



Clearing the Runway for Intra-Asia Trade

Summary of Insights: Japan

Japan's strong export sectors provide a platform for greater trade in Asia, with the value of its trade with 11 top Asian markets potentially more than doubling in value from USD714 billion in 2020 to USD 1.7 trillion in 2030

This market summary provides an overview of some of the main insights on intra-Asia trade for Japan as part of a larger study commissioned by UPS and developed by AlphaBeta entitled: "Clearing the Runway for Intra-Asia Trade: Key insights for unleashing the potential for intra-Asia trade by 2030." The 12 markets (i.e., "Asia-12") covered in this report are Australia, China, Hong Kong, Indonesia, Japan, Malaysia, Philippines, Singapore, South Korea, Taiwan, Thailand, and Vietnam. The purpose of this research is to offer key critical insights on the rise of intra-Asia trade and prospects for future growth through 2030, in the context of Asia's continuing economic growth and against the backdrop of increasing volatility in global trade relationships today. The findings from this research showcase the potential for intra-Asia trade to continue its rapid growth over the coming decade, and support governments and businesses in identifying key enablers for this opportunity and steps to capture the potential. This summary is without prejudice to the status of or sovereignty over any territory or boundary. In cases where China is referred, it predominantly refers to mainland China. For the full set of insights, including data sources and methodology, please refer to the full report at: <https://about.ups.com/sg/en/home.html>



Top 3 insights on intra-Asia trade prospects for Japan

- 1 As one of Asia's largest trading economies, Japan will play a key role in developing trade flows within the region.** Building on its existing strength in key export sectors and aided by new regional trade agreements and a rise in the urban middle class across the region, Japan's trade with 11 other major markets (together, the "Asia-12") could more than double to USD1.7 trillion between 2020 and 2030.
- 2 Trade in four key product segments is expected to drive Japan's trade growth with the rest of the Asia-12, particularly the IM&A segment.** Four key segments, which include retail, industrial manufacturing and automotive (IM&A), high-tech, and healthcare, account for 71% of Japan's trade with the rest of Asia. The IM&A segment accounts for the largest share of this trade value at 32% and could continue to grow particularly with other large economies such as China and South Korea. The high-tech segment, which constitutes 24% of Japan's trade with Asia-12, will drive the largest share of future growth given the rise in digitalisation across the region.
- 3 Businesses in Japan can capture the intra-Asia trade opportunity through three areas of multistakeholder action that could address major barriers to regional trade.** (1) Build resilience into supply chains; (2) Collaborate on harmonising product standards across the region; (3) Negotiate comprehensive regional trade deals.

Top 3 takeaways for businesses in Japan

- 1 Digitalise comprehensively, especially in advanced technology.** The pandemic has pushed many organisations to adopt digital systems for their operations as it builds their connectivity and efficiency. However, there remain key gaps where Japanese businesses could adopt advanced tools to improve the productivity of their supply chains.
- 2 Plan for both headwinds and opportunities by diversifying supply chains.** This includes exploring resilient trade routes, such as with South Korea or China, and targeting high-value and high-growth trade routes, such as with other East Asian and ASEAN markets. Diversifying supply chains is critical to building resilience in trade flows.
- 3 Partner with and promote deep integration of micro-, small-, and medium-sized enterprises (MSMEs) into regional supply chains.** MSMEs typically face higher costs in navigating trade barriers and often lack the scale of operations needed for trade profitability. Larger companies can partner with these smaller firms to supplement resources that could improve both companies' competitiveness.



Japan will remain integral to trade in Asia over the coming decade

Asia is a critical component of global trade. Over the past half century, Asia has developed into the world's largest manufacturing hub, with Japan's electronics, machinery, and automotive products becoming household names around the world. However, as Asian markets become the global epicentre for new consumer demand, building off a sustained period of economic growth and improvements in standards of living, trade lanes within Asia are gaining importance. Already, intra-Asia trade accounts for two-thirds of the region's trade with the world.

