

# Navigator

Now, next and how for business

Japan



Together we thrive

# Overview

## A realistic outlook

Japanese companies are conservative in their outlook for the next 12 months, as weakening exports contribute to the view that business will stay the same. Only a quarter (24%) of Japanese firms are expecting their business to change totally or substantially over the next five years, compared to 50% globally and 48% in Asia-Pacific (APAC). Over that same time period, 62% are expecting to grow sales, although that is lower than the global average (82%).

# State of play

## Conservative optimism for growth

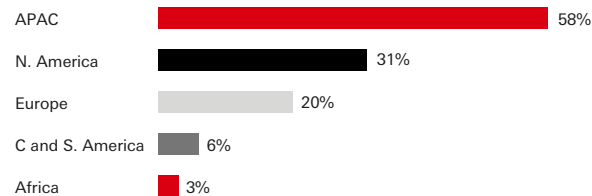
Companies in Japan hold a cautious business outlook for the next year – with just over half (57%) optimistic about growth compared with 79% globally. Corporates and domestic operators are the most conservative about growth in the coming 12 months (50% for both). A longer term outlook suggests greater optimism, with 62% expecting growth in the next five years – although that figure is also below the global and APAC averages (both 82%).

Of those businesses that are expecting growth, most say opportunities will be driven by the opening up of markets, improved productivity, investments in technology, the introduction of new products and services and transformative technologies.

### Expectations for future business growth



### Current top trading partners



## What you need to know

- 1 Only 57% of Japanese businesses expect to see growth in the next year – below the global average (79%).
- 2 Firms expecting growth in the next year say it will come predominantly from the opening up of new markets, improved productivity and investments in technology.
- 3 Only a quarter (24%) of Japanese firms are expecting their businesses to change totally or substantially in the next five years, compared with 50% globally.

## What your business can do



Invest in improving the quality of products and services. 38% of Japanese firms say this is part of their strategy.



Invest in new skills in the workforce. 26% of Japanese companies plan to do so.



Consider supply chain changes to reduce costs. 44% of Japanese companies expecting to alter their supply chains think cost reduction will be a main benefit.

# Trade outlook

## Preferred trading partners remain, but reduce in importance

Trading with North America, Europe and markets within APAC remains fundamental for businesses in Japan. However, a decline in importance of more than 10 percentage points is seen for all three.

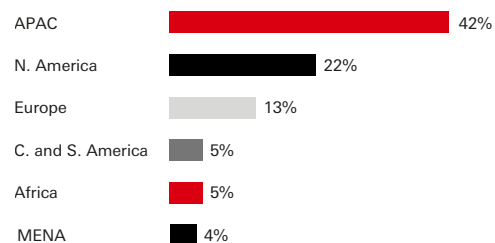
Within APAC, mainland China, Thailand and Hong Kong are Japan's key trading partners. The US is the dominant market in North America.

Though their enthusiasm is more subdued than that of their peers globally, Japanese firms still believe that international trade will be a force for good over the next five years. They see the benefits of trade as driving innovation (64%), providing new business opportunities (60%) and improving efficiency (58%).

### Trading partners for Japanese firms

	2018	2019
APAC	71%	58%
North America	42%	31%
Europe	33%	20%

### Future trading expansion markets in the next three to five years



## What you need to know

- 1 APAC, North America and Europe have declined in importance as current trading partners compared to 2018.
- 2 China (18%), the US (17%) and India (8%) are projected to be the top three trading partners over the next three to five years.
- 3 Proven customer demand, favourable partnership opportunities and access to new suppliers and partners are the top reasons businesses choose to trade with Japanese companies.

## What your business can do

-  Increase international trade. 70% of Japanese firms currently trading internationally are projecting international sales growth in the next year.
-  Look to increase operations in markets that offer strategic access to wider opportunities. For instance, 35% of Japanese firms see North America as a market with proven customer demand, while also offering favourable partnership opportunities.
-  To drive sales growth, consider investing in improving the quality of products and services or boosting new skills in the workforce – the strategy of 38% and 26% of Japanese businesses respectively.



# Protectionism and geopolitics

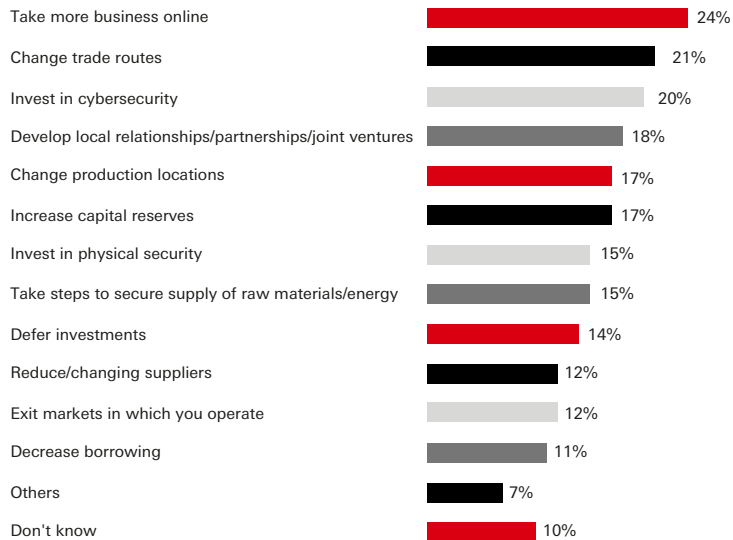
## Businesses unconcerned by protectionism

Around half (49%) of Japanese companies feel that protectionism is increasing in their key trading markets – lower than the global average (65%) and the average for APAC (71%).

