreign assets of major countries" (28 May 2024),

https://www.mof.go.jp/policy/international_policy/reference/iip/2023_g3.pdf, accessed 28 May 2024.

negative interest rates and a series of extraordinary interventions. The growing shift of externally-driven commodity price increases into a broad-based and sustained inflation, at a 41-year high of 3.1% in 2023, and two years of significant wage raises set the stage for Ueda to start unwinding those actions while maintaining the expansionary stance.

Ueda and other BOJ officials appear to prefer shaping markets' expectations instead of planning surprise announcements. Their policy speeches since Ueda assumed office in April 2023 have signalled that unwinding was an issue of when, not whether. On 19 March 2024, the BOJ declared that it will conduct monetary policy guiding the short-term interest rate as a primary policy tool and decided on the following:

- Raise short-term interest rate target range from -0.1% to 0 to a new range of 0 to +0.1%;
- Maintain an accommodative stance and continue buying JGB at similar level;
- No more setting long-term interest rate through bond purchases, known as yield curve control;
- No new exchange-traded funds (ETF) purchases.²⁵

Ending the negative interest rate policy for the first time since February 2016 appeared to be the easiest shift, even as it was highly watched market-wise and politically. Divesting JGB holdings without drastically disturbing the markets will be more difficult as the BOJ holds \$3.8 trillion in such financial instruments as of first quarter 2024, equivalent to 53.3% of all JGBs.²⁶ Interest rates for 10-year government bonds hit the highest since July 2011 at 1.1% in the end of May, which further complicates any BOJ intent to sell these instruments in the short-term as more bonds in the markets depress the price and inversely raise its interest rate.²⁷ The Bank is set to announce a one to two year reduction plan in monthly JGB purchases from the current \$40 billion when its board next meets in July.²⁸

Likewise, the BOJ will need to find a way to sell its stake in Japan's equity market that is estimated to be \$467 billion, equivalent to seven percent of the domestic stock market.²⁹ Ueda has ordered an 18 month-long policy review of the BOJ's decisions since 1998, which could reveal its approach to tackling such issues. Results of this review are expected before winter 2024.

Markets hit record highs, while currency continues to depreciate

The maintenance of an accommodative policy stance has contributed to historical gains in the markets. On 22 February 2024, the Nikkei 225 index exceeded the historical high of 38,915.87 last reached on 31 December 1989 and continued rising to close at 42,224.02 on 11 July. The Tokyo Stock Price Index (Topix) also closed at record high of 2929.17 on the same day. In fact, the World Federation of Exchanges (WFE) ranked the Tokyo Stock Exchange with the fourth largest market capitalization in the world in January 2024, more than the value of the Shanghai bourse for the first time since June 2020.³⁰

The yen's depreciation in recent years continued in the first half of 2024, with Japan's currency sinking to as low as 161.59 to the US dollar on 10 July, levels last seen in December 1986. The Swiss franc also moved parallel to that trend, with the yen weakening 22% against it from 139.28 to 169.59 in 2023 and touching 179.89 on 11 July. A cheaper yen may benefit exporters, such as automobile giant Toyota almost doubling its operating income for fiscal 2023 to a record \$35.7 billion.³¹ It also inflates the prices of raw materials such as energy and food, for which Japan is highly dependent on imports from abroad.

The government has tried to respond to such recent exchange rate fluctuations, including through statements, international consultation and even market interventions. The latest disclosure by the Ministry of Finance (MOF) shows that it has spent a total of \$65.3 billion in reserves between 26 April and 29 May 2024 to halt the continuous yen depreciation.³² This total in yen terms exceeds the three interventions that occurred in September and October 2022, which were the first such interventions

²⁵ Bank of Japan, "Changes in monetary policy framework" (19 March 2024),

https://www.boj.or.jp/en/mopo/mpmdeci/mpr_2024/k240319a.pdf, accessed 19 March 2024.

²⁶ BOJ, "Flow of funds accounts- 1st quarter 2024" (27 June 2024); converted from JPY 576.2 trillion, based on year-to-date average currency exchange rate for 2024 at JPY 149.86.

²⁷ NHK, "Long-term interest rate rises to 1.1%, most since July 2011" (30 May 2024),

<https://www3.nhk.or.jp/news/html/20240530/k10014465601000.html>, accessed 30 May 2024.

²⁸ BOJ, "Statement on monetary policy" (14 June 2024), https://www.boj.or.jp/en/mopo/mpmdeci/mpr_2024/k240614a.pdf, accessed 17 June 2024; converted from JPY 5 trillion, based on year-to-date average currency exchange rate for 2024 at JPY 149.86. https://www.boj.or.jp/en/mopo/mpmdeci/mpr_2024/k240614a.pdf, accessed 17 June 2024; converted from JPY 5 trillion, based on year-to-date average currency exchange rate for 2024 at JPY 149.86.

²⁹ Wagatsuma, Aya, Bloomberg, "What will the BOJ do with its \$475 billion ETF Hoard: Quicktake", (13 March 2024), <https://www.bloomberg.com/news/articles/2024-03-13/japan-etfs-what-will-the-boj-do-with-its-475-billion-hoard>, accessed 8 May 2024.

³⁰ WFE, "Equity-domestic market capitalization in USD millions" (April 2024), <https://focus.world-exchanges.org/issue/may-2024/market-statistics>, accessed 21 May 2024.

³¹ Toyota Motor Corporation, "FY2024 Consolidated Financial Results" (8 May 2024), https://global.toyota/pages/global_toyota/ir/financial-results/2024_4q_summary_en.pdf, accessed 8 May 2024.

³² MOF, "Foreign exchange intervention operations: 26 April through 29 May 2024 (31 May 2024)", https://www.mof.go.jp/english/policy/international_policy/reference/feio/monthly/20240531e.html, accessed 3 June 2024; converted from JPY 9.7 trillion, based on year-to-date average currency exchange rate for 2024 at JPY 149.86.

since June 1998. Ultimately, it seems that only a shift in market fundamentals, such as a narrowing of the interest rate differential with the United States, can change the current trends.

Record high wage hikes race to end record-long real wage drop

An indispensable key to sustainable economic growth that is driven by consumption and accompanied by moderate inflation is continuous wage hikes. Wages have struggled to rise for multiple decades, even as the unemployment rate has been below three percent for the past seven years and hiring workers amidst a shrinking population is a challenge.³³

The government had urged businesses to raise wages for years before the inflationary trends of the past few years. The pay raises that large companies had committed to the labor unions at annual spring wage hike negotiations known as *Shunto* tended to be modest one-offs even as companies continued to hold large amounts in cash and deposits, estimated at a combined \$1.8 trillion as of April 2024.³⁴ In fact, large companies saw ordinary profits rise by almost 16% while labor costs rose by 0.7% in fiscal 2022.³⁵ Meanwhile, relatively less profitable small and medium-sized companies could not afford to raise wages.

Kishida appears to have elevated the pressure on businesses over the wage issue, working with the nation's largest business federation Keidanren and proactively reaching out to the largest labor union confederation Rengo, a longtime political adversary to the ruling party.³⁶ Meanwhile, relevant agencies have increasingly pressured businesses to be receptive to demands by their suppliers to raise prices for their services, so that these smaller businesses can also raise wages. Violators have been publicly shamed such as Nissan Motors Corp. by Fair Trade Commission in March 2024.

Against the backdrop of sustained inflation, companies have heeded the call in 2023. A yearly survey by the Ministry of Health, Labor and Welfare (MHLW) found that workers regardless of whether they are unionized or not saw an average of 3.2% in wage increases, the most ever according to comparable records starting in 1999.³⁷ Companies with more than 5,000 workers increased wages by four percent, and companies with less than 300 workers by 2.9%, some likely to prevent losing workers to competitors.

Initial returns from the 2024 season appear promising, though far from conclusive as to whether these wage hikes have exceeded those from the previous season. Keidanren's initial estimate for large companies show that wages rose 5.6%, figures last seen in 1991 with the average monetary increase at the highest since 1976.³⁸ Small and medium-sized businesses appear to be raising wages as well, as labor unions representing workers of those companies have reported wage increases totaling 4.45%.³⁹

Whether wage hikes can indeed drive sustainable growth in consumption and GDP will be a focus of scrutiny. Despite the publicized wage hike returns for unionized workers, MHLW's latest estimate show that only 16.3% of workers were unionized in 2023, as compared to the peak of 55.8% in 1949.⁴⁰ The labor ministry also estimates that 37% of the country's 57.4 million workers in 2023 worked on part-time or fixed contract terms, where wage hikes are likely less common.⁴¹ Finally, wage hikes in 2024 could not come at a more critical time as inflation has led to real wage declines lasting 26 months until the latest figures in May 2024, the longest consecutive decline since MHLW began such records in 1991.⁴² In conclusion, it remains to be seen whether these nominal wage hikes, coupled with the one-time tax cuts, a June 21 announcement by Prime Minister Kishida on the renewal of oil, gas, and electricity subsidies, and BOJ's readiness to curb excessive inflation, could lead to a more positive sentiment in the economy in the second part of 2024 and stimulate sustainable growth.