Japan is one of Asia's largest trading economies and will remain integral to intra-Asia trade over the coming decade. It contributed to 10% of the region's trade in 2020, the third largest among all Asian economies. Leveraging the success of its export sectors and buoyed by favourable trends across Asia, Japan's trade with 11 other major markets (together, the "Asia-12") could more than double from USD714 billion in 2020 to USD1.7 trillion by 2030 (Exhibit 1).

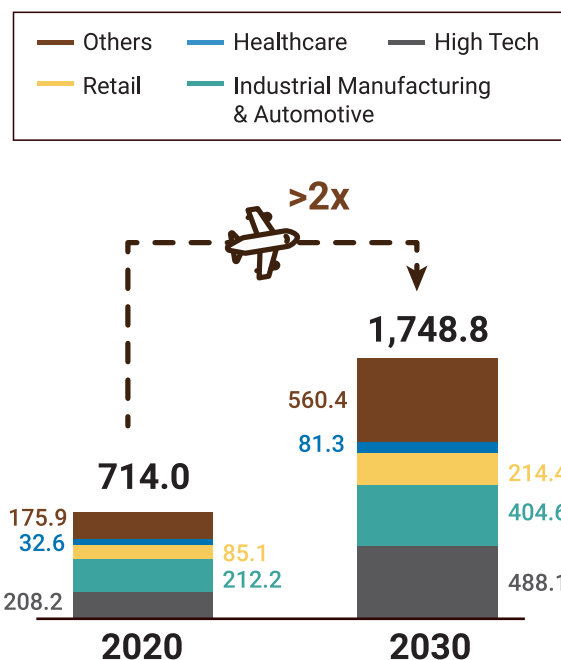
Asia's increasingly wealthy and urbanised population is expected to support Japan's trade growth, fuelled by ambitious new trade deals. Export markets within Asia will continue to grow as the consuming population grows both in wealth and size. Within the Asia-12 markets, 567 million new entrants will be added to the middle class between 2020 and 2030, growing the region's consuming class to around 1.5 billion by the end of the period.¹ Further, Japan's participation in the Regional Comprehensive Economic Partnership (RCEP) and Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) also sets the stage for further integration within the region.

Trade in four key product segments is expected to drive this growth: (1) retail; (2) industrial manufacturing and automotive (IM&A); (3) high-tech; (4) healthcare – which together take up 71% of Japan's intra-Asia trade. IM&A constitutes 32% of intra-Asia trade, the largest trade segment for Japan, and is expected to remain a strong source of growth. Meanwhile, rapid digitalisation across the Asia-12 will also support growth in high-tech trade. Key trade lanes will channel this growth, such as China and Japan's interdependence for machinery and electronics. Trade between Japan and South Korea could also see continued growth in the coming decade building off mutual investment and integration between both economies' manufacturing and electronics industries. Further, government initiatives

Exhibit 1

Japan's trade with the Asia-12 can more than double by 2030

Japan's trade with the rest of Asia-12 USD billions



Note: The methodology for these estimates can be found in the Appendix of the main report.
SOURCE: ITC; AlphaBeta analysis

such as the Overseas Supply Chain Diversification Support Project, which aims to support companies in diversifying their export markets through subsidies and grants, is expected to further support trade in these segments.²

Increased investment in supply chain innovation and high-quality infrastructure will also contribute to long-term resilience. The digital economy and innovation will contribute to the development of the economy's supply chains, with significant opportunity to deploy key technologies at scale. This includes robotics and automation in logistics, supply chain development, and blockchain-based inventory management. As Japan plans to promote data sharing among Asian companies to build supply chain resilience, implementing digital-ready infrastructure will continue to be a key agenda item in the coming decade for companies.³

However, supply chain shifts, limited overseas logistics capacity, and geopolitical headwinds could limit this growth

A range of barriers to greater trade today could hinder Japan's pathway to trade growth, preventing it from capturing the full potential of intra-Asia trade. Japanese businesses surveyed for this study indicated tariffs and other punitive measures as the top barrier to trade, among five other barriers identified (Exhibit 2). These six barriers largely remain unaddressed by policy and business action due to trade tensions, supply chain shifts, and uneven investment and engagement of MSMEs in supply chains.

