

Hinrich Foundation Sustainable Trade Index

Japan Highlights

Introduction







The Hinrich Foundation commissioned the Economist Intelligence Unit to build the Sustainable Trade Index using 24 indicators to measure 19 economies in Asia and the U.S. across the three recognized pillars of sustainability: **economic growth, social capital and environmental protection**.

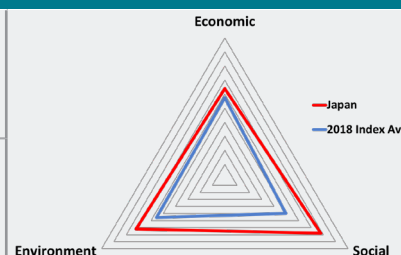
The Index measures the readiness of each economy to participate in global trade in a way that creates sustainable growth, encourages foreign direct investment and support from multilateral development agencies.

The Index was created for the purpose of stimulating meaningful discussion of the full range of considerations for policy makers, business and civil society when engaging in international trade.



The Hinrich Foundation launched the inaugural Sustainable Trade Index in 2016. Visit www.hinrichfoundation.com to download the 2018 and 2016 Index.

Japan Overview		
GDP per capita  US \$38,972	Population  126 million	Exports % of GDP  16.1% of GDP
GDP growth  1.46% growth (average since 2010)	Labour Force  66 million	FDI net inflow  US\$34.9 billion







SOURCE: World Bank, 2016 and Hinrich Foundation Sustainable Trade Index 2018

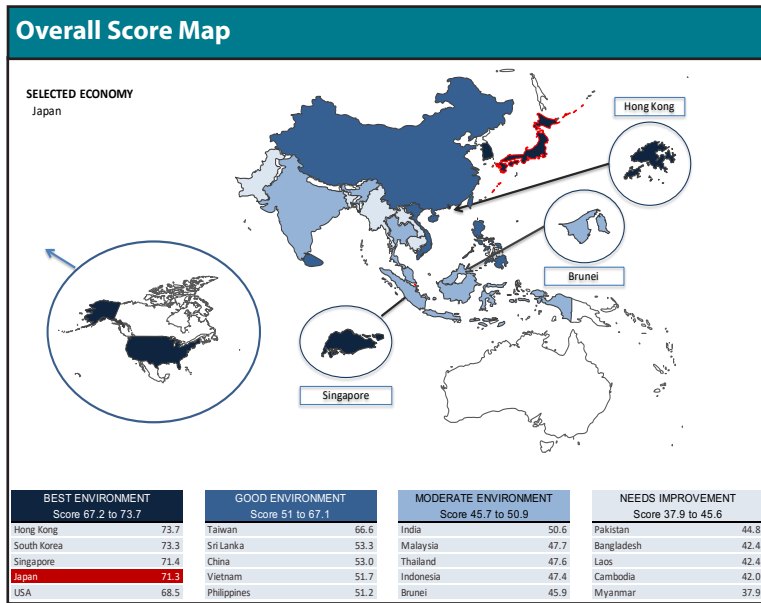
Overall performance

Japan's overall ranking in the 2018 Index fell slightly from third place in 2016 to fourth place in 2018. However, it scored well in all environmental indicators. Asia's richer economies, including Japan, all experienced score declines in the 2018 Index. Japan and South Korea— key competitors in many sectors of merchandise trade— perform poorly on similar metrics: exchange rate volatility, export market concentration, inequality and labour standards.

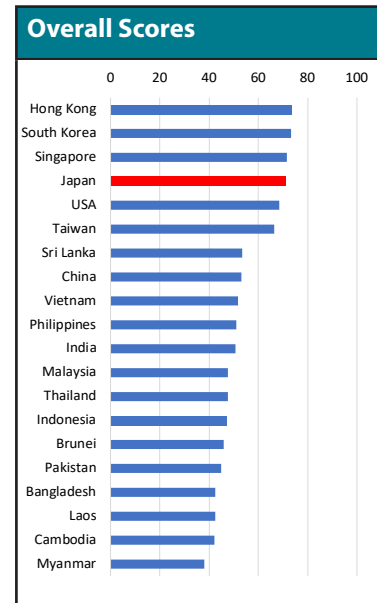
- **Economic:** Japan placed sixth in the economic pillar – maintaining the same score as the 2016 Index. Japan ranked at the top for technological indicators, but at the bottom for exchange rate volatility.
- **Social:** Japan placed fourth overall in the social pillar, demonstrating its ability to balance economic success with low levels of inequality— an ongoing issue for other upper-income countries in the region.
- **Environmental:** Japan finished second in the environmental pillar, behind Hong Kong. It was the only economy to place in the top 10 for all six environmental indicators, demonstrating its commitment to broad environmental sustainability.