³³ Ministry of Internal Affairs and Communications (MIC), "Historical data: unemployed person and unemployed rate by age group" (30 January 2024), <https://www.e-stat.go.jp/en/stat-search/file-download?statInfId=000001082685&fileKind=0>, accessed 22 May 2024.

³⁴ MOF, "Quarterly financial statements of corporations by industry" (3 June 2024), <https://www.mof.go.jp/english/pri/reference/ssc/r6.1-3e.pdf>, accessed 10 July 2024; converted from JPY 272.5 trillion, based on year-to-date average currency exchange rate for 2024 at JPY 149.86.

³⁵ Asahi, "Labor share of profits in big companies at the worst in half a century" (6 November 2023), <https://digital.asahi.com/articles/ASRC25FWWRB2ULFA01D.html>, accessed 6 November 2023.

³⁶ Nikkei, "Kishida-style 'made in government spring wage hikes' to achieve price pass-throughs" (13 March 2024), <https://www.nikkei.com/article/DGXZQQUA118L70R10C24A3000000/>, accessed 14 March 2024.

³⁷ MHLW, "Survey of wage hikes in 2023" (28 November 2023), <https://www.mhlw.go.jp/toukei/itiran/roudou/chingin/jittai/23/dl/10.pdf>, accessed 23 May 2024.

³⁸ Keidanren, "Large companies' responses to Shunto 2024, according to industry" (20 May 2024), <https://www.keidanren.or.jp/policy/2024/040.pdf>, accessed 23 May 2024.

³⁹ Rengo, "7th (final) survey results of Shunto 2024" (3 July 2024), https://www.jtuc-rengo.or.jp/activity/roudou/shuntou/2024/yokyu_kaito/kaito/press_no7.pdf?3877, accessed 11 July 2024.

⁴⁰ Asahi, "What will happen to wage hikes for companies with no unions?" (14 February 2024), <https://digital.asahi.com/articles/ASS2G5CTVS2FULFA007.html>, accessed 15 February 2024.

⁴¹ MIC, "Labor force survey 2023" (29 March 2024), <https://www.e-stat.go.jp/stat-search/file-download?statInfId=000040169022&fileKind=2>, accessed 23 May 2024.

⁴² MHLW, "Monthly Labor survey- May 2024" (8 July 2024), <https://www.mhlw.go.jp/toukei/itiran/roudou/monthly/r06/2405p/dl/pdf2405p.pdf>, accessed 8 July 2024.

Implementing and further expanding legislation on economic security

The government has taken further steps to implement the 2022 comprehensive economic security legislation. All four pillars are now enacted. Regarding the first pillar on critical materials, the government has launched various subsidies programs to strengthen supply chains, including domestic production, of 12 categories of critical goods⁴³, such as cloud services, semiconductors, or storage batteries. In order to promote advanced technology (second pillar), the government has identified over fifty research areas and created funding vehicles, such as the "Economic Security Critical Technology Education Fund" (\$3.3 billion).⁴⁴ The focus lies on artificial intelligence, quantum, semiconductors, biotech, cyber and space. The third pillar on the non-disclosure of patents was enacted in May 2024. It is expected to affect only selected patents in 25 pre-defined areas, such as aerospace, space and cyber.⁴⁵ Under the fourth pillar, also enacted in May 2024, the government has named 210 companies⁴⁶, which are active in 16 pre-defined types of core infrastructures, including utilities, transport, health or finance. These companies must submit disclosures to the government, for instance on cyber vulnerabilities, origin of suppliers, citizenship of board members, and transactions with foreign governments.

In May 2024, Parliament adopted a new law on security clearances. Once implemented, it will limit the access to information, which will be defined as critical from an economic security perspective, to persons having passed extensive background-checks. The law should facilitate the sharing of information between government, companies and academia when it comes to the increasing international collaboration one enhancing economic security, for instance on supply chains or advanced technologies.

Economic security also revives state role in food supply

Japan also expanded economic security in 2024 into food policy. A key policy shift is the first revision of the 1999 Basic Act on Food, Agriculture, and Rural Areas, nicknamed the 'constitution of agriculture policy'.⁴⁷ The revised law promotes agricultural exports to maintain domestic food production capacity in the country as well as bolstering food imports to minimize disruption in food supply.⁴⁸ The May 2024 revision also calls for new reference indices on food security that take into account dependence on fertilizer imports, which the current food self-sufficiency rating does not account for, and mandates yearly progress reports on those indicators.⁴⁹ The law also seeks to encourage agricultural workers to adopt high-yield plants.⁵⁰ Notably, the revision does not authorize new direct payment programs to farmers, as the government sees the existing law as a sufficient basis for new subsidies if needed in the future.⁵¹

Prime Minister Kishida has ordered his Cabinet to revise the nation's basic plan on food, agriculture, and farms before March 2025.⁵² The Ministry of Agriculture, Fishery and Forestry (MAFF) has convened a public-private council in June involving domestic trading houses and maritime transportation companies that purchase and deliver food to Japan.⁵³ MAFF plans to lobby for access to overseas ports and harbour using diplomatic channels as well as help trading houses establish and expand food supply posts abroad.

In May 2024, the Parliament also voted in favour of a bill that authorizes the government to declare certain food or items as critical such as soybeans, wheat, fertilizers, and animal feed. This law empowers officials to ban hoarding, set prices, request supply management plans from businesses and order domestic production, and increase imports of the food(s) in question in an event of a supply emergency.⁵⁴ Critics charge these developments in 2024 as steps backward from liberal economic practices.⁵⁵

⁴³ Cabinet Office, "Efforts at supply chain resilience" (February 2024),

https://www.cao.go.jp/keizai_anzen_hosho/suishinhou/supply_chain/supply_chain.html, accessed 16 July 2024.

⁴⁴ Cabinet Office, "K Program" (29 March 2024), https://www8.cao.go.jp/cstp/anzan_anshin/kprogram.html, accessed 12 July 2024; converted from JPY 500 billion, based on year-to-date average currency exchange rate for 2024 at JPY 149.86.

⁴⁵ Cabinet Office, "Special technology areas" (February 2024),

https://www.cao.go.jp/keizai_anzen_hosho/suishinhou/patent/patent.html, accessed 16 July 2024.

⁴⁶ Cabinet Office, "Those listed as special social infrastructure companies" (15 February 2024),

https://www.cao.go.jp/keizai_anzen_hosho/suishinhou/infra/doc/infra_jigyousya.pdf, accessed 12 July 2024.

⁴⁷ Mainichi, "MAFF to stipulate food security in basic farm act revision" (1 February 2024),

<https://mainichi.jp/articles/20240201/k00/00m/040/308000c>, accessed 24 May 2024.

⁴⁸ MAFF, "Outline of partial revision of Basic Act on Food, Agriculture, and Rural Areas" (27 February 2024),

<https://www.maff.go.jp/law/bill/213/attach/pdf/index-1.pdf>, accessed 9 May 2024.

⁴⁹ NHK, "Food security to be strengthened" (11 September 2023),

<https://www3.nhk.or.jp/news/html/20230911/k10014191971000.html>, accessed 12 September 2023.

⁵⁰ NHK, "Revision of 'Constitution of agriculture policy' is passed", (29 May 2024),

<https://www3.nhk.or.jp/news/html/20240529/k10014464341000.html>, accessed 29 May 2024.

⁵¹ Japan Agricultural News, "PM open towards direct payments" (26 April 2024),

<https://www.agrinews.co.jp/news/index/229225>, accessed 29 May 2024.

⁵² Yomiuri, PM orders revision of basic agricultural plan during this FY" (13 June 2024)

<https://www.yomiuri.co.jp/economy/20240612-OYT1T50190/>, accessed 14 June 2024.

⁵³ Nikkei, "MAFF to convene meeting with trading houses on stable food import" (16 June 2024),

<https://www.nikkei.com/article/DGXZQQUA13BGO0T10C24A6000000/>, accessed 17 June 2024.

⁵⁴ Ministry of Agriculture, Fishery and Forestry, "Outline of partial revision of Basic Act on Food, Agriculture, and Rural Areas" (27 February 2024), <https://www.maff.go.jp/law/bill/213/attach/pdf/index-19.pdf>, accessed 24 May 2024.

⁵⁵ Asahi, "Whither liberal competition in agricultural policy with basic law revision?" (21 December 2023),

<https://digital.asahi.com/articles/DA3S15822400.html>, accessed 24 May 2024.