As a result of these barriers, Japan's trade with the Asia-12 may slow down by 2030. Trade could total USD973 billion in this "Deglobalisation" scenario (Exhibit 3) – equivalent to an annual growth rate of just over 3% from 2020 levels due to intensifying barriers to trade, compared to a rapid 9.4% growth rate in the previous scenario where trade more than doubles.

Pressures caused by the COVID-19 pandemic, and rapid advances in robotics and automation constrain the flow of trade. These trends could expose a shortage of labour, skills, and shorten supply chains due to shifting cost competitiveness, preventing Japan from scaling up and lifting its trade potential. Two-thirds of Asian businesses surveyed by the Asian Development Bank (ADB) in 2021 stated that they planned to source more goods locally in the coming years – limiting the potential for Japan to trade more intensively with markets more distant from home.⁴

Uneven progress in developing logistics infrastructure across the Asia-12 could constrain Japan's ability to serve centres of demand in rapidly developing economies. Lack of high-quality infrastructure in overseas markets can limit the potential for Japanese businesses to capitalise on the trade opportunity, with dated technology and inefficient supply chains restricting logistics capacity. Despite best efforts, there remains an infrastructure financing gap worth USD138 billion annually across Asia Pacific for just private investors, with key gaps to fill in markets such as Indonesia and Vietnam.⁵ This figure would potentially be three times higher if it includes public investment, implying much needed investment by governments.

Finally, intensifying geopolitical tensions also contribute significantly to these trade barriers. Geopolitical risks such as territorial, economic, and political disputes with other economies have proven detrimental to trade in the past, particularly in the high-tech and retail segments.

Exhibit 2

Businesses in Japan face six barriers to regional trade

Top barriers to trade in Japan

Ranking based on respondents conducting trade in Japan

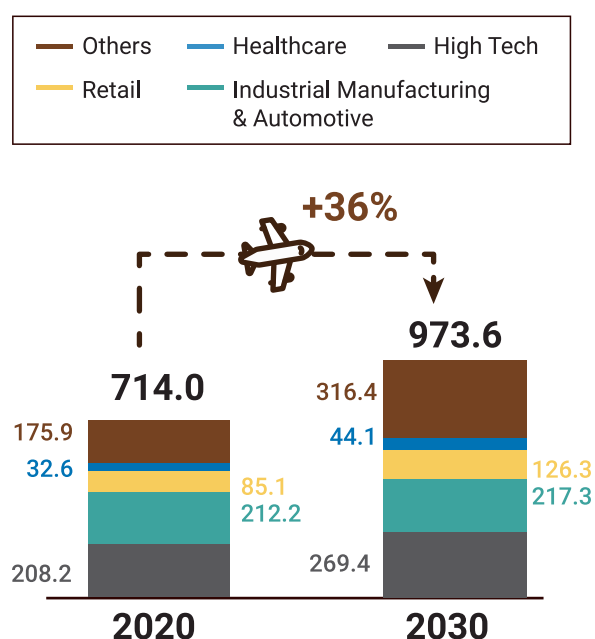


SOURCE: Industry survey of 198 businesses that conduct trade in the Asia-12 economies; AlphaBeta analysis

Exhibit 3

Japan's trade growth with the Asia-12 may slow down due to headwinds

Japan's trade with the rest of Asia-12 USD billions



Note: The methodology for these estimates can be found in the Appendix of the main report.

SOURCE: ITC; AlphaBeta analysis

Proactive effort by governments and businesses is needed to capitalise on the intra-Asia trade opportunity

Multistakeholder action is required to reduce impediments to regional trade and harness the opportunities to steer intra-Asia trade towards take-off.

Action by businesses or government alone is not enough to address the key barriers to trade – active involvement by all stakeholders within the region and across the supply chain is key. There are three main areas for multistakeholder action in Japan: (1) Build resilience into supply chains via public-private investment and new solutions for businesses to navigate trade barriers; (2) Collaborate on harmonising product standards by promoting the adoption of international benchmarks across industry to raise quality and accessibility to new

markets; (3) Negotiate comprehensive regional trade deals that remove remaining tariffs, harmonise standards, simplify customs, and promote MSME competitiveness.