Overall Index Performance			
Pillar	2018 Rank	2016 Rank	Change
Economic	6	6	= 
Social	4	3	-1 
Environmental	2	3	+1 
Overall	4	3	-1 

Japan's score on each pillar compared with 2016 Sustainable Trade Index results.



SOURCE: Hinrich Foundation Sustainable Trade Index 2018



SOURCE: Hinrich Foundation Sustainable Trade Index 2018

Areas of top performance and improvement

- **Top performance:** Political stability. Japan's top-ranking indicator in the 2018 Index was political stability, where it outscored all other countries. In general, political stability is a necessary condition for trade, investment and economic growth.
- **Worst performance:** Exchange rate volatility. Japan bottomed the Index for this indicator, which measures the standard deviation of a country's exchange rate to its major trading partners, likely a reflection of the Yen's importance in global investment markets. As an indicator, exchange rate volatility shows a potential source of uncertainty when conducting trade and could be a potential weakness for Japan.
- **Most improved:** Growth in labour force. This indicator measures the year-on-year change in a country's labour force. Japan rose from last place in this indicator in 2016 to 14th place in the 2018 Index, an increase of six spots. A growing labour force supports economic growth and a country's ability to continue trading.

Top & Bottom Indicators		
Indicator	Index Avg.	2018 Score
Technological infrastructure	62.5	100
Current account liberalization	90.7	100
Political stability	57.6	85
Technological innovation	26.2	80
Export product concentration	84.6	84
Growth in per capita GDP	66.7	40
Foreign direct investment	13.0	0
Exchange rate volatility	66.7	0

SOURCE: Hinrich Foundation Sustainable Trade Index 2018

Economic pillar

Japan ranked sixth in the economic pillar in 2018, maintaining the same score from the 2016 Index. The country tied for first place in both current account liberalization and technological infrastructure. It also placed within the top five economies with top scores in technological innovation, financial sector depth, foreign trade and payments risk, tariffs and non-tariff barriers to trade and trade costs.

KEY TAKEAWAYS:

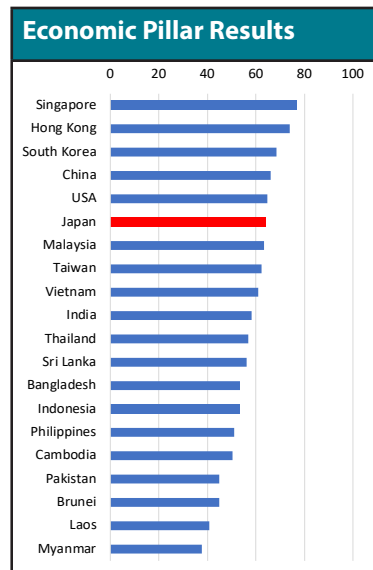
- Japan placed sixth overall in the economic pillar— the same score as the 2016 Index.
- Japan performed well in both technological infrastructure and innovation, which are factors that contribute to a country's ability to attract foreign direct investment (FDI).
- Despite an overall strong performance, the country was ranked at the bottom for exchange rate volatility and foreign direct investment (FDI) in the 2018 Index.

Japan succeeds specifically in the technological indicators, which can have a dramatic multiplier effect on economic growth and trade. In the 2018 Index, Japan tied for first place in the technological infrastructure indicator with Hong Kong, Singapore, South Korea, Taiwan and the United States. The country also performed well in the technological innovation indicator, which captures a country's ability to innovate and create sophisticated goods. For this indicator, Japan scored second overall— trailing only South Korea.