2 PRIORITY SECTORS AND OPPORTUNITIES FOR SWISS COMPANIES

Trends suggest opportunities in machinery, chemicals and finance

An analysis of the economic structure over a six-year period until the latest available data of 2022 shows that both the primary and manufacturing sectors have reached record monetary values. The former grew to almost 1.1% share of real GDP in 2022, with the 2022 monetary figure just short of the record high in 2021 within the comparable data that begins in 1994. The subsector of agriculture posted a 18% gain over the 2017 to 2022 period.⁵⁶ The manufacturing subsectors of electronic parts, general-purpose machinery, and chemicals each saw two-digit percentage growths, with the first category posting 55% growth between 2017 and 2022 even as the overall GDP share of manufacturing dropped to 26.3%. Electrical machinery was another strong manufacturing sector with 8.8% gain over those years. Both primary and manufacturing jobs declined in numbers over the same period; in fact, the shares of total jobs for both categories are at their lowest since at least 1994.

The GDP share of the service sector grew by almost 1.5% to 72.6% between 2017 and 2022. The finance and insurance subsector gained 21% and reached a record real GDP value for the second consecutive year. Other growing subsectors include human health, information and communications, and professional activities. As 2022 was still shaped by the pandemic, transport and postal as well as accommodation and food services were the two service sub-categories that saw the most decline in GDP value, with the latter falling by almost 38%. Service jobs have grown annually between 2014 and 2022 and their share of total jobs has grown yearly since 2014, reaching 74.5% in 2022.

In the context of high dependency on foreign commodities and rising prices, mining took the largest share of Japan's imports in 2022 at more than 23%, the highest share since 2014. Other significant import shares that year were professional, scientific and technical activities (8.5%), chemicals (8.48%), basic metal (5.54%) and IT equipment (5.45%). Between 2017 and 2022, the value of chemical imports grew by 79%. While electronic components constitute only four percent of total import value, this sub-category alone has risen in import value by almost 60% between 2017 and 2022. Likewise, general purpose and electrical machineries each gained more than 30% in import value over the same period.

Trends in real GDP as well as in imports of electrical and general-purpose machinery, electronic components, chemicals, and finance and insurance suggest that these sub-categories may offer opportunities for prospective Swiss exporters and investors. In line with such statistical trends, the Swiss Business Hub Japan (SBH) sees that the sectors of electrical machinery, general-purpose machinery, and electronic components provide favorable conditions for Swiss companies and has identified them as one of three focus areas for the period 2023-2024. The SBH also focuses on clean technology, where the Japanese government's commitment to decarbonization, its hydrogen strategy, and corresponding funding, as well as investments into clean technologies by Japanese conglomerates provide promising opportunities for Swiss SMEs. The third focus area is medical technology against the background of evolving healthcare needs in Japan.

“Crisis and opportunity” in aging infrastructure

In the decades following World War II, Japan saw a massive infrastructure buildup. As a legacy, the nation is one of only eleven countries where one can drink tap water.⁵⁷ However, an increasing fraction of infrastructure is past the statutory service lives. That is the case for more than 22% of Japan's 740,000 km water pipes.⁵⁸ The 2012 collapse of a 1972 tunnel north of Mount Fuji that killed nine people led to a revision of the 1952 Road Act to require safety checks of all bridges and tunnels every five years.⁵⁹

Years of these inspections and ratings have revealed the extent of aging in Japan's post-1945 infrastructure and a need for action. More than 30% of the country's road bridges and 20% of the 10,000 tunnels are more than fifty years old.⁶⁰ The government also found in March 2022 that more than half of bridges and a third of tunnels needing repairs have yet to be touched.⁶¹ Similarly, Tokyo extended its 60-year refurbishment plan of water purification plants to 90 years.⁶²

⁵⁶ Cabinet Office, “Gross Domestic Product and factor income classified by economic activities” (January 2024), https://www.esri.cao.go.jp/en/sna/data/kakuhou/files/2022/2022annual_report_e.html, accessed 28 May 2024.

⁵⁷ Sankei, “A turning point for Japan's ‘delicious tap water’” (23 October 2023), <https://www.sankei.com/article/20231023-GWEC6VTUTNOL5JBGAVKY6Q4MJY>, accessed 29 May 2024.

⁵⁸ MHLW, “Fiscal 2024 National water pipe section heads conference” (22 April 2024), <https://www.mlit.go.jp/mizukokudo/watersupply/content/001741375.pdf>, accessed 30 May 2024.

⁵⁹ Yomiuri, “Aging infrastructure: Early refurbishment extends service life” (13 December 2022), <https://www.yomiuri.co.jp/editorial/20221212-OYT1T50229/>, accessed 30 May 2024.

⁶⁰ Asahi, “Challenges to policy on ‘aging infrastructures’” (21 January 2024), <https://digital.asahi.com/articles/ASR1N7V11R1LOIPE01W.html>, accessed 29 May 2024.

⁶¹ Mainichi, “Understaffed municipalities worried about infrastructure” (15 January 2024), <http://mainichi.jp/articles/20240112/k00/00m/040/327000c>, accessed 29 May 2024.

⁶² Tokyo metropolitan government, “Towards sustainable water pipes in Tokyo” (31 January 2020), https://www.waterworks.metro.tokyo.lg.jp/files/items/27737/File/tyoukisenryaku_02.pdf, accessed 30 May 2024.

The government has implemented some reforms and issued recommendations in trying to address this long-term challenge. The Ministry of Land, Infrastructure, Transport and Tourism (MLIT) assumed oversight of waterworks from MHLW in April 2024 so that it now oversees both tap water and sewer systems.⁶³ In May 2023, lawmakers approved the government's request that highway toll fees continue until the year 2115 to pay for refurbishing tunnels and bridges.⁶⁴ The national government also urges local municipalities to address infrastructure concerns comprehensively by district areas instead of types and pool their resources to deal with infrastructure refurbishments, in a December 2022 strategy.⁶⁵

The private sector is heeding calls to address this existential issue that MLIT estimates to cost \$1.7 trillion for the thirty years between 2019 and 2049.⁶⁶ For instance, six domestic entities, including all three of Japan's largest banks, launched a joint infrastructure management venture to address maintenance planning, implementation, and related funding called JCLaaS.⁶⁷ Advanced materials and technology, such as drones and laser illumination, will be critical in overcoming fiscal and manpower shortages to address infrastructure refurbishment, and innovation such as from Switzerland may be welcome.

Japan aims to be Asia's start-up hub and seeks tie-ups abroad

In November 2022, the Cabinet announced a "Start-Up Development Five-Year Plan" with 50 policy measures, including raising related investments by more than tenfold to \$66.7 billion by March 2028.⁶⁸ The plan also calls for launching 100,000 start-ups and 100 pre-IPO start-ups valued at more than \$1 billion each called "unicorns", of which Japan currently has seven. It further calls for a public-privately-funded "Global Start-Up Campus" attracting top overseas universities, experts and investors.⁶⁹ He reaffirmed this overall posture in 2024 at his inaugural policy speech before Parliament, noting that more funds are being raised and that his Cabinet will speed up the five-year plan.⁷⁰

Parliament has passed some laws to accommodate these initiatives. For example, May 2024 revisions to the Industrial Competitiveness Enhancement Act will relax conditions for start-ups to issue stock options and authorize the METI-affiliated New Energy and Industrial Technology Development Organization (NEDO) to financially assist start-ups in deep technology.⁷¹ In addition, a law promoting business lending that allows for companies to get financing using both intangible and tangible assets as collaterals such as their brand, client base, and original technology was passed in June 2024.⁷² It could help start-ups gain funding in Japan as banks normally approve loans based on tangible assets only such as factories and real estate. Lenders could use this law to seize and sell start-ups to their sponsoring companies if they struggle in re-payments.⁷³ Enactment is expected within two years of passage.

Relevant agencies and ministries are also making regulatory changes to help start-ups flourish in Japan. The Start-up plan foresees that at least three percent of government procurement should go to companies that are no more than a decade old. The Digital Agency has even awarded 36% of its procurements to start-ups in the fiscal year that ended March 2023, just short of the 40% target it had set for that year.⁷⁴ Tax-wise, companies planning to sell spinoff units or businesses can do so with tax exemption if they continue to hold no more than 20% of the new entity's stocks.⁷⁵

Government agencies are also encouraging more start-ups to be launched within their jurisdictions. METI launched an impact start-up certification program called "J-Startup Impact" in October 2023, where those selected are invited to matching events and are granted favorable access to procurement.⁷⁶ Several of the thirty companies selected thus far are in the FinTech area, providing services in developing

⁶³ Nikkei, "First-ever coalescing of waterworks and sewer system" (25 June 2023), <https://www.nikkei.com/article/DGXZQOUA21CNI0R20C23A6000000/>, accessed 28 May 2024.

⁶⁴ Nikkei, "Revised act extends highway roads fee until 2115" (31 May 2023), <https://www.nikkei.com/article/DGXZQOUA312YR0R30C23A50000000/>, accessed 30 May 2024.

⁶⁵ MLIT, "Regional infrastructure cluster revival strategy management for the next generation" (December 2022), <https://www.mlit.go.jp/policy/shingikai/content/001580091.pdf>, accessed 30 May 2024.

⁶⁶ Converted from JPY 248 trillion, based on year-to-date average currency exchange rate for 2024 at JPY 149.86.