Businesses with trade interests in Japan and those in the logistics sector must proactively account for opportunities from intra-Asia trade and build resilience against potential headwinds. Three key actions that can be taken by businesses include digitalising completely, diversifying supply chains, and promoting integration of MSMEs into regional supply chains.



Digitalise comprehensively, especially in advanced technology. The pandemic has pushed many organisations to adopt digital systems for their operations as it builds their connectivity and efficiency. However, Japanese business executives have shown gaps in implementing digitalisation – while 80% of surveyed executives by McKinsey believe digital technologies are a promising opportunity, only 34% are ready to promote their widespread adoption within their companies.⁶ Investing in a digitalised, end-to-end supply chain is crucial to meet this need for efficiency. For example, data analysis tools can enable firms to process millions of

orders that flow into their systems at once while warehouse and storage automation allows them to manage and meet deliveries. Artificial intelligence (AI)-enabled tools that can analyse and identify tariff codes or automatically input customs data could also smoothen regulatory import-export procedures for businesses, making trade simpler and more efficient. Digitalising operations will also help significantly with adapting to paperless trade regimes that will be a key feature of trade in the coming decade. UPS offers a range of plug-and-play application programming interfaces (APIs) that allow businesses to get estimated duties, taxes, and brokerage fees, identify restricted entities, access market-specific customs data and documentation, and prepare paperless invoices for cross-border shipments. This leads to fewer customs delays and enables businesses to keep track of their costs.



Plan for both headwinds and opportunities by diversifying supply chains into resilient trade routes and targeting high-growth, and high-value trade routes. Diversifying supply chains has become critical to building resilience in trade flows that faced severe disruptions during the COVID-19 crisis. Many trade routes offer opportunities for resilient growth when considering trade with Japan. These include trade routes with South Korea and China, where Japanese businesses have seen mutual investment in the electronics, manufacturing, and automotive sectors, and where the RCEP has included each of these three economies in

one trade deal for the first time (Exhibit 4). Trade in the healthcare segment could also prove extremely resilient, with 71% of trade value today potentially growing even in a “deglobalisation” scenario. On the other hand, in a scenario where trade doubles, a range of high-value and high-growth trade routes are available for Japanese businesses (Exhibit 5). In particular, ASEAN markets could present these businesses with a wider range of manufacturing bases to outsource production across parts of their value chains, while providing more export opportunities for their products to increasingly wealthy and urbanised markets. Multiple Japanese firms are deepening their presence in ASEAN, such as Brother Industries, Canon Inc., and Seiko Epson Corp. which have together dedicated around USD3 billion worth of investments into the Philippines to expand manufacturing and product diversification across the region.⁷ Businesses can also use consultancy tools like UPS’s Trade Assist™ to understand how to reconfigure their supply chains to reap benefits of trade agreements that Japan is part of.

03



Partner with and integrate MSMEs

Partner with and promote deep integration of MSMEs into regional supply chains.

MSMEs typically face higher costs in navigating trade barriers and often lack the scale of operations needed for trade profitability. To reduce these costs and increase scale, larger Japanese companies can lead and partner with MSMEs to supplement resources and collaborate on projects that improve both companies' competitiveness.⁸

MSMEs may need additional expertise and knowledge on market information or may have less chances of winning projects overseas when embarking alone.⁹ As an example of a successful partnership model highlighted by the government of Japan, CADDi, a medium-sized AI-enabled production platform company, partnered with small metal-making factories to create an automatic process that estimates the prices these factories give for customer orders. Through this partnership, prices are stabilised, and customers are matched to appropriate producers instantaneously through CADDi's system.¹⁰ Partnerships can also address financing gaps. For instance, ZICO Holdings and Yamada Consulting Group, consulting companies based in ASEAN and Japan respectively, run an advisory platform that connects Japanese investors with ASEAN MSMEs and offer greater access to investment and trade opportunities.¹¹ Digital solutions developed by logistics providers help MSMEs to easily connect to e-commerce platforms. For businesses selling online, UPS's Digital Access Program works with e-commerce platforms to integrate shipping into the customer purchasing journey, enabling small businesses to focus more on selling.