The impact of protectionism on businesses in Japan appears to be tilted towards gains rather than losses. Close to half (49%) of Japanese businesses that feel protectionism is increasing also feel that they have gained more from it than they have lost. Still, that proportion is considerably lower than the global average (57%) and the average for APAC (56%). The remaining Japanese firms feel that protectionism has had no impact on their business or that any impact has been balanced (36%) rather than seeing a direct loss (15%).

The impact of geopolitics (36%) is felt less strongly among Japanese businesses than the impact of protectionism. The impact felt is also lower than the global average (64%) and the APAC average (61%). Strategies to cope with the impact of geopolitics include taking more business online (24%), changing trade routes (21%) and investing in cybersecurity (20%).

### Ways in which businesses are coping with geopolitics



## What you need to know

- 49% of Japanese businesses feel protectionism is increasing in key trading markets, less than the global average of 65% and the APAC average of 71%.
- Japanese businesses are addressing the impact of protectionism through cost reduction (36%), followed by opening physical premises in markets (25%) and acquiring local companies (23%).
- International operators feel the impact of reduced competitiveness from protectionism more strongly – 29% cited impacts compared to 16% of domestic operators.

## What your business can do



Build a local presence on-the-ground in markets where protectionism is increasing.



Consider proactive strategies to combat geopolitical uncertainty. Japanese firms are taking more business online (24%) and adapting trade routes (21%), for instance.



Combine defensive and proactive tactics to combat rising protectionism. 36% of Japanese firms are cutting costs while 25% are opening physical premises in affected markets.

# The sustainable future

## Sustainability on the horizon, with a focus on social attributes

Japanese businesses are motivated by customers (35%), employees (30%) and investors (27%) to become more sustainable over the next five years. Domestic Japanese operators (35%) feel pressure from employees to improve sustainability, more so than international operators (25%).

As a result, over the next five years, Japanese businesses expect to invest more in technology, innovation and infrastructure to improve sustainable production (32%), promote employee health, wellbeing and safety (30%) and invest in technology to monitor supply chains for greater traceability (23%).

Environmental, social and governance (ESG) metrics are actively being measured by Japanese businesses. The top dimensions identified are labour standards (relevant for 29%, measured by 20%), fair treatment of employees (relevant for 26%, measured by 17%), executive salary and compensation (relevant for 25%, measured by 16%) and product safety and quality (relevant for 24%, measured by 19%).

### Motivations for implementing sustainable practices



### What you need to know



Only 13% of Japanese businesses feel they have a significant role to play in delivering the UN's Sustainable Development Goals – considerably below the global average (25%).



Gaining a competitive advantage (28%), improving operational efficiency (27%) and growing sales (24%) are key motivations for Japanese firms looking to improve sustainable practices.



Over the next five years, Japanese firms expect to invest in technology, innovation and infrastructure to improve sustainable production (32%).

### What your business can do



Invest in a healthier workforce, transformative technology and energy efficiencies.



Educate your workforce on sustainable practices. 30% of Japanese businesses say they are lacking knowledge on this subject.



Sustainability isn't just about the environment. 29% of Japanese firms highlighted labour standards as a metric that is relevant.

# Breakthrough tech

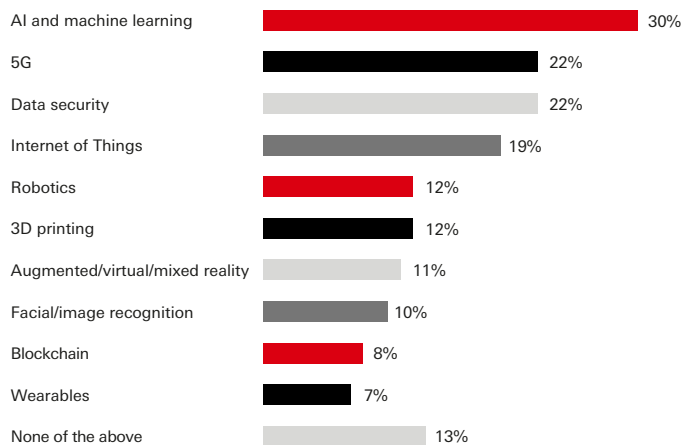
## AI and data security lead tech drive

Artificial intelligence (AI), data security, 5G, and the Internet of Things (IoT) are the key innovations that Japanese businesses think will have the greatest impact on their businesses in the next five years. AI is identified by three-in-10 Japanese businesses as the most important technology in the next five years – with firms expecting to see benefits including improved productivity (49%), reduced costs (41%) and improved quality of products and services (40%).