⁶⁷ JCLaaS, "About Us" (16 February 2024), <https://www.jclaas.jp/#about>, accessed 30 May 2024.

⁶⁸ Cabinet Office, "Start-up 5-year Plan" (28 November 2022), https://www.cas.go.jp/jp/seisaku/atarashii_sihonsyugi/pdf/sdfyplan2022en.pdf, accessed 21 June 2024.

⁶⁹ Converted from JPY 10 trillion at year-to-date average exchange rate for 2024 at 149.86.

⁷⁰ PM Fumio Kishida, Policy speech before the 213th Diet (30 January 2024), https://www.kantei.go.jp/jp/101_kishida/statement/2024/0130shiseihoshin.html, accessed 30 May 2024.

⁷¹ METI, "Outline of partial revisions of Industrial Competitiveness Enhancement Act" (16 February 2024), <https://www.meti.go.jp/press/2023/02/20240216001/20240216001-a.pdf>, accessed 31 May 2024.

⁷² FSA, "Outline of law on promoting business lending" (March 2024), <https://www.fsa.go.jp/common/diet/213/02/gaiyou.pdf>, accessed 31 May 2024.

⁷³ Asahi, "New law makes lending with company growth as collateral passes Lower House" (21 May 2024), <https://digital.asahi.com/articles/DA3S15782377.html>, accessed 31 May 2024.

⁷⁴ Kono, Taro, "Digital Agency procurements" (3 April 2024), <https://www.taro.org/>, accessed 3 June 2024.

⁷⁵ Yomiuri, "Government to extend spinoff tax benefits" (30 November 2023), <https://www.sankei.com/article/20231130-N3XLWOMB6JMNZPTNXL5OUJER7E/>, accessed 31 May 2024.

⁷⁶ METI, "J-Startup impact launched as public-private program for supporting the growth of impact start-ups" (6 October 2023) https://www.meti.go.jp/english/press/2023/1006_006.html, accessed 3 June 2024.

economies. The Japan Aerospace Exploration Agency (JAXA) revised its law in 2023 so that it can fund commercial space-related start-ups for a total of \$6.7 billion over ten years.⁷⁷ The fund is intended to support ventures in areas such as satellite constellation, space debris removal, and transportation.⁷⁸ MHLW also launched a project team to study health-care start-ups, and an interim report recommended to focus in four areas including biotech and AI-based digital medicine.⁷⁹ The Cabinet's designation of Tokyo, Osaka, Fukuoka, and Hokkaido as asset management special zones in June 2024 could also aid start-ups as it seeks to attract asset managers with experiences in start-up investments from abroad.⁸⁰

Finally, Japan seeks help from abroad to boost start-ups. The US and Japan reaffirmed their investments in the latter's Global Start-up Campus by April 2028 that aims to host Massachusetts Institute of Technology (MIT), during Prime Minister Kishida's state visit in April. Separately, METI launched the "Japan Innovation Campus" in Palo Alto in November 2023 to aid incubating globally competitive start-ups.⁸¹ Other bilateral discussions on start-up policies, including with the UK, as part of their Strategic Economic Policy and Trade Dialogue launched in autumn 2023, and Singapore in their bilateral Economic Dialogue, launched in early 2023. Japan has also shown interest in enhancing such policy dialogue and cooperation with Switzerland, for instance during a visit to the Startup Space in Zurich by the Cabinet minister in charge of start-ups in January 2024⁸² and a ministerial meeting in May.⁸³

With the SBH and the Science and Technology Office in Tokyo and Swissnex in Japan (Osaka), the official Swiss network in Japan is well positioned to enhance collaboration in the domain. Promising opportunities for Swiss start-ups exist for instance in fundraising and financing, collaborations for Proof of Concept (PoC) and scale-up with large conglomerates, and out-licensing in sectors, such as decarbonization, digitization, including FinTech, and Life Sciences, including Biotech. The Innosuisse Internationalization Camps run by Swissnex in Japan successfully hosted ten start-ups in 2023 and 17 in 2024, with 25 planned in 2025. After the US and UK, Japan is the location that Swiss start-ups are most interested in. In 2023, the Switzerland-Japan Economic Forum, co-organized by the Embassy, focused on industry-academia collaboration and start-ups.⁸⁴ In May 2024, the Swisstech Pavilion at SusHi Tech Tokyo, Asia's largest start-up event, hosted twelve start-ups in sustainability.⁸⁵

Switzerland moves forward with World Expo 2025 Osaka Pavilion

A ground-breaking ceremony for Switzerland's pavilion at Expo 2025 was held in March 2024.⁸⁶ The organizers expect 28 million visitors to attend the Expo to be held between 13 April to 13 October 2025, called "Designing Future Society for Our Lives". The Expo pavilion aims to portray Switzerland as an efficient, leading innovation hub with a focus on the three thematic areas of Augmented Human (robotics and artificial intelligence), 'Life' (life sciences, health and nutrition), and 'Planet' (environment, sustainability, climate and energy). The pavilion will discuss these three themes in greater depths from Switzerland's perspective during the thematic months planned by the Japanese organizers.⁸⁷ The Swiss Pavilion offers innovation and research stakeholders and companies a variety of concrete partnership and sponsorship opportunities, ranging from showcasing research, products and services or shaping content and messaging to holding events or providing in-kind contributions and selling products. In the field of education, research and innovation, the Pavilion has received over 180 project applications.

⁷⁷ Nikkei, "JAXA fund: JPY 1 trillion over 10 years" (4 December 2023), <https://www.nikkei.com/article/DGXZQOUC292YV0Z21C23A1000000/>, accessed 30 May 2024; converted from JPY 1 trillion at year-to-date average exchange rate for 2024 at 149.86.

⁷⁸ Nikkei, "JPY 1 trillion space fund to fully fund start-ups" (26 April 2024), <https://www.nikkei.com/article/DGXZQOUA246LX0U4A420C2000000/>, accessed 26 April 2024.

⁷⁹ MHLW, "Policy recommendations to bolster Japan's healthcare startup ecosystem" (25 April 2024), <https://www.mhlw.go.jp/content/10807000/001257559.pdf>, accessed 3 June 2024.

⁸⁰ Financial Services Agency, "Overview of special zones for financial and asset management businesses" (4 June 2024), https://www.fsa.go.jp/en/news/2024/package_en_overview.pdf, accessed 21 June 2024.

⁸¹ METI, "Japan Innovation Campus- who we are", <https://jp-innovation-campus.org/about>, accessed 28 November 2023.

⁸² Swissnex in Japan, LinkedIn Post (January 2024), https://www.linkedin.com/posts/swissnex-in-japan_startups-deeptech-japan-activity-7158323311175753729-FfID/, accessed 11 July 2024.

⁸³ Yoshitaka, Shindo, Facebook post (19 May 2024), <https://www.facebook.com/shindoyoshitaka/posts/pfbid02vrzBRfDXKqyPZCRq25Y9dVkJNdSrT7SNuNnh3EwjQX3wRnHJA4wR7AzDtWYXRQCPI>, accessed 30 May 2024.

⁸⁴ Switzerland-Japan Economic Forum 2023, "Competitiveness and innovation: the next frontiers for industry-academia collaboration" (2 October 2023), <https://switzerland-japan-economic-forum.org/>, accessed 21 June 2023.

⁸⁵ Swissnex in Japan, "Swisstech Pavilion @ SusHi Tech Tokyo 2024", <https://swissnex.org/japan/news/sushi-tech-tokyo-2024/>, accessed 12 July 2024.

⁸⁶ Embassy of Switzerland in Japan, "On the road to Osaka 2025, Switzerland is on time" (19 March 2024), <https://www.eda.admin.ch/countries/japan/en/home/news/news.html/content/countries/japan/en/meta/news/2024/3/swiss-pavilion-groundbreaking>, accessed 3 June 2024.

⁸⁷ House of Switzerland, "Swiss pavilion at Expo 2025 in Osaka", <https://houseofswitzerland.org/events/swiss-pavilion-expo-osaka>, accessed 3 June 2024.

3 FOREIGN ECONOMIC POLICY

3.1 Host country's policy and priorities

While Japan continues to advance free trade, it increasingly sees shaping trade norms as a facet of not only its foreign economic policy, but of overall diplomacy. Foreign minister Yoko Kamikawa stressed that maintaining and expanding a rules-based, free and fair economic order is indispensable in a March 2024 speech before the business federation Keidanren.⁸⁸ She mentioned free trade agreements, but also noted that economy cannot be separated from security due to geopolitical competition. Japan is increasingly taking a holistic approach to economic diplomacy, further integrating security concerns.

Free trade: Launching and reviving negotiations and revising existing pacts

Japan has concluded 21 bilateral and multilateral free trade pacts, such as economic partnership agreements (EPA), with fifty countries between November 2002 and January 2022.⁸⁹ These pacts cover 79% of Japan's trade, a share that is on par with South Korea's 78% and ahead of Switzerland's 75.5%, China's 48%, US' 48%, and EU's 44%. Japan continues to champion free trade, exploring new trading agreements, aiming to restarting stalled negotiations, and even renegotiating existing free trade pacts.