Exhibit 4

Firms can invest in resilient trade routes within each segment to hedge against supply chain shocks

Share of Japan's trade among the Asia-12 sensitive to geopolitical shocks, by segments¹

Share of each priority segment trade value in 2020 (%)



1. Each figure represents a share of trade value in 2020 that is forecasted to be under either the resilient, sensitive, or decline category in 2030. Resilient trade refers to trade routes that may expect positive growth in either worst-case or optimistic scenarios, while sensitive trade refers to trade routes that may see positive growth only within the optimistic scenario. Declining trade refers to trade routes that may see slight contractions regardless of either.

SOURCE: ITC; AlphaBeta analysis

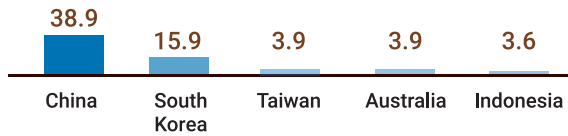
Exhibit 5

Other East Asian economies will remain key trade partners across all segments, while ASEAN markets offer growth opportunities

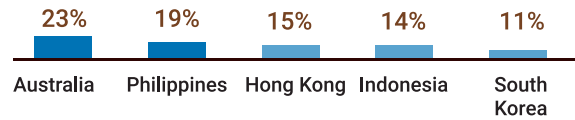
Top 5 projected trade routes in 2030 by value, USD bn¹



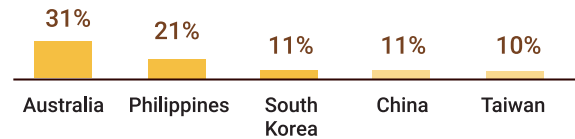
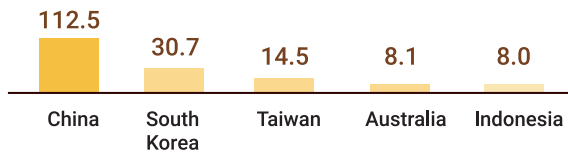
Healthcare



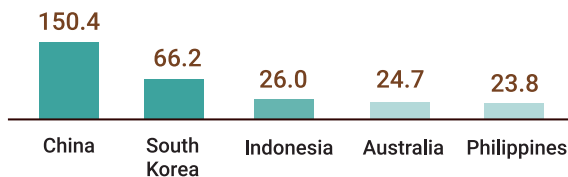
Top 5 projected trade route partners, by growth rate till 2030, %¹



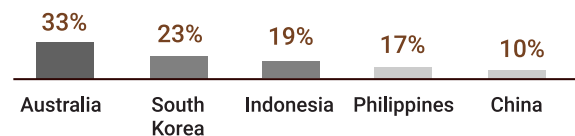
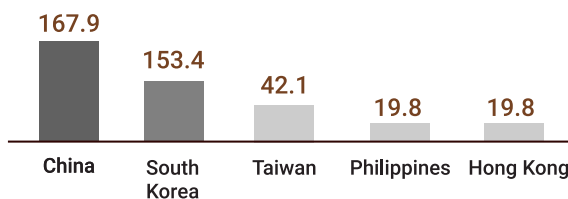
Retail



Industrial manufacturing & automotive



High-tech



1. Projections are based on an optimistic scenario of Asia's trade environment, as outlined in Chapter 1 of the main report, where intra-Asia trade will take off and be driven by trends such as regional trade agreements, supply chain innovations and a rise in digitalisation. These projections should be taken as an ideal outcome rather than guidance.

SOURCE: ITC; AlphaBeta analysis

Endnotes

1. Middle class refers to households with incomes between USD10 and USD100 per day per capita after accounting for purchasing power. Source: World Economic Forum (2020), "This chart shows the rise of the Asian Middle Class." Available at: <https://www.weforum.org/agenda/2020/07/the-rise-of-the-asian-middle-class>
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