Firms expect data security technologies to provide further benefits – notably improved delivery of products and services (27%), improved sustainability (26%) and improved business transparency and compliance (25%).

North America, Europe and APAC are seen as the places where new technologies are at their most advanced. Among Japanese companies, the US is considered the top hub for AI, data security, 5G and IoT. Within APAC, China is rated most highly although Japan is seen as comparably advanced in robotics.

### Technologies businesses think will be important over the next five years



## What you need to know



AI is identified by 30% of Japanese businesses as the most important technology in the next five years.



Companies citing the impact of AI expect the benefits to be improved productivity (49%), reduced costs (41%) and improved quality of products and services (40%).



Among Japanese businesses, the US is considered the hub for data security (cited by 77%), AI (67%), 5G (66%) and IoT (62%).

## What your business can do



Consider where your business needs to improve. Services companies in Japan, for example, cite data security as significantly more important than goods firms (29% compared to 18%).



Make sure your digital transformation meets regulatory standards. A quarter of Japanese firms who believe data security will have an impact also cite improving business transparency and compliance as a key benefit.



Tailor your investments to your business priorities. For instance, international operators (26%) in Japan value 5G more highly than domestic operators (18%).

## About HSBC Navigator Japan

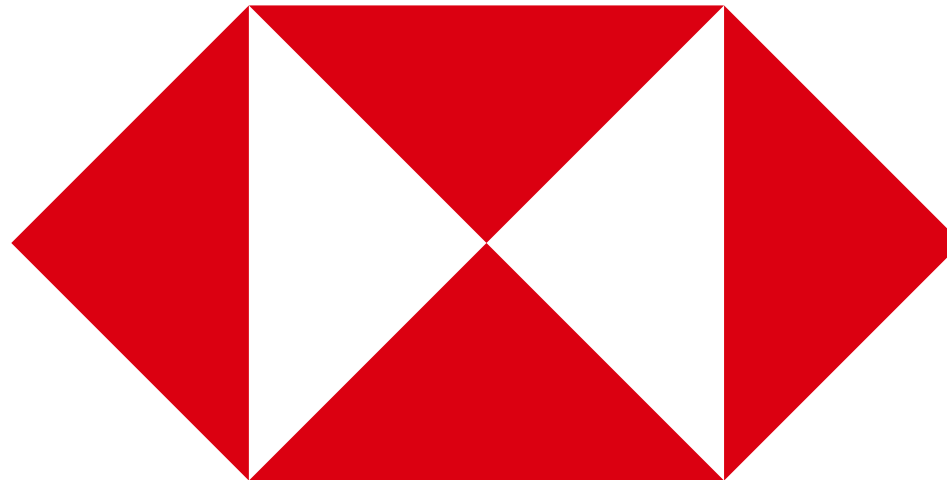
The HSBC Navigator survey, which is the largest of its kind, is conducted on behalf of HSBC by Kantar. The study gauges sentiment and expectations of businesses in the near to mid-term future on topics including: business outlook, international trade, geopolitics, sustainability, technology and wellbeing. It is compiled from responses by decision-makers at 9,131 businesses – from small and mid-market to large corporations – across a broad range of industry sectors in 35 markets. Sample sizes for each market were chosen to ensure the statistical accuracy of results, with 350 businesses surveyed in Japan. Global results are based on an average of the 35 markets (using weights based on each market's share of world trade). The survey was conducted between August and September 2019. Interviewees were polled on a range of questions including expectations around future growth in trade, attitudes toward trade policy developments and strategic business plans. The survey represents a timely source of information on the fast-evolving international business environment.

Data visualisations based on the following:

Page 2: all companies (left). International operators (right).  
n=9131/350 (left); n=190 (right)

Page 3, 5 & 6: all companies. n=350

Page 4: companies who are impacted by geopolitics. n=286



### For media enquiries please contact:

Paul Allen

Communications, HSBC Japan

paul.allen@hsbc.co.jp

Or go to [www.business.hsbc.com/navigator](http://www.business.hsbc.com/navigator)

All images copyright © HSBC Holdings plc. All reasonable efforts have been made to obtain copyright permissions where required. Any omissions and errors of attribution are unintentional and will, if notified in writing to the publisher, be corrected in future printings.

Photo Credits: Getty Images

Note: Whilst every effort has been made in the preparation of this report to ensure accuracy of the statistical and other content, the publishers and data suppliers cannot accept liability in respect of errors or omissions or for any losses or consequential losses arising from such errors or omissions. The information provided in this report is not intended as investment advice and investors should seek professional advice before making any investment decisions.

Issued by HSBC Bank plc 8 Canada Square London E14 5HQ United Kingdom [www.hsbc.com](http://www.hsbc.com)