

MCKINSEY GLOBAL INSTITUTE

THE FUTURE OF JAPAN REIGNITING PRODUCTIVITY AND GROWTH

March 24, 2015



McKinsey & Company

MCKINSEY GLOBAL INSTITUTE

THE FUTURE OF JAPAN: REIGNITING PRODUCTIVITY AND GROWTH

MARCH 2015

HIGHLIGHTS



36

Demographic headwinds
A rapidly aging population magnifies the productivity challenge



48

Advanced manufacturing
Revitalizing Japan's signature industries



61

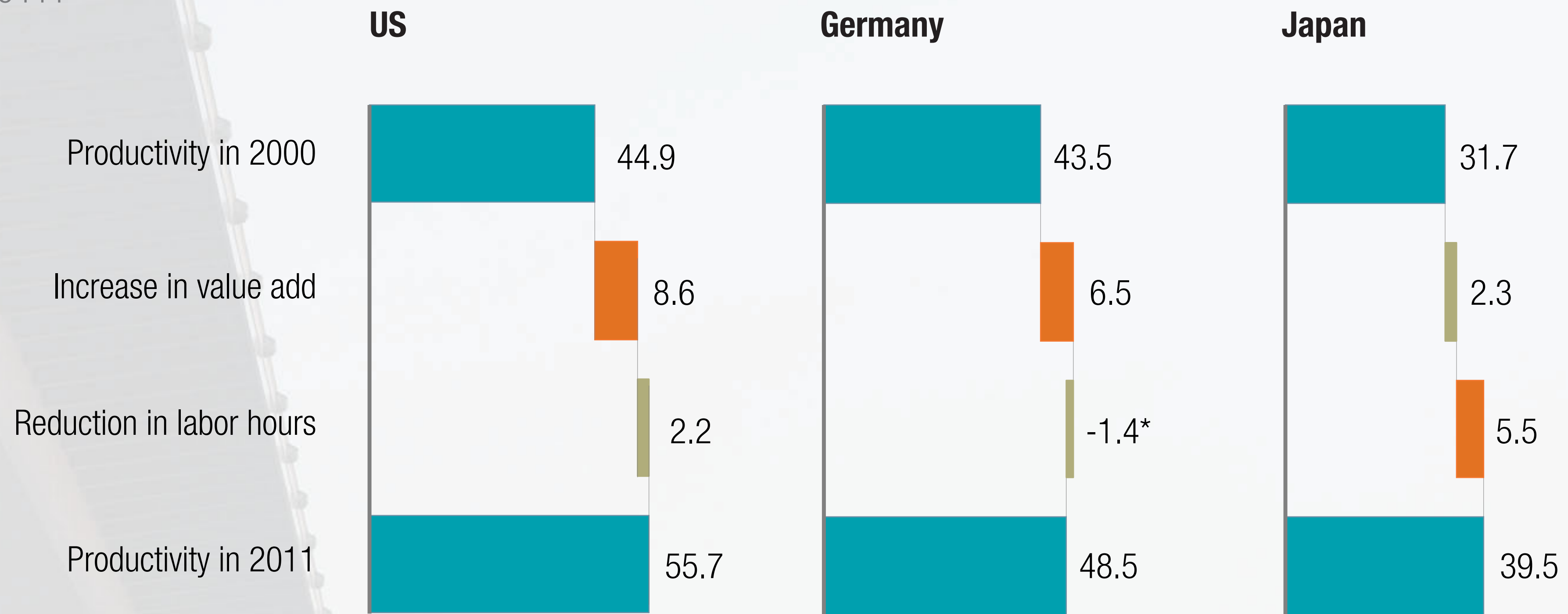
Innovation
Capturing global market share for cutting-edge products

THE US AND GERMANY HAVE IMPROVED PRODUCTIVITY BY GROWING REVENUES AND EXPANDING MARKETS, WHILE JAPAN HAS ACHIEVED ONLY MUTED GROWTH WITH A SHRINKING WORKFORCE

Labor productivity

Value added per hour worked;
USD; 2009 PPP

Driver for improvement



* Labor hours in Germany increased by an accumulated ~3% between 2000 and 2011.