Japan has the fourth-lowest trade costs in the Index. The trade costs indicator is a composite of the following factors: infrastructure, logistics, corruption and legal system. Japan placed in the top five economies for all four of these indicators. Of these indicators, Japan scored best in the legal system indicator – tying with Hong Kong and the United States for the top score.

The economic area where Japan improved the most from 2016 to 2018 was in the growth in labour force indicator. In the 2016 Index, Japan scored last in this category, which measures the year-on-year change in a country's labour force. In the 2018 Index, Japan jumped six spots to 14th place in this category, showing an increasing number of workers available to support the country's trading activities.

Despite its strong performance in most economic pillar indicators, there are certain areas where Japan did not fare as well. The country was at the bottom of the pack for exchange rate volatility and FDI. Exchange rate volatility is measured by the standard deviation of a country's exchange rate to its major trading partners. A volatile exchange rate could be a potential source of uncertainty when conducting trade with Japan. For foreign direct investment, which measures inward FDI as a percentage of GDP, Japan's inward FDI represented less than one percent of the country's total GDP— explaining its 18th place finish in this indicator. Conversely, Japanese companies are well known for their foreign direct investment into other Asian economies.



SOURCE: Hinrich Foundation Sustainable Trade Index 2018

Indicator	Index Avg.	2018 Score
Current account liberalization	90.7	100
Technological infrastructure	62.5	100
Technological innovation	26.2	80
Financial sector depth	43.5	90
Foreign trade and payments risk	65.3	86
Tariffs & non- tariff barrier to trade	59.4	75
Trade costs	51.2	79
Export market concentration	68.3	71
Gross fixed capital formation	42.2	33
Growth in labour force	64.0	59
Export product concentration	84.6	84
Growth in per capita GDP	66.7	40
Foreign direct investment	13.0	0
Exchange rate volatility	66.7	0

SOURCE: Hinrich Foundation Sustainable Trade Index 2018

Social pillar

In the 2018 Index, there was an overall stagnation across all economies in the social pillar. Inequality and political instability are on the rise across the region, a trend that transcends wealth and development status. Japan’s social pillar ranking fell one spot from third place in 2016 to fourth place in the 2018 Index. Despite the ranking decrease, Japan still remained in the top 10 for all social pillar indicators.

KEY TAKEAWAYS:

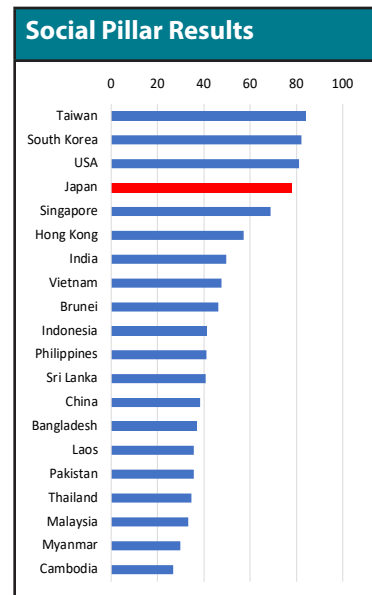
- Japan placed fourth overall in the social pillar, down one spot from third place in 2016. Japan, Taiwan and South Korea were the only economies to score in the top 10 for all social indicators.
- Japan’s top social pillar performance was in political stability.

Japan topped the political stability indicator for all economies in 2018— maintaining its top score from the 2016 Index. In general, political stability is a necessary condition for trade, investment and economic growth. Japan also ranked in the top three economies in terms of labour standards. This indicator measures labour standards based on three categories: forced labour, child labour and labour rights.

Japan’s worst social score was in the inequality indicator. Japan scored in eighth place for this indicator, dropping three spots from fifth place in the 2016 Index due to worsening levels of inequality. Despite the score decrease, the country still outperformed most other upper-income economies in this indicator, including Hong Kong, Singapore, the United States and Brunei. Its ranking in this indicator demonstrates the country’s continued ability to balance economic success with low levels inequality— an area where other upper-income countries, including the United States and Singapore, have struggled.