In May 2024, Japan launched bilateral EPA negotiations with Bangladesh and aims to conclude talks before the South Asian economy graduates from its Least Developed Country status in 2026.⁹⁰ Officials also met Israeli counterparts three times in 2023 to study the feasibility of an EPA.⁹¹

The leaders of Japan, China, and South Korea met in Seoul in May 2024 and agreed to continue discussions on accelerating talks on a three-way FTA that had stalled after sixteen rounds between 2012-19.⁹² Japan had also agreed with the Gulf Cooperation Council in September 2023 that FTA talks should resume in 2024⁹³ after meetings that included two negotiation rounds between 2006 and 2009.⁹⁴

Meanwhile, Japan and Indonesia concluded a revision of their 2007 EPA in December 2023. Indonesia will lower or abolish tariffs for auto and steel parts and products from Japan and establish a preferential tariff quota for rice imports as Japan will lower or abolish tariffs on 114 types of agricultural goods from Indonesia. The revision adds a new chapter on electronic commerce and transactions, such as a ban on forcing source code disclosures, and intellectual property, including geographical indicators (GI).⁹⁵ If approved by Parliament, it would be the fourth time that Japan has ratified a comprehensively revised trade agreement after Singapore (2007), Mexico (2012), and ASEAN (2020). Parliament also ratified an amendment of the 2019 EPA with the EU to include data free flow provisions in April 2024.⁹⁶

Japan continues to see the World Trade Organization (WTO) as the center of the global economic order. At the 13th Ministerial Conference in March 2024 in Abu Dhabi, it pursued similar priorities to Switzerland's, with common grounds in areas such as dispute settlement, e-commerce, and in the G10 group of net-importers of agricultural goods that Switzerland coordinates.

Setting rules for fair trade as a tool of economic diplomacy reflects security concerns

The broader focus of economic diplomacy in integrating economic security, is evident in bilateral and multilateral outreaches by Japan. At the annual ministerial meeting of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) in New Zealand in July 2023, the twelve members formally approved the accession of the United Kingdom, which had been overseen by Japan. The Parliament ratified the accession in December. The 12 ministers met again in San Francisco during the Asia Pacific Economic Cooperation (APEC) in November 2023, where they agreed to terms of reference of a general review of the pact, which includes discussion on economic coercion.⁹⁷ They

⁸⁸ Kamikawa, Yoko, "The frontier of new economic diplomacy" (11 March 2024), <https://www.mofa.go.jp/mofaj/files/100633877.pdf>, accessed 17 April 2024.

⁸⁹ METI, "2024 White Paper on International Economy and Trade" (9 July 2024), <https://www.meti.go.jp/report/tshuhaku2024/pdf/zentai.pdf>, accessed 12 July 2024.

⁹⁰ MOFA, "First negotiations for Japan-Bangladesh Economic Partnership Agreement (EPA)" (24 May 2024), https://www.mofa.go.jp/mofaj/press/release/pressit_000001_00715.html, accessed 24 March 2024.

⁹¹ MOFA, "3rd Joint research meeting on Japan-Israel EPA feasibility is held" (27 September 2023), https://www.mofa.go.jp/mofaj/press/release/press3_001102.html, accessed 28 September 2023.

⁹² Nikkei, "Resuming negotiations on Japan-PRC-ROK FTA to be agreed" (27 May 2024), <https://www.nikkei.com/article/DGXZQOUA24DH80U4A520C2000000/>, accessed 27 May 2024.

⁹³ MOFA, "The First Japan-GCC foreign ministers' meeting and the ministerial working lunch" (7 September 2023), https://www.mofa.go.jp/me_a/me2/page7e_000037.html, accessed 4 June 2024.

⁹⁴ MOFA, "Free Trade Agreement between Japan and the Gulf Cooperation Council", https://www.mofa.go.jp/policy/economy/fta/gcc_2006_2.html, accessed 4 June 2024.

⁹⁵ MOFA, "Japan-Indonesia EPA Protocol revision: an outline" (16 December 2023), <https://www.mofa.go.jp/mofaj/files/100595762.pdf>, accessed 18 December 2023.

⁹⁶ House of Representatives (Japan) 213th session (29 May 2024), https://www.shugiin.go.jp/internet/itdb_iinkai.nsf/html/gianrireki/213_213_joyaku_5.htm, accessed 24 June 2024.

⁹⁷ "Terms of reference for conducting the general review of the CPTPP" (15 November 2023), https://www.cas.go.jp/jp/tpp/tppinfo/2023/pdf/20231120_cptpp_tor_en.pdf, accessed 24 June 2024.

also reaffirmed that any accession candidate must adhere to the high standards of the agreement, have demonstrated compliance and meet approval by all members. Japan continues to take a leadership role in the pact, including in reaching out to potential new and suitable applicants.

Ministers of the fourteen members of the US-led Indo-Pacific Economic Framework (IPEF) signed the supply chain agreement, also during the San Francisco APEC. Japan was the first country to ratify in November 2023, and it later became effective on 24 February 2024.⁹⁸ With a view to reducing risks, collaborating in diversifying and strengthening supply chains, and responding to disruptions, the members are now identifying their critical sectors. This finding will then inform the work of the so-called "Supply Chain Council", which will meet for the first time in July. The IPEF ministers further signed pillars three and four on clean and fair economy in June 2024 in Singapore. As part of the effort to implement the third pillar, Japan, Australia, the US and South Korea start a \$33 million IPEF Catalytic Capital Fund, aiming to catalyse \$3.3 billion in private investments to assist emerging economies to become carbon-free.⁹⁹ The fund will be managed by the Private Infrastructure Development Group, which Switzerland supports with \$75 million as part of its International Cooperation Strategy 2021-2024.

Trade rules also dominated the agenda by Japan when it chaired the G-7 Trade Ministers' Meeting in Osaka in October 2023. They pledged to make progress in implementing the Coordination Platform on Economic Coercion that had been launched at the G-7 Hiroshima summit. In the wake of export controls on semi-conductor machinery introduced by Japan and those on critical minerals by China, the two countries held director-general dialogues in January and May 2024, where they pledged to improve transparency and communicate closely to avoid obstructing proper trade.¹⁰⁰ METI and MOFA also hosted the Asian Export Control Seminar for the thirtieth time in February 2024, involving nineteen countries regionally and fifteen elsewhere including Switzerland and the EU.¹⁰¹

Securing critical minerals has been a priority for Japan. In 2023, the industry minister visited several resource-rich countries including Australia, Namibia and the Democratic Republic of Congo to strengthen cooperation. Japan also revised its 2014 memorandum of cooperation on mining with Chile for the second time in June 2024 to include sustainable lithium development.¹⁰² Separately, the "Partnership for Resilient and Inclusive Supply-Chain Enhancement" (RISE), initiated by Japan as part of its G-7 Chairmanship, was launched at the IMF/World Bank Annual Meeting in October 2023 in Morocco. Japan funds \$25 million, a quarter of the funding target of the World Bank program that aims to diversify critical mineral supply chains. Switzerland supports RISE as a donor of the relevant trust fund.

Japan chaired the OECD Ministerial Council Meeting in May 2024, in which Prime Minister Kishida expressed the expectation that the organization will play a central role in shaping digital technology rules, such as on artificial intelligence (AI).¹⁰³ He also launched the Hiroshima AI Process Friends Group with 52-members and called for all like-minded countries to work together towards safe and secure AI.

3.2 Outlook for Switzerland

Switzerland and Japan concluded a Free Trade and Economic Partnership Agreement (FTEPA) in 2009. It is a pioneer agreement and the first comprehensive free trade deal with an advanced economy for Japan. It serves companies well overall. Meanwhile, both countries have concluded new agreements, which are in line with modern standards and go further in terms of market access. Japan for instance has concluded such an agreement with the European Union in 2019. Since 2018, Switzerland has therefore consistently and at all levels sought to engage Japan in a process to modernize the FTEPA. Beyond ensuring a level playing field in terms of market access, Switzerland seeks a modernization in areas such as rules of origin, e-commerce, trade facilitation, services or public procurement.

On the occasion of the fifth meeting of the Joint Committee of the FTEPA in Tokyo in July 2023, Japan reiterated that it opposes modernizing the agreement, elaborating that Switzerland seeks additional market access for agricultural products that are highly sensitive for Japan although Switzerland is not asking for more than what Japan has already committed to the EU. Japan does not see sufficient potential for gains in terms of additional market access to Switzerland and further argued that a modernization would not "correct" Japan's trade deficit towards Switzerland.

⁹⁸ Japan External Trade Organization, "US government becomes second country after Japan to accept IPEF supply chain agreement" (12 January 2024) www.jetro.go.jp/biznews/2024/01/9e470a6bbf2d363c.html, accessed 24 June 2024.

⁹⁹ METI and MOFA, "METI Minister Saito attends ministerial meeting of the Indo-Pacific Economic Framework for Prosperity" (14 March 2024), https://www.meti.go.jp/english/press/2024/0314_001.html, accessed 4 June 2024.