SOURCE: World Input-Output Database 2011

JAPAN TODAY FACES VERY SIMILAR CHALLENGES TO GERMANY OF 2000

Low GDP growth

1.2%
(Real GDP growth,
1998-2003)

0.7%
(Real GDP growth,
2000-2012)

Public debt as key issue

Rapidly increasing debt/GDP
(60% in 2000, up to 69% in 2005)

Long standing high debt/GDP
currently at 242%

Strong technology base

37.1%
(R&D spending/GDP)

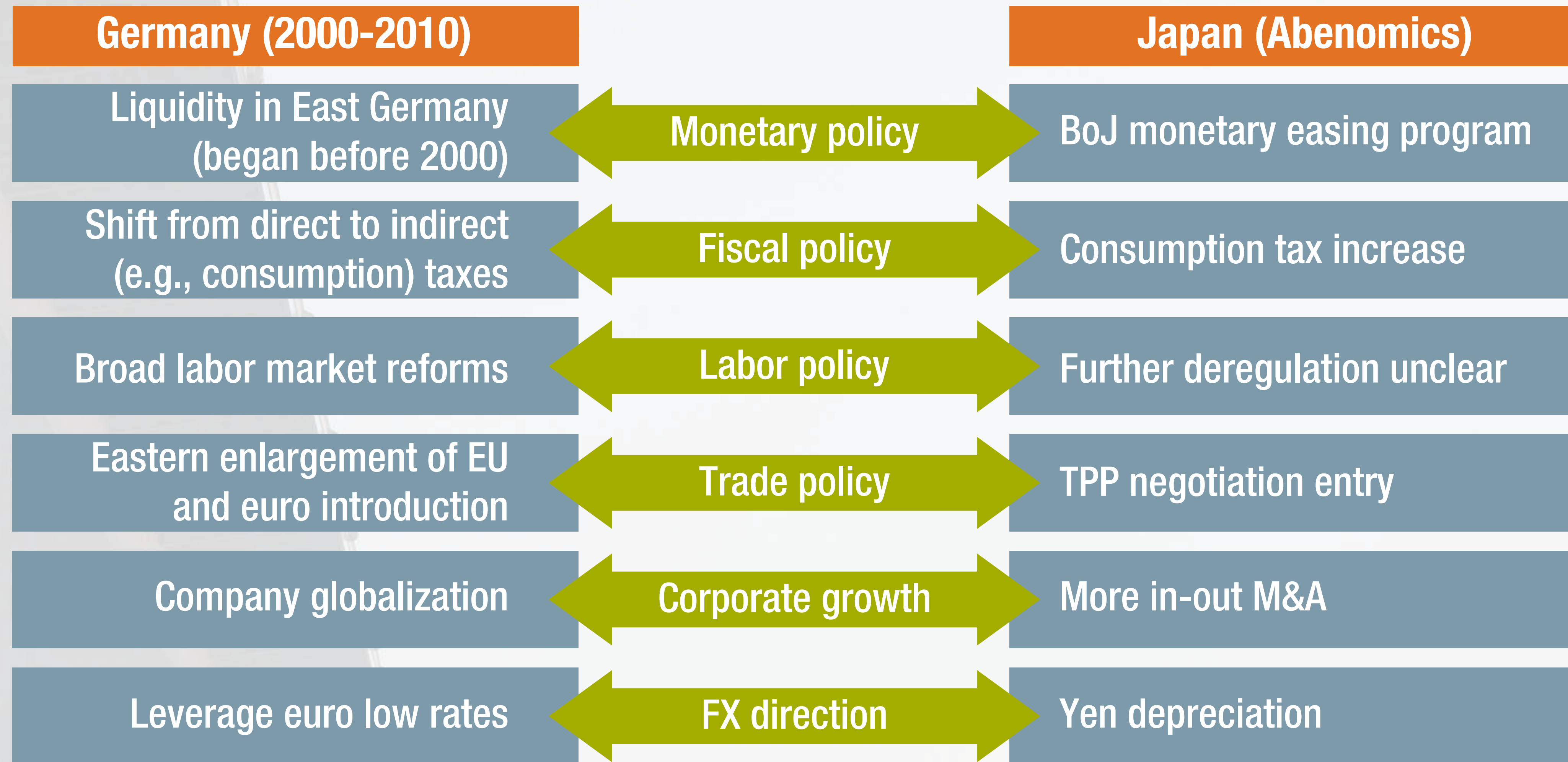
39.5%
(R&D spending/GDP)