CASE STUDY: JAPAN AN EXAMPLE FOR EMERGING ECONOMIES

Asia finds itself in the unique position of helping lead and sustain the global economy’s commitment to free and fair trade. It is in this context that the need for sustainability in trade is ever more crucial. Emerging Asian economies would do well to emulate Japan, South Korea and Taiwan, suggests Jayant Menon, lead economist at the Asian Development Bank (ADB). These are the places he believes have best managed trade-dependent growth. “They have had dramatic improvements in their economic conditions without the huge disparities that we see in other countries.” He points to three common factors in the countries: a system of land distribution and land reform that worked well; a broad focus on education, from primary to tertiary levels, encompassing even technical education; and luck—the fact that they were industrialising at a time when the global economy was growing.¹



SOURCE: Hinrich Foundation Sustainable Trade Index 2018

Indicator	Index Avg.	2018 Score
Political stability	57.6	85
Labour standards	39.7	94
Educational attainment	38.4	64
Inequality (Gini coefficient)	62.3	69

SOURCE: Hinrich Foundation Sustainable Trade Index 2018

¹ Hinrich Foundation Sustainable Trade Index 2018

Environmental pillar

Japan placed second on the environmental pillar for the 2018 Index, trailing only Hong Kong. Japan's top performance on the environmental pillar demonstrates a continued commitment to sustainable environmental trade practices at the national and local level.

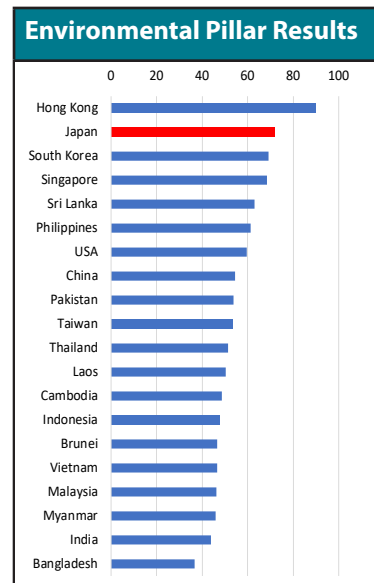
KEY TAKEAWAYS:

- Japan placed second in the environmental pillar due to top scores in environmental standards in trade and low levels of deforestation and water pollution.
- Japan placed among the top 10 economies for all six environmental indicators—the only country to achieve this on the 2018 Index.

Japan tied for third place in environmental standards of trade with Indonesia, Malaysia, the Philippines and South Korea. Japan is a signatory to six of the seven international environmental agreements used to measure this indicator, demonstrating a commitment to environmental sustainability at the national level. International agreements are a vital first step to addressing environmental issues.

One particular area where Japan improved from the 2016 Index to 2018 was in the air pollution indicator, which measures levels of particulate matter 2.5 (PM 2.5) in a country. Japan recorded lower levels of air pollution for the 2018 Index and thus upped its ranking from ninth place in 2016 to fifth place in 2018.

Japan's worst environmental performance was in transfer emissions, which measures transfer emissions as a share of a country's total territorial emissions (MtCO₂). Japan's score worsened on this indicator due to higher levels of transfer emissions for the 2018 Index. Despite higher transfer emissions, Japan still placed ahead of most other countries on the Index for this indicator.



SOURCE: Hinrich Foundation Sustainable Trade Index 2018

Indicator	Index Avg.	2018 Score
Environmental standards in trade	66.7	83
Deforestation	66.8	93
Water pollution	24.3	58
Air pollution	67.2	88
Share of natural resources in trade	85.3	96
Transfer emissions	22.6	13

SOURCE: Hinrich Foundation Sustainable Trade Index 2018

CASE STUDY: CLEANER FUEL IS MORE EFFICIENT FOR SHIPPING INDUSTRY

The shipping industry is working hard at reducing its environmental impact, says Jeremy Nixon, CEO of the Ocean Network Express (ONE), a new container line that is a joint venture between three Japanese carriers. Current initiatives include using lower-sulphur fuel, reducing the weight of containers and making powered vessels more energy efficient. Mr Nixon stresses the importance of having global standards by which firms can abide. "Standardisation is about efficiency. Environmental global standards are changing...the last thing we want to see is differentiation." In general, carbon- or energy-efficiency measures like these are intuitive and expected because by lowering costs they align neatly with pre-existing corporate profitability imperatives.²

² Hinrich Foundation Sustainable Trade Index 2018

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Additional resources

The Hinrich Foundation commissioned The Economist Intelligence Unit (EIU) to build the Sustainable Trade Index. The Index uses 24 indicators to measure the trade impacts of 19 economies in Asia and the U.S. across the three recognized pillars of sustainability: economic growth, social capital, and environmental protection.