¹⁰⁰ METI, "Second meeting of the Japan-China export control dialogue and Japan-China joint outreach event held" (29 May 2024), https://www.meti.go.jp/english/press/2024/0529_001.html, accessed 4 June 2024.

¹⁰¹ METI, "The 30th Asian export control seminar was held" (22 February 2024), https://www.meti.go.jp/english/press/2024/0222_004.html, accessed 24 June 2024.

¹⁰² METI, "Minister Saito holds meeting with Ms. Aurora Elvira Williams Baussa, Minister of Mining, the Republic of Chile" (14 June 2024), https://www.meti.go.jp/english/press/2024/0614_001.html, accessed 17 June 2024.

¹⁰³ Kishida, Fumio, "Keynote speech at the opening ceremony of the OECD ministerial council meeting" (2 May 2024), https://japan.kantei.go.jp/101_kishida/statement/202405/02mcm.html, accessed 24 June 2024.

4 FOREIGN TRADE

4.1 Developments and general outlook

In relation to its GDP, the levels of Japan's trade in goods and services have increased slightly, but remain among the lowest of OECD countries.¹⁰⁴ Exports totalling \$717.9 billion and imports of \$784.2 billion in 2023 are equivalent to around 20% respectively of real GDP for the year.¹⁰⁵

4.1.1 Trade in goods

According to records dating back to 1950, exports in 2023 in yen values are the highest on record and imports are the second highest ever, just short of the record in 2022.¹⁰⁶ The resulting trade deficit of \$66.3 billion is less than half of the historical high in 2022.¹⁰⁷ The export value of the largest sub-category of passenger vehicles (17.1% share) rising by 36.6% to \$110.6 billion contributed to the record-high exports in 2023 as most others categories saw their export values decline including the next three largest ones of semiconductor parts, iron and steel products, and semiconductor machinery. In terms of imports, purchases in the three largest sub-categories of petroleum, liquefied natural gas, and coal all saw two-digit declines after a significant rise in 2022, while the fourth largest of semiconductors fell as well.

Trends with Japan's three largest trading partners

An eleven-percent rise in exports to the US worth \$144.2 billion and a -6.5% decline of exports to China to \$126.2 billion in 2023 reversed the order of the largest market for Japanese products between those two countries (shares of 20% and 18% of total exports respectively). In August 2023, China banned the import of Japanese seafood, following Japan's approval of releasing treated water from the Fukushima nuclear plant into the Pacific under authoritative international monitoring. As China was the largest market for food exports, the ensuing decline in exports was publicly and politically highlighted even as food overall only constituted 1.3% of export value to China in 2022. While exports of the largest category of semiconductor machinery rose by almost 20% despite a new export control regime on certain products, the next three largest sub-categories of semiconductors, plastic materials, and motor vehicles all declined. Meanwhile, exports of passenger cars to the US, which on its own constitute 28.1% of all exports to that country, rose by 35.7%. The next three best-sellers to the US of power generating machines, motor vehicles parts, and machineries for construction and mining all rose.

China remains the largest source of imports for Japan (22% of total), more than double that of the US and the EU combined (10.5%, 10.3% shares respectively). Japan imported more in the largest sub-category of telephones from China (9.1% share) while it spent less in the next two largest categories of computers and clothing. In contrast, Japan imported almost twenty percent less pharmaceuticals from the US, the largest sub-category of goods (9.3% share). Its purchases of the second and fourth most important goods of power generating machinery and scientific instruments rose, and contrast with two-digit declines in the third and fifth largest sub-categories of liquefied petroleum gas and grains.

The European Union (EU) took a 10.9% share of Japan's exports behind the US and China.¹⁰⁸ Germany was the largest buyer of Japanese products within the EU at a 2.7% fraction of overall exports, ahead of the Netherlands (1.8%), the UK (1.7%), France (1%) and Belgium (0.9%), with Switzerland holding a 0.7% share (as a reference). Motor vehicles were Japan's best seller to the EU with a share of almost 20% of exports after its value rose by almost 70%. The EU was also the third largest source of Japan's imports in 2023 at a 10.3% share, regaining this ranking from Australia (8.3% share). Germany was the origin of the largest share of Japan's EU imports at a 2.8% share of total imports, followed by, Italy (1.5%), France (1.4%), the UK (0.9%), with Switzerland at a 1.1% share. Japan bought the most from the EU in pharmaceuticals (19.5% share) and motor vehicles (10.3%).

4.1.2 Trade in services

Japan posted a service deficit of \$20.7 billion in 2023, exporting \$207.2 billion and importing \$227.9 billion.¹⁰⁹ After five consecutive years of widening and a 20-year record in 2022, the deficit shrank in

¹⁰⁴ OECD, "Trade in Goods and Services", data.oecd.org/trade/trade-in-goods-and-services.htm, accessed 23 May 2024.

¹⁰⁵ MOF, "Value of Exports and Imports by Calendar Year", https://www.customs.go.jp/toukei/shinbun/trade-st_e/2023/2023_118e.pdf, accessed 23 May 2024; converted from JPY 100.9 trillion, JPY 110.2 trillion, and JPY 558.7 trillion respectively, based on average currency rate for 2023 at JPY 140.52/USD.

¹⁰⁶ MOF, "Value of Exports and Imports by Calendar Year", <https://www.customs.go.jp/toukei/suii/html/nenbet.htm>, accessed 23 May 2024.

¹⁰⁷ MOF, "Value of Exports and Imports for Calendar Year 2023", https://www.customs.go.jp/toukei/shinbun/trade-st_e/2023/2023_118e.pdf, accessed 23 May 2024; Converted from JPY 9.3 trillion, based on average currency rate for 2023 at JPY 140.52/ USD.

¹⁰⁸ See Annex 3.

¹⁰⁹ MOF, "Balance of Payments" (23 April 2024) https://www.mof.go.jp/policy/international_policy/reference/balance_of_payments/regional/rbpcy2023.pdf, 7 June 2024.

2023.¹¹⁰ As in the previous year, the two sectors that contributed the most to the deficit were telecommunications and information technology (IT) as well as insurance and pension. For the eighth consecutive year, insurance and pension deficits have widened, reaching another record high since records began in 1996. The telecom and IT deficit is the second largest on record, which reflects domestic consumption for streaming subscriptions by major tech providers abroad.

Travel and intellectual property continued to contribute the highest surpluses in service trade. In fact, travel surplus grew almost sevenfold in 2023, surpassing the pre-pandemic high in 2019 and jumping to the highest since records began in 1996. An eightfold increase of inbound tourists from the year before to more than 25 million in 2023 reflects this surplus, likely due to exchange rate trends that make traveling to Japan more attractive and traveling abroad for Japanese people less attractive.¹¹¹

The US remained Japan's largest services trade partner with a 28.9% share. It was followed by the EU (13.5%), Singapore (10.1%), the UK (7%), and China (6.3%), with Switzerland taking 2.2% share.¹¹²

4.2 Bilateral Trade

4.2.1 Trade in goods

Japan fell from eleventh to fourteenth place in a ranking of Switzerland's largest trading partners in 2023 (or from seventh to ninth place if the EU member states are combined). With a volume of CHF 14.6 billion (-3.5%), bilateral trade represented a two percent share of Switzerland's total trade.¹¹³ Among Asian economies, Japan fell one place and became the fourth largest trading partner, behind China, Hong Kong, and India. After reaching a record in 2022, exports to Japan fell by 18.1% to CHF 7.7 billion, still above the level of 2021. Meanwhile, imports continued to rise by 20.4% to a new record high of CHF 6.9 billion. Including precious metals, Switzerland's imports from Japan have risen by at least ten percent in value for three of the last four years between 2020 and 2023. Last year, Switzerland's trade surplus has shrunk under CHF 1 billion for the first time since 1995.

2023 saw a 32.4% drop in the value of the largest category of exports, Swiss pharmaceutical and chemical products. The CHF 3.5 billion accounted for 46% of all Swiss exports, a decline in share from 52% in 2022. Meanwhile, the second largest export category of precision instruments, watches and jewelry exceeded the record figure of 2022 by 4.2% and reached CHF 3.1 billion, with watches alone accounting for CHF 1.8 billion (+7.7%). Japan is the fourth most important market for Swiss watches.

A major factor in the rise of Swiss imports of Japanese goods in 2023 is a 62.6% growth in purchases of precious metals and gemstones, with gold imports growing by 79.2%. This largest category of Swiss imports (share of 36.5%) accounted for CHF 2.5 billion, the highest monetary amount in records dating back to 1988. Pharmaceutical and chemical product purchases rose by 7.2% to a record CHF 2.1 billion, comprising around 30.7% of imports from Japan. Consistent with global trends of increased Japanese vehicle sales in 2023, Switzerland's imports of cars also grew by 40% to CHF 742.4 million.