Challenges in demographics

1.4 birth rate

1.41 birth rate

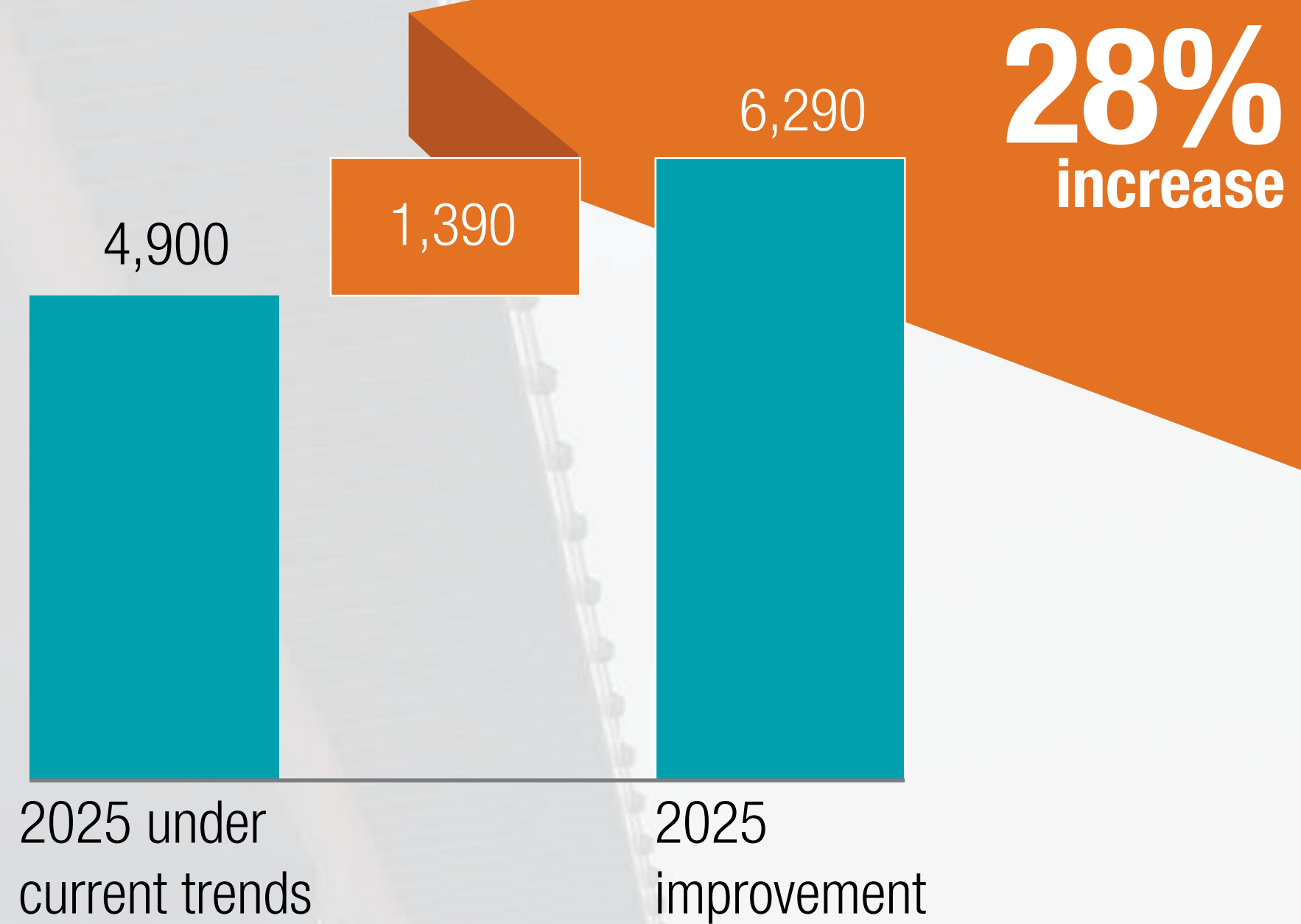
ABENOMICS IS PULLING LEVERS SIMILAR TO THOSE THAT MADE GERMANY'S TRANSFORMATION SUCCESSFUL