Visit our website at: www.hinrichfoundation.com/trade-research/sustainable-trade-index to download additional Sustainable Trade Index resources including:

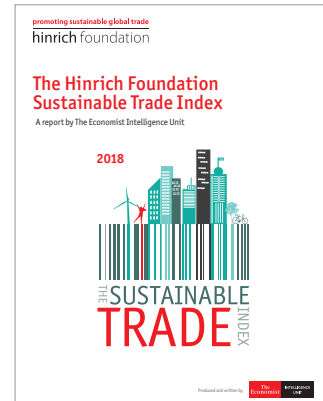
- **2018 Sustainable Trade Index white paper**- Prepared by the EIU, it presents and analyzes the 2018 Index findings for all 20 economies.
- **Index interactive data set and KPIs**- The comprehensive Index database allows users to directly interact with the Sustainable Trade Index data. For each economy, compare indicators, adjust score weights and visualize data in custom charts and graphs. It's a useful tool for regional comparisons or reviewing the performance of a particular economy.
- **Additional highlight reports for other economies**- Looking for information on other economies in the Sustainable Trade Index? Visit our website to download special reports on all 20 economies featured in the 2018 Index.
- **Index infographics, fact sheets and more!**

About the Hinrich Foundation

The Hinrich Foundation is a nonprofit organization that undertakes trade-related policy research and development work in Asia. It focuses on creating opportunities, choice and engagement through sustainable and mutually beneficial global trade. The Sustainable Trade Index aims to stimulate positive thinking about global trade and promote behaviors that will lead to better developmental outcomes, engagement and stability.

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Economic Pillar		Social Pillar		Environmental Pillar	
1. Economic growth	21.4	1. Social capital	21.4	1. Environmental protection	21.4
2. Trade	21.4	2. Quality of life	21.4	2. Climate change	21.4
3. Innovation	21.4	3. Governance	21.4	3. Air quality	21.4
4. Infrastructure	21.4	4. Health	21.4	4. Water quality	21.4
5. Education	21.4	5. Safety	21.4	5. Land use	21.4
6. Employment	21.4	6. Equality	21.4	6. Biodiversity	21.4
7. Income	21.4	7. Human rights	21.4	7. Pollution	21.4
8. Investment	21.4	8. Labor rights	21.4	8. Waste management	21.4
9. Trade	21.4	9. Gender equality	21.4	9. Energy	21.4
10. Innovation	21.4	10. Social inclusion	21.4	10. Greenhouse gas emissions	21.4
11. Infrastructure	21.4	11. Access to services	21.4	11. Air quality index	21.4
12. Education	21.4	12. Health care	21.4	12. Water quality index	21.4
13. Employment	21.4	13. Safety	21.4	13. Land use index	21.4
14. Income	21.4	14. Equality	21.4	14. Biodiversity index	21.4
15. Investment	21.4	15. Human rights	21.4	15. Pollution index	21.4
16. Trade	21.4	16. Labor rights	21.4	16. Waste management index	21.4
17. Innovation	21.4	17. Gender equality	21.4	17. Energy index	21.4
18. Infrastructure	21.4	18. Social inclusion	21.4	18. Greenhouse gas emissions index	21.4
19. Education	21.4	19. Access to services	21.4	19. Air quality index	21.4
20. Employment	21.4	20. Health care	21.4	20. Water quality index	21.4
Average score (all 20 economies)	21.4	Average score (all 20 economies)	21.4	Average score (all 20 economies)	21.4
Best score (1)	21.4	Best score (1)	21.4	Best score (1)	21.4
Worst score (20)	21.4	Worst score (20)	21.4	Worst score (20)	21.4

