



**MARKET ACCESS SECRETARIAT
Global Analysis Report**

Business Environment

Japan

June 2014



EXECUTIVE SUMMARY

- The Japanese economy showed signs of slow but continued recovery in 2012 with real growth of 1.4%, and a total gross domestic product (GDP) of US\$4.85 trillion (Euromonitor, 2014).
- Governmental initiatives to stimulate the economy are expected to stabilize inflation and promote modest, but positive GDP growth over the 2013 to 2017 forecast period.
- Total sales in the Japanese food retail format were valued at US\$529.3 billion in 2012 and are expected to shrink to US\$469.9 billion in 2018, as consumer cost-consciousness and retailer price competition continue to rise (Planet Retail, 2014).
- The convenience channel will remain particularly important to the Japanese retail sector due to restrictions placed on large-scale retailers, and consumers' preference for local, accessible establishments for frequent shopping trips and other day-to-day services (Planet Retail, 2014).
- The foodservice industry was valued at an estimated US\$256 billion in 2013, and while the sector is expected to see a sales decline over the forecast period to 2018, continued opportunities for growth can be found in catering to the growing number of senior citizens and single-person households seeking health and convenience (Euromonitor, 2014).
- According to the World Bank Group, Japan ranks 27th out of 189 countries in terms of the overall ease of doing business in the country (2013).

CONTENTS

Executive Summary	1
Country Snapshot	2
Trade	2
Retail Environment.....	3
Foodservice Environment	5
Doing Business in Japan.....	5
Tariffs and Regulations	7
Market Challenges	7
Market Opportunities.....	8
Resources	8

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- *Market Overview*
- *Business Environment*
- *Consumer Profile*



COUNTRY SNAPSHOT

The Japanese economy is the third-largest in the world, behind China and the United States. The country is in a state of slow but continued recovery following the global economic crisis in 2009, which affected the country particularly hard, as well as the earthquake, tsunami and nuclear power plant explosion that hit eastern Japan in 2011. Together with an aging population, persistent deflation, low consumer confidence, and high government debt, these factors have stifled real GDP growth, which was just 1.4% in 2012 (Euromonitor, 2014).

The government, under Prime Minister Shinzo Abe, has launched several monetary and fiscal stimulus policies to regain stability and encourage growth while opening up the country's economy. Three key areas of the action plan include public spending, structural reform to combat deflation, and reducing interest rates to strengthen exports (IGD, 2013; Euromonitor, 2014). Economic growth has begun to stabilize, and is expected to remain mild, but more sustainable over the forecast period leading to 2017, when GDP will reach US\$5.3 trillion and the inflation rate will have remained positive for the five previous years (Euromonitor, 2014).

However, Japan's economic outlook remains relatively uncertain, as efforts to kick-start consumer spending amongst a still cost-conscious population will likely be affected by two forthcoming tax increases. Intended to help reduce the governmental budget deficit, the country's value added tax (VAT) is slated to rise from 5.0% to 8.0% in April 2014, followed by a further increase to 10.0% in October 2015 (Euromonitor, 2014; Planet Retail, 2014).

Historic Economic Overview – Japan

Indicator	Unit	2008	2009	2010	2011	2012
Total GDP	US\$ millions*	5,135,497.7	4,827,386.9	4,942,613.8	4,829,151.3	4,854,422.6
Real GDP Growth	%	-1.0	-5.5	4.7	-0.5	1.4
Inflation	%	1.4	-1.3	-0.7	-0.3	0.0
Exports	US\$ millions	782,048.6	580,946.1	769,875.4	822,572.6	798,633.3
Imports	US\$ millions	762,590.2	552,188.2	694,151.4	855,007.0	886,051.0

Source: Euromonitor, 2014.