THE PRIVATE SECTOR CAN ACCELERATE PRODUCTIVITY GROWTH BY ADOPTING BEST PRACTICES AND NEW TECHNOLOGIES TO INCREASE VALUE ADD

Value added

USD billions; 2009 PPP



Share of improvement

% improvement

100% =
USD 1,390 billion

**Industry structure
and discipline**

6

**Next generation
technologies**

31

**Global best
practices**

64

- Create global champions by industry
- Adapt to a more competitive and fluid industry landscape
- Harness the power of big data
- Leverage technology to create and commercialize new products and services
- Deploy advanced technologies in manufacturing processes

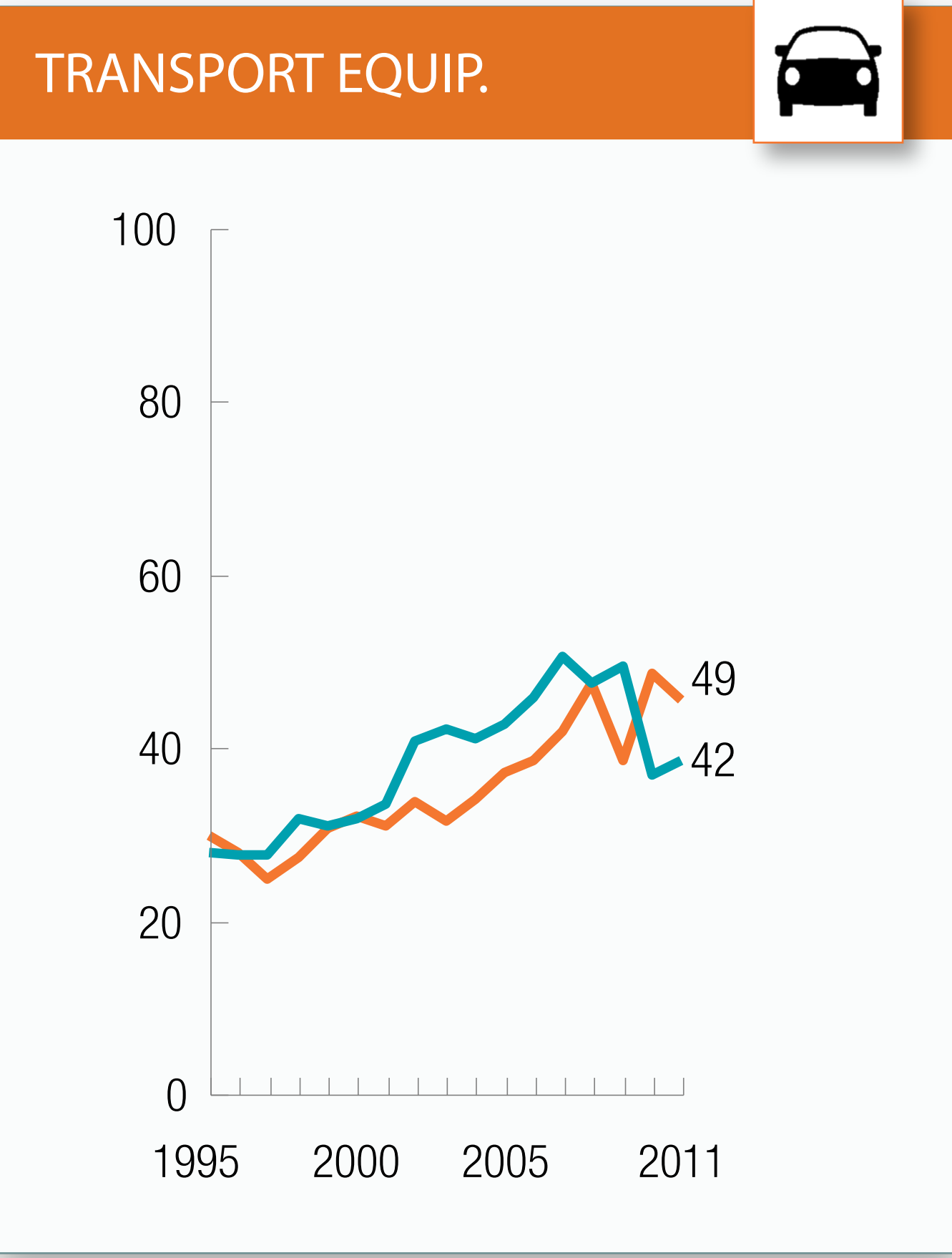
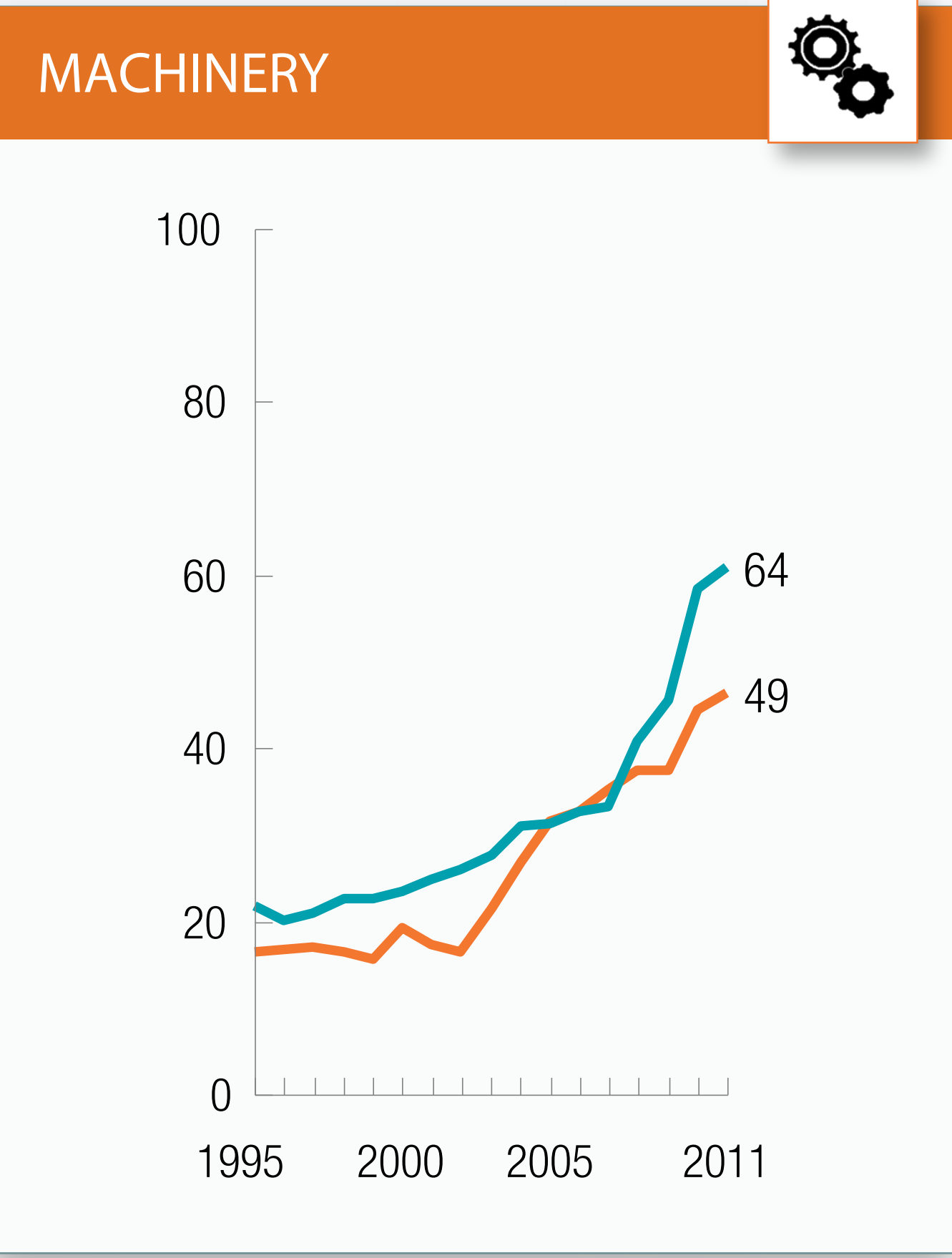