4.2.2 Trade in services

In 2023, Switzerland ran a services trade surplus of CHF 284 million with Japan, ending four years of service deficits.¹¹⁴ Exports by Switzerland increased by 16.3% to CHF 3.3 billion, which is the highest since records began in 2012. Volume-wise, Switzerland is Japan's tenth largest services trading partner with a 2.2% share (if EU is not counted as one).¹¹⁵ The three largest components of Switzerland's services exports were license fees with a 21.4% share, transport (20.4%), as well as insurance and pension services (15.9%). This last category grew by more than fivefold over the 2012-2023 period while other fast-growing categories were technical and trade-related services, which increased by almost sevenfold and consulting and telecommunications, which both doubled. In fact, consulting rose to a record surplus of CHF 15 million in 2023, hitting such a surplus only the third time since records began. Financial services posted a record surplus low of CHF 45 million. Transport services rose in both directions to a record high, with CHF 674 million of exports and CHF 744 million of imports. The three largest categories of Switzerland's services imports from Japan were license fees with a 43.5% share, followed by transport (24.7%) and research and development 11.2%).

¹¹⁰ MOF, "Balance of Payments (historical data)", https://www.mof.go.jp/policy/international_policy/reference/balance_of_payments/bp_trend/bpnet/sbp/s-2/6s-2-1.csv, accessed 7 June 2024.

¹¹¹ Japan National Tourism Organization, "Trends in visitor arrivals to Japan", <https://statistics.jnto.go.jp/graph/#graph--inbound--travelers--transition>, accessed 20 June 2024.

¹¹² MOF accounting practice includes Macau with China, not Hong Kong.

¹¹³ Federal Office for Customs and Border Security, "Swiss-Impex", <https://www.gate.ezv.admin.ch/swissimpex/public/bereiche/waren/result.xhtml>, accessed 10 June 2024.

¹¹⁴ [https://data.snb.ch/en/topics/aube/cube/bopserva?fromDate=2012&dimSel=D0\(J\)](https://data.snb.ch/en/topics/aube/cube/bopserva?fromDate=2012&dimSel=D0(J))

¹¹⁵ MOF, "Regional balance of payments for 2023 cy" (23 April 2024), https://www.mof.go.jp/policy/international_policy/reference/balance_of_payments/regional/rbpcy2023.pdf, 7 June 2024.

5 DIRECT INVESTMENTS

5.1 Developments and general outlook

Japan's inward foreign direct investments (FDI) totalled \$359.5 billion in 2023, a 9.2% increase from the year before in local currency terms.¹¹⁶ Equivalent to 8.5% of the nominal GDP for that year, the share likely remains the lowest among OECD and G20 economies. The Cabinet has a goal of attracting inward FDI totalling \$711 billion (JPY 100 trillion) by 2030 with a target on sectors related to green transformation and enhancing supply chain resilience.¹¹⁷ In 2023, the US remained the largest investor with a share of 24.7%, followed by the UK (17.2%) and Singapore (10.4%).¹¹⁸ Investments in non-manufacturing outnumbered those in manufacturing by about 1.5 times in the last five years.¹¹⁹

Meanwhile, Japan's outward FDI grew by 11.3% to about \$2.2 trillion in 2023. The US is the top destination with a share of 34%, followed by the UK (8.6%) and the Netherlands (7.2%).

A more balanced approach to outbound and inbound FDIs

Ambitious inbound FDI targets show the evolution in the previously long-held view that Japan should encourage outward investments only. As Japanese companies have regularly set overseas investment records, there is now increasingly a realization that they do not in turn use profits gained from such investments to invest or hike wages at home. This view is amplified by the exchange rate trends that have resulted in the record-high primary income.

Trade and current account figures prompted the MOF to launch an expert advisory council between March and June 2024 to study continuing deficits and issue recommendations. According to the Ministry, only half of the investment returns abroad are repatriated.¹²⁰ One expert said that such data indicates that there are no attractive investments at home, prompting council chair and MOF Vice-Minister Masato Kanda to stress that policies are needed to raise Japan's competitiveness and productivity, as capital would flow into Japan if it is attractive as such.¹²¹

Japan continues to screen planned investments of at least one percent stake by foreign investors in companies considered critical to security. Such notifications totalled 2,871 in fiscal 2023, a record high.

5.2 Bilateral investment

According to Japanese data, Switzerland has invested \$14.7 billion in Japan at the end of 2023, a 4.6% decline in yen terms.¹²² Switzerland remains the fourth largest European investor and eighth largest overall. The "Ultimate Investor" method ranked it as the second largest investor from Europe behind France and fifth largest overall at the end of 2022.¹²³ The Confederation had been as high as fourth place in 2016 and 2017 according to this method. Investments in the manufacturing sector amounted to about \$9.1 billion or 68%.¹²⁴ Pharmaceuticals and chemicals (53.6%) and electric machinery (7.4%) were the most important industries. Switzerland's investment in this first sub-category is the largest of all economies. The non-manufacturing sector amounted to \$4.2 billion, with the two largest industries being wholesale and retail (16.8%) as well as finance and insurance (11.8%).

Japan's investment position in Switzerland grew by 5.4% to \$41.8 billion at the end of 2023.¹²⁵ At two percent of outbound FDI, the Confederation remains the ninth most important destination and the fourth largest in Europe after the UK, Netherlands, and Germany. Investments in the manufacturing sector totalled \$3.9 billion (share of 9.6%)¹²⁶ and non-manufacturing \$36.5 billion (share of 90.4%).¹²⁷ Japanese FDI in wholesale and retail was largest at a share of 67.2%, followed by finance and insurance (17.5%).

¹¹⁶ MOF, "Regional direct investment positions" (28 May 2024), https://www.mof.go.jp/policy/international_policy/reference/iip/rdip2023.xls, accessed 28 May 2024; converted from JPY 50.5 trillion at 2023 average currency exchange rate of JPY 140.52.

¹¹⁷ Cabinet Office, "Main policy agenda for promoting foreign direct investment in Japan" (20 April 2022), www.invest-japan.go.jp/documents/en_index.html, accessed 21 June 2023.

¹¹⁸ MOF, "Regional direct investment position: end of 2023" (28 May 2024),

https://www.mof.go.jp/policy/international_policy/reference/iip/rdip2023.xls, accessed 6 June 2024.

¹¹⁹ MOF, "Inward direct investment position, breakdown by region and industry 2023" (28 May 2023),

https://www.mof.go.jp/policy/international_policy/reference/iip/dip2023.xlsx, accessed 6 June 2024.

¹²⁰ MOF, "Japanese economy's issues and prescriptions as seen from international balance of payments" (26 March 2024),

https://www.mof.go.jp/policy/international_policy/councils/bop/outline/20240326_1.pdf, accessed 7 June 2024.

¹²¹ Yomiuri, "MOF advisory council is in search of policy to strengthen competitiveness" (27 March 2024),

<https://www.yomiuri.co.jp/economy/20240327-OYT1T50030/>, accessed 7 June 2024.

¹²² Converted from JPY 2.07 trillion at 2023 average currency rate of JPY 140.52.

¹²³ MOF, "Regional Direct Investment Position- Ultimate Investor" (28 May 2024),

https://www.mof.go.jp/policy/international_policy/reference/iip/rdip_ui.xlsx, accessed 28 May 2024.

¹²⁴ Converted from JPY 1.28 trillion, based on average currency rate for 2023 at JPY 140.52/USD.

¹²⁵ Converted from JPY 5.9 trillion, based on average currency rate for 2023 at JPY 140.52/USD.

¹²⁶ Converted from JPY 542.3 billion, based on average currency rate for 2023 at JPY 140.52/USD.

¹²⁷ Converted from JPY 5.1 trillion, based on average currency rate for 2022 at JPY 140.52/USD.

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, defends interests of Swiss companies and provides platforms of economic promotion. Integrated into the Embassy, the Swiss Business Hub Japan (SBH) represents Switzerland Global Enterprise (S-GE). It is mandated to promote Swiss exports to Japan and supports Swiss and Liechtenstein-based SMEs with respect to market entry and market expansion projects. The SBH advises and supports more than 300 companies per year with basic information and in-depth advice (market intelligence, business partner search, regulatory advice). The SBH also organizes events, delegation visits and Swiss Pavilions at industry-specific trade fairs. In 2024, it provides a platform for Swiss companies at "Fuel Cell Expo" (clean energy), "Bio Japan" (biotechnology) and "JIMTOF" (machine tools). Moreover, the SBH promotes "business location Switzerland" and facilitates investments by Japanese companies into Switzerland. Its main focus has shifted towards strengthening the Swiss innovation ecosystem in the priority fields of "future of digital world" and "future of health". Furthermore, Switzerland Innovation has mandated the SBH to promote and facilitate R&D collaboration between Japanese conglomerates and Swiss innovation parks. The focus areas are "Health & Life Sciences" (Biotech, Pharma, Digital Health), "Advanced Manufacturing & Materials", "Energy & Natural Resources" (Energy Storage, Decarbonization Technologies) and "Mobility & Transportation" (with special emphasis on Space Tech). The SBH also acts as the secretariat for a community of Japanese companies with investments in Switzerland called the Japan-Switzerland Economic Council (JSEC).