*Note: Current prices, fixed 2013 exchange rate

TRADE

Japan has free trade agreements with several countries around the world including Malaysia, Indonesia, Thailand, India, Mexico, Chile and Switzerland. Japan has not concluded any preferential free trade agreements with other major agricultural suppliers (e.g., the United States, EU, or Australia) though Japan is currently in negotiations with all three. A Canada-Japan Economic Partnership Agreement (CJEPA) would provide Canadian exporters with new market access opportunities into the Japanese market. Japan is also taking part in the Trans-Pacific Partnership (TPP), a free trade agreement encompassing many Pacific Rim countries, including Canada and the United States. Canada and Japan view working together in the TPP to enhance greater cooperation in the Asia Pacific region, and working together bilaterally on the CJEPA, as mutually supportive efforts. Expanding efforts to liberalize trade in goods and services with Japan in parallel to existing CJEPA negotiations will maximize the ability of Canadian businesses to take advantage of the full range of opportunities in the Japanese market.



According to the Global Trade Atlas, Japan is currently a net importer of agri-food and seafood products, and top suppliers include the United States (holding a 22% share in 2012), China (13%), and Canada (6%). In 2012, Japan's total agri-food and seafood trade deficit was C\$78.6 billion with imports valued at C\$83.7 billion, and exports of C\$5.1 billion.

Canada's agri-food and seafood exports to Japan were valued at C\$4.2 billion in 2012. Top exports were grains and oilseeds, meat, and fish and seafood. Canada registered a large agri-food and seafood trade surplus with Japan, as Canada's imports from Japan are relatively negligible, amounting to C\$56.2 million in 2012 (Statistics Canada, 2014).

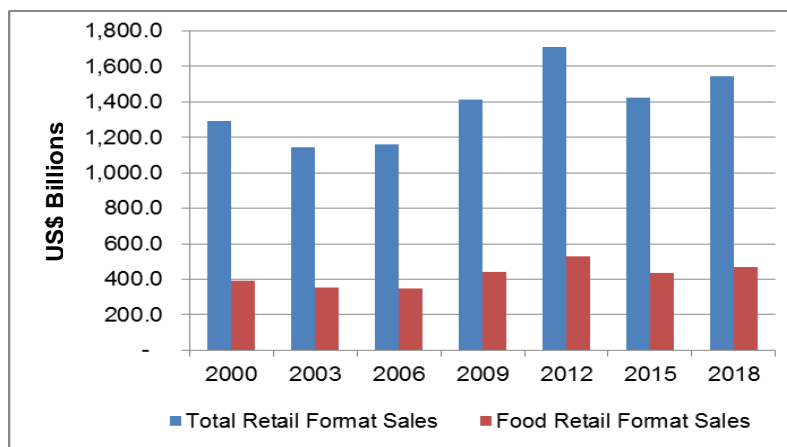
RETAIL ENVIRONMENT

Japan has a developed retail environment, but it is highly fragmented and was hit especially hard by the country's weak economic performance over the past few years. Together with very cost-conscious consumers, high land prices, and a regulatory framework that limits the expansion of large chain stores, the retail environment in Japan has become fiercely competitive, with small chains and local operators as key players (Planet Retail, 2014).

According to Planet Retail, Japan's total retail sector (grocery and non-grocery) was valued at US\$1.7 trillion in 2012, but is estimated to have declined by 17% in 2013, and is expected to lose further sales in 2014 (-2.4%). Over the 2014 to 2018 forecast period, as the economy continues to recover, the sector's total sales value will begin regaining traction with a CAGR of 2.7%, to reach US\$1.5 trillion.

The grocery retail format accounted for sales of US\$529.3 billion in 2012, or just under 31% of the total retail sector. Grocery sales are also expected to drop in 2013 and 2014 year-over-year (by 17% and 2.7%, respectively), but are then forecast to slowly climb back up, although at a slower rate than the total retail sector. The grocery format is expected to reach US\$26.2 billion by 2018 (Planet Retail, 2014).

Retail Format Sales in Japan, Historic/Forecast 2000-2018



Source: Planet Retail, 2014.

The Convenience Channel

Japan's revised City Planning Law, Large-scale Retail Location Law and the City Centre Revitalization Act of 2007 placed limitations on new stores and other commercial buildings with 10,000+ square metres of selling space (IGD, 2013). New openings were restricted to the country's city centres, making it difficult



for larger operators to expand across the country. According to Planet Retail, many operators have subsequently turned to smaller-scale establishments to rapidly extend their network in Japan, with the convenience store becoming an increasingly integral format.