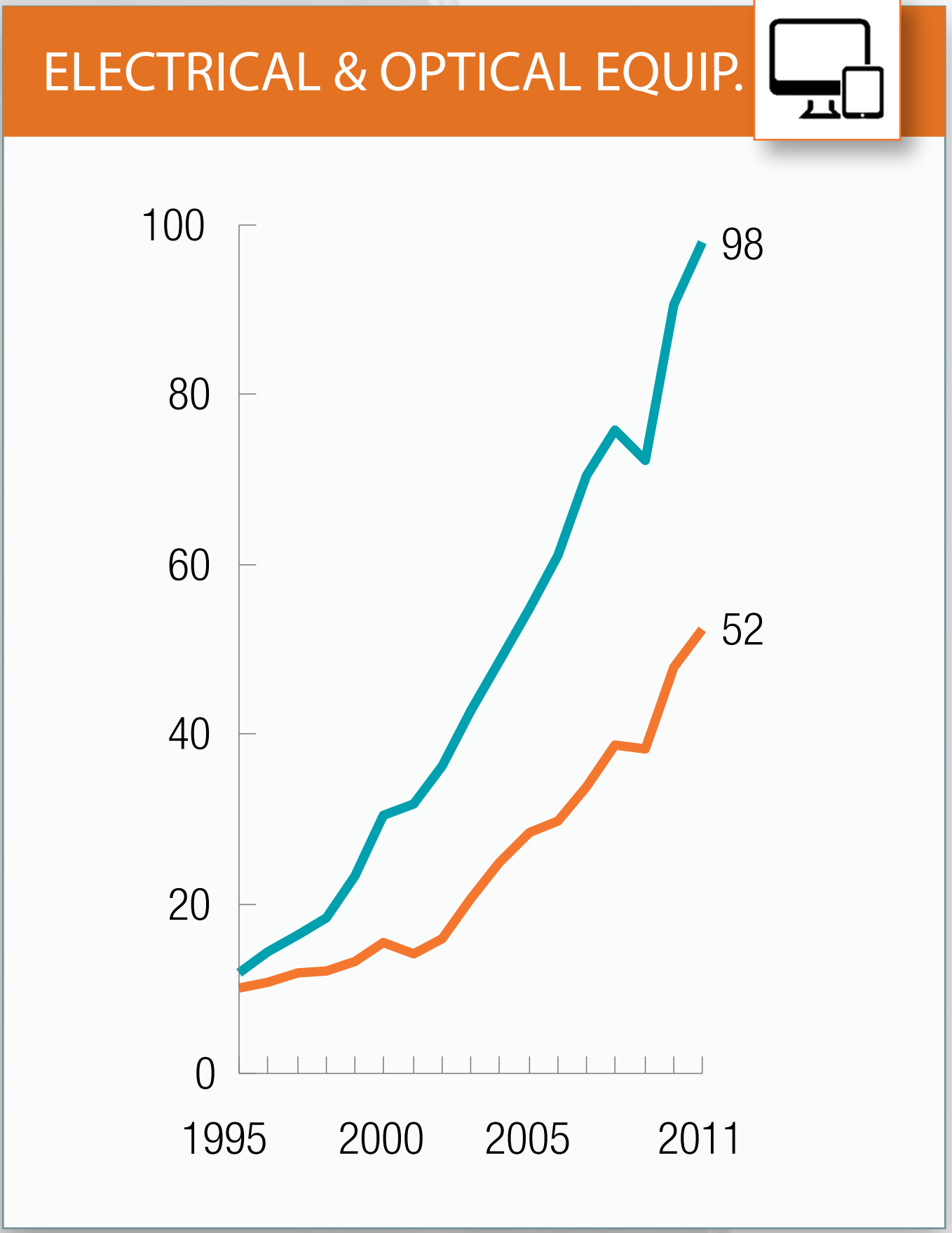
- Go global
- Build best-in-class capabilities across the entire value chain
- Continue the journey of digitization

THE GAPS WITH THE US HAVE BEEN WIDENING, ESPECIALLY IN ELECTRICAL AND OPTICAL EQUIPMENT

Advanced manufacturing labor productivity

Value add/hr; USD; 2009 PPP

— Japan
— US



SOURCE: WIOD