In line with its own strategies and Japanese policy priorities, Switzerland puts a particular emphasis on collaboration in education, research and innovation. In addition to the Science and Technology Office (STO) at the Embassy in Tokyo, the Consulate in Osaka/Swissnex in Japan further strengthens this collaboration. Swissnex in Japan has a mandate with Innosuisse to bring Swiss high-tech start-ups and university spin-offs for evaluation and market entry to Japan. This is done by reaching out to large Japanese tech-companies and supporting fairs with Swiss Pavilions, for instance at "SusHi Tech" in 2024. Trend scouting and study tours are also offered to Swiss companies and university delegations. The Consulate also contributes to strengthening the Swiss presence in view of the World Expo 2025 Osaka, Kansai. The STO in Tokyo works with authorities to shape optimal framework conditions, including by facilitating Swiss companies to identify innovative Japanese industry partners. It also organizes scientific workshops with government-affiliated institutions to facilitate industry-academia collaboration for Swiss companies, including start-ups in fields such as artificial intelligence, robotics or pharmaceuticals. The office of Switzerland Tourism in Japan is also integrated into the Embassy. It markets Switzerland as a destination for leisure and business travel.

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 luncheons or networking events for its members and young professionals nearly every week, circulates business information and runs 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 for European companies. It regularly updates a digital white paper, issues recommendations and engages in lobbying with 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 high-quality products and 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 had 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. Travel has started to pick up again, with around 190'000 overnight stays in 2023. Early figures in 2024 show relatively positive signs, with overnights reaching around 80% of the pre-pandemic level. There is a trend of a more meaningful way of traveling and increased mono-destination products. 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 investments, Switzerland remains an attractive location for Japanese companies. More than 200 Japanese companies have existing operations in Switzerland (sales office, R+D, regional headquarters) and are responsible for more than 8000 jobs. There is an increased interest in Switzerland's ecosystem for open innovation and R+D collaboration with Swiss innovation parks, fortifying the country's image 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 2017	Year 2022
Distribution of GDP		
Primary sector	1.01%	1.09%
Manufacturing sector	26.15%	26.29%
Services	72.84%	72.62%
- of which public services	4.86%	5.05%

Distribution of employment		
Primary sector	3.90%	3.59%
Manufacturing sector	23.08%	21.91%
Services	73.02%	74.50%
- of which public services	2.93%	3.00%

Source: Cabinet Office, “Gross Domestic Product and Factor Income classified by Economic Activities” (January 2024), https://www.esri.cao.go.jp/en/sna/data/kakuhou/files/2022/2022annual_report_e.html

ANNEX 2 – Main economic data

Japan's main economic data

	2023	2024	2025
GDP (USD bn)*	3,978	3,763	3,799
GDP per capita (USD)**	31,917	30,337	30,794
Growth rate (% of GDP)***	1.9%	0.9%	1.0%
Inflation rate (%)***	3.3%	2.2%	2.1%
Unemployment rate (%)*	2.6%	2.5%	2.5%
Fiscal balance (% of GDP)***	-5.8%	-6.5%	-3.2%
Current account balance (% of GDP)***	3.4%	3.5%	3.5%
Total external debt (% of GDP)*	252.4%	254.6%	252.6%

* Source: IMF, World Economic Outlook (April 2024),
<https://www.imf.org/en/Publications/WEO/weo-database/2024/April>

Real GDP 2023 converted from JPY 558.9 trillion, based on 2023 average exchange rate of JPY/USD 140.52; GDP 2024 and 2025 converted from JPY 563.7 trillion, JPY 569.4 trillion respectively, based on 2024 year-to-date average exchange rate of JPY/USD 149.80.

** Source: IMF, World Economic Outlook (April 2024),
<https://www.imf.org/en/Publications/WEO/weo-database/2024/April>

Real GDP per capita in 2023 converted from JPY 4.48 million; GDP per capita in 2024 and 2025 converted from JPY 4.54 million, JPY 4.61 million respectively, based on corresponding exchange rates above.

*** Source: IMF, World Economic Outlook (April 2024),
<https://www.imf.org/-/media/Files/Publications/WEO/2024/April/English/text.ashx>

ANNEX 3 – Trade partners

Trade partners of Japan Year: 2023

Rank	Country	Exports from host country (USD million*)	Share	Change ¹²⁸	Rank	Country	Imports by host country (USD million*)	Share	Change ¹²⁹
1	US	144,181	20.1%	11.0%	1	China	173,780	22.2%	-1.7%
2	China	126,417	17.6%	-6.5%	2	US	82,170	10.5%	-1.8%
3	S. Korea	46,843	6.5%	-7.4%	3	Australia	64,700	8.3%	-21.8%
4	Taiwan	42,812	6.0%	-12.3%	4	UAE	36,965	4.7%	-14.5%
5	Hong Kong	32,583	4.5%	5.1%	5	Taiwan	35,552	4.5%	-2.2%
6	Thailand	29,282	4.1%	-3.6%	6	S. Arabia	34,677	4.4%	-13.7%
7	Germany	19,334	2.7%	5.7%	7	S. Korea	31,029	4.0%	-1.3%
8	Singapore	18,725	2.6%	-10.3%	8	Vietnam	25,801	3.3%	4.2%
9	Vietnam	17,201	2.4%	-1.4%	9	Thailand	25,683	3.3%	3.0%
10	Australia	16,766	2.3%	8.4%	10	Indonesia	24,279	3.1%	-9.6%
24	Switzerland	5,332	0.7%	37.5%	21	Switzerland	8,326	1.0%	10.3%
	EU	73,828	10.3%	10.9%		EU	80,420	10.2%	-1.3%
	Total USD	717,861	100%	2.8%		Total USD	784,198	100%	-7.0%
	<i>Total JPY</i>	<i>100,873,833</i>				<i>Total (JPY)</i>	<i>110,195,639</i>		

Source: Ministry of Finance, Value of Exports and Imports by Area (Country),
https://www.customs.go.jp/toukei/shinbun/trade-st_e/2022/2022_118e.pdf

* In millions of dollars, converted from a defined average currency exchange rate for 2023 at JPY 140.52/USD

¹²⁸ Change from the previous year in %

¹²⁹ Change from the previous year in %

ANNEX 4 – Bilateral trade

Bilateral trade between Switzerland and Japan

	Export (CHF million)	<i>Change (%)</i>	Import (CHF million)	<i>Change (%)</i>	Balance (in million)	Volume (in million)
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	7,056	-13.3%	4,989	10.2%	2,068	12,046
2021	7,717	9.4%	4,893	-1.9%	2,824	12,610
2022	9,378	21.5%	5,720	16.9%	3,658	15,098
<i>(Total 1)*</i>	9,288	22.5%	4,154	5.5%	5,133	13,442
2023	7,682	-18.1%	6,889	20.9%	793	14,571
<i>(Total 1)*</i>	7,608	-18.1%	4,369	5.2%	3,239	11,978

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

Exports	2022 (% of total)	2023 (% of total)
1. Chemical, pharmaceutical products	55.8%	46.1%
2. Precision instruments, clocks, watches, jewellery	31.3%	39.9%
3. Machines, appliances, electronics	5.3%	6.2%
4. Forestry and agricultural products, fisheries	2.6%	2.9%

Imports	2022 (% of total)	2023 (% of total)
1. Precious metals and gemstones	27.0%	36.4%
2. Chemical, pharmaceutical products	34.5%	30.7%
3. Vehicles	9.2%	10.8%
4. Machines, appliances, electronics	12.9%	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 Japan

Year: 2023

Rank	Country	Direct investment (USD millions*, stock)	Share	Variation (stock)	Inflows over past year (USD m)
1	United States	88'722	24.7%	23.20%	16'728
2	United Kingdom	61'914	17.2%	11.30%	6'268
3	Singapore	37'448	10.4%	8.10%	2'799
4	France	24'275	6.8%	4.50%	1'041
5	Netherlands	23'162	6.4%	-4.60%	-1'105
6	Hong Kong	19'650	5.5%	5.30%	984
7	Cayman Islands	19'269	5.4%	6.70%	1'205
8	Switzerland	14'759	4.1%	-4.40%	-682
9	Germany	9'975	2.8%	1.30%	131
10	Taiwan	9'248	2.6%	21%	1'608
	EU	70'350	19.6%	1.20%	808
	Total USD	359.6 billion	100%	9.3%	30.5 billion
	<i>Total JPY</i>	<i>50.5 trillion</i>			<i>4.3 trillion</i>

Source: Ministry of Finance, Regional Direct Investment Position (Liabilities)

https://www.mof.go.jp/policy/international_policy/reference/iip/rdip2023.xlshttps://www.mof.go.jp/policy/international_policy/reference/iip/rdip2022.xls

*Based on an average currency exchange rate for 2023 at JPY 140.5/USD.