Convenience stores can be found on almost every street corner in major cities and urban areas, offering consumers 24-hour service and novel merchandise ranges. The convenience format is an ideal avenue for innovation, due to a high rate of product turnover (the average store stocks around 3,500 lines) and strong consumer receptivity for new products (IGD, 2013). This format is also ideally suited to the Japanese lifestyle, in which making frequent trips to local shops for small purchases, is preferred over visiting a single large-scale retailer once a week. As operators in this channel continue to compete for business, many have implemented non-merchandise services such as postal facilities, as well as in-store terminals where consumers can pay bills, purchase tickets, or simply access the internet. These additional services only add to the convenience factor within this channel, creating a one-stop shop for consumers' household needs, and have further established the role of convenience stores as essential to the community (Planet Retail, 2014).

Top Companies in Grocery Retail

In terms of grocery banner sales, AEON, the largest hypermarket chain in the country, was the top retailer in 2013 with US\$65.4 billion or a 14% share of the total market. AEON's expansion has largely been led by the acquisition of other rival hypermarkets and new store openings, allowing them to harness a wider population base. Seven-Eleven Japan was the second-largest operator with grocery sales of US\$45.2 billion, but ranked first in terms of outlet numbers, with over 17,000 in 2013. Seven-Eleven has found success in continued store expansion, most significantly in the convenience channel. The company's innovative product and services mix has found continued favour amongst Japanese consumers, while differentiating its brand from competitors in the marketplace. Planet Retail predicts that consolidation across retail formats will become an increasingly prominent trend in Japan, allowing the top chains to gain further market share (2014).

The Japanese retail sector is very fragmented, with the top five companies only holding a combined 34.4% market share, as shown in the table below, suggesting an environment with good potential for new entrants. However, while there are no legal restrictions preventing the entry of foreign retailers into Japan, consumers, sector infrastructure, and business practices have shown a fervent partiality for domestic companies. According to Planet Retail, international companies need to bring a distinct competitive edge over their domestic counterparts in order to find success in Japan, as evidenced by the withdrawals of both Carrefour (France) and Tesco (United Kingdom) from the market.

Top Five Grocery Retailers in Japan – 2013 Forecast

Company	Number of Outlets	Total Sales Area (Square feet)	Average Sales Area (Square feet)	Grocery Banner Sales (US\$ millions)	Total Grocery Market Share (%)
AEON	11,663	148,869,209	12,764	65,360.7	14.0
Seven & I	17,023	60,358,832	3,546	45,246.3	9.7
LAWSON	11,417	14,598,467	1,279	17,807.8	3.8
FamilyMart	10,707	12,711,995	1,187	16,694.4	3.6
UNY	8,035	28,236,396	3,514	15,227.6	3.3

Source: Planet Retail, 2014.



FOODSERVICE ENVIRONMENT

The Japanese consumer foodservice industry is large, reaching sales of US\$260 billion in 2012. Despite the country's decreasing population, this industry will continue to present profitable categories such as fast food and self-service cafeterias. Furthermore, ongoing changes to the overall population structure will present a number of opportunities. As more and more consumers retire, demand for cafés and coffee shops for leisurely gatherings and to meet with friends will increase. The growing number of older consumers will also result in higher demand for healthier, organic, and better-for-you products in food establishments. Finally, the number of single-person households will increase overall demand for eating occasions outside of the home (Euromonitor, 2013).

According to Euromonitor, an expected increase in fast food outlets showcases an opportunity for international companies to export their products to Japan and supply this category of the industry. Products needed would be difficult to obtain domestically, giving an advantage to international players. Also, the Japanese consumer foodservice industry is undergoing restructuring in that major chained restaurants are playing an increasingly important role, while independent players and wholesalers are being cut out of the market. Major companies are creating vertical supply chains and purchasing directly from producers, reducing the costs of dealing with middlemen, and creating opportunities for higher profits.

Forecast Consumer Foodservice by Type – Market Sizes in US\$ Millions
Current Prices – Fixed 2012 Exchange Rate

Categories	2013 ^E	2014	2015	2016	2017	CAGR % 2013-17
Consumer Foodservice	256,292.2	254,128.8	253,121.3	251,692.4	249,674.4	-0.7%
Full-service restaurants	117,559.4	116,357.0	115,893.0	115,166.7	114,084.8	-0.7%
Cafés/bars	58,681.0	57,329.8	56,216.1	55,156.2	54,079.5	-2.0%
Fast food	50,636.7	51,427.6	52,210.7	52,884.4	53,407.2	1.3%
100% home delivery/takeaway	26,452.1	25,995.9	25,718.8	25,351.9	24,958.4	-1.4%
Self-service cafeterias	2,706.0	2,762.3	2,825.2	2,874.2	2,884.4	1.6%
Street stalls/kiosks	257.0	256.3	257.5	258.9	260.0	0.3%
Pizza*	1,918.4	1,948.4	1,986.4	2,021.4	2,053.5	1.7%

Source: Euromonitor International, 2013

E: estimates based on partial-year data

***Note:** Pizza consumer foodservice is the aggregate of three sub-sectors: pizza fast food, pizza full-service restaurants and pizza 100% home delivery/takeaway. These three pizza sub-sectors are also already included within the fast food, full-service restaurants and 100% home delivery takeaway sectors.

DOING BUSINESS IN JAPAN

The World Bank's Ease of Doing Business report (2013) assesses the number of procedures and length of time it takes for a company to start a business. Measures range from registering a company to obtaining electricity, and the ease of paying taxes. In its latest report from 2013, Japan ranked 27th out of 189 countries, down four spots from the previous year. The decrease in ranking was attributed to the difficulty in obtaining construction permits and the time and procedures required to register a business, which are almost double the OECD (Organisation for Economic Co-operation and Development) country average. Despite its decline in overall ranking, Japan placed first with regards to resolving insolvency, and a very strong 16th in terms of protecting investors.



Japan's location and size can make it challenging to export or import a container, however, the country's rates are better than the OECD average. For example, it takes 10 days, 3 documents and US\$970 to import a container into Japan, compared to 11 days, 5 documents and US\$1,090 in other OECD countries (World Bank Group, 2013).

According to the World Bank Group, one of the most challenging issues faced by businesses in Japan is the high corporate tax, which totals 49.7% of commercial profits. This is significantly higher than the taxes found in Taiwan (35%) and South Korea (27.9%). In addition, it is reported that taxes require 14 payments and an annual investment of 330 hours, creating a significant burden that discourages entrepreneurs from entering the country (World Bank Group, 2013).

Doing Business in Japan – World Bank Group Ranking 2013-2014

	2014 Rank	2013 Rank	Change in Rank
Overall	27	23	-4
Starting a Business	120	113	-7
Dealing with Construction Permits	91	73	-18
Getting Electricity	26	26	No change
Registering Property	66	64	-2
Getting Credit	28	24	-4
Protecting Investors	16	16	No change
Paying Taxes	140	133	-7
Trading Across Borders	23	24	+1
Enforcing Contracts	36	36	No change
Resolving Insolvency	1	1	No change

Source: Doing Business, World Bank Group, 2014.

Positive change= Making it easier to do business. Negative change= Making it more difficult to do business.

In addition to these various steps, it is also important to understand cultural differences between the business practices of western countries and Japan. Proper understanding of business meeting etiquette can strengthen and finalize a deal. Initial meetings with Japanese partners are generally regarded as simply a first step in building a relationship, rather than an opportunity to make immediate business decisions. However, even these initial meetings tend to be quite formal (Canadian Trade Commissioner Service, 2014).

Business attire is always required at meetings, and it is perceived as overly direct and negative to state a definitive “no,” even if in disagreement. It is essential to remain polite, respectful and agreeable (Canadian Trade Commissioner Service, 2014). Furthermore, great importance is put on seating arrangements, so participants should expect to be directed to an appropriate seat by the host. If receiving a gift from the host, is important not to unwrap it until after having departed from the meeting, and bringing a gift for the host, such as an article or souvenir representing the guest's home country, is also a good business practice (Japan-Guide.com, 2014).

The Japanese put a high value on long-term business relationships, so accepting invitations to social events and conducting the proper follow-up after meetings is essential. Group outings are an excellent way to connect with Japanese partners on a less formal basis, and to foster a position within the broader group. Finally, delayed response times or long periods of time without any contact can be perceived as a lack of interest in furthering the business relationship – communication efforts can make or break a deal (Canadian Trade Commissioner Service, 2014).



TARIFFS AND REGULATIONS

As Canada does not have a free trade agreement with Japan, tariffs do apply to certain products. A list of Japan's Tariff Schedule as of January 1st, 2014 can be found on the following site:

- http://www.customs.go.jp/english/tariff/2014_1/index.htm

On March 25, 2012, Canada and Japan announced the launch of negotiations towards a comprehensive and high-level Economic Partnership Agreement (CJEPA). To date, four rounds of negotiations have been held with the latest taking place on November 12-14, 2013 in Ottawa. A potential free trade agreement with Japan has broad-based support from Canada's agriculture stakeholders, and Canadian-Japanese agricultural trade is largely complimentary, benefitting both countries.

Also, Japan's participation in the TPP will further strengthen Canada and Japan's strong trade and investment relationship. The addition of the world's third-largest economy and a key player in the Asia-Pacific will make the TPP even more significant to help increase Canadian exports throughout the fast-growing Asia-Pacific region. It will also complement Canada's bilateral negotiations with Japan towards an economic partnership agreement.

Proper labelling and regulatory adherence are crucial for businesses when exporting to Japan. The following links provide detailed information on regulations, and on how to design product labels to ensure that all required information is included:

- Food Safety Commission of Japan
http://www.fsc.go.jp/english/topics/fsc_journal_e1.html
- Food Labelling and Japanese Agricultural Standards (JAS)
<http://www.maff.go.jp/e/jas/index.html>
- Ministry of Health, Labour and Welfare
<http://www.mhlw.go.jp/english/topics/foodsafety/index.html>
- Consumer Affairs Agency, Government of Japan
<http://www.caa.go.jp/en/>
- Japan External Trade Organization (JETRO) Handbook for Agricultural and Fishery Products Import Regulations
<http://www.jetro.go.jp/en/reports/regulations/pdf/agri2009e.pdf>

MARKET CHALLENGES

- The Japanese economy continues to recover from the March 2011 earthquake which disrupted many regional supply chains. The economy is growing, albeit slowly.
- The decrease in population and increase in the average age of Japanese consumers will slowly have an effect on the working age population, creating a tax burden on the smaller number of individuals in the labour force (Euromonitor, 2014).
- Sales tax will rise from 5% to 8% in April 2014 and to 10% in 2015, which will affect disposable income, and force consumers to prioritize products and activities.
- There is a significant cultural difference between Japan and North America when it comes to doing business. Improper etiquette, misinterpretations or misunderstandings can lead to inaccurate or confused deals.



- Fair trade is highly valued in Japan. As a result, the country has anti-dumping restrictions for retailers, supervised by the Fair Trade Commission of the Ministry of Economy, Trade and Industry. These restrictions mean that retailers can only sell products below cost with a legitimate reason, such as: perishable goods, which deteriorate in value and quality in a short time; seasonal goods, which have passed the sales season; and damaged goods, which cannot be sold at regular prices (Planet Retail, 2014).

MARKET OPPORTUNITIES

- Despite a shrinking economy, a large percentage of savvy Japanese consumers are still looking to purchase goods and luxury items.
- Overall, Japan ranks in the top 30 countries to do business with internationally, and has strong institutional protection for its investors.
- The Japanese industry is being restructured, allowing companies to make purchases directly from producers. This shift creates opportunities for exporters to deal directly with retailers and foodservice operators, reducing the costs associated with middlemen. Furthermore, it allows for better control over how and where products are being distributed in the market (for example, targeting certain areas), and presents the possibility of higher profits.
- Japan continues to be at the forefront of innovation in food products, and is one of the largest net importers of agri-food and seafood in the world.

RESOURCES

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Business Environment: Japan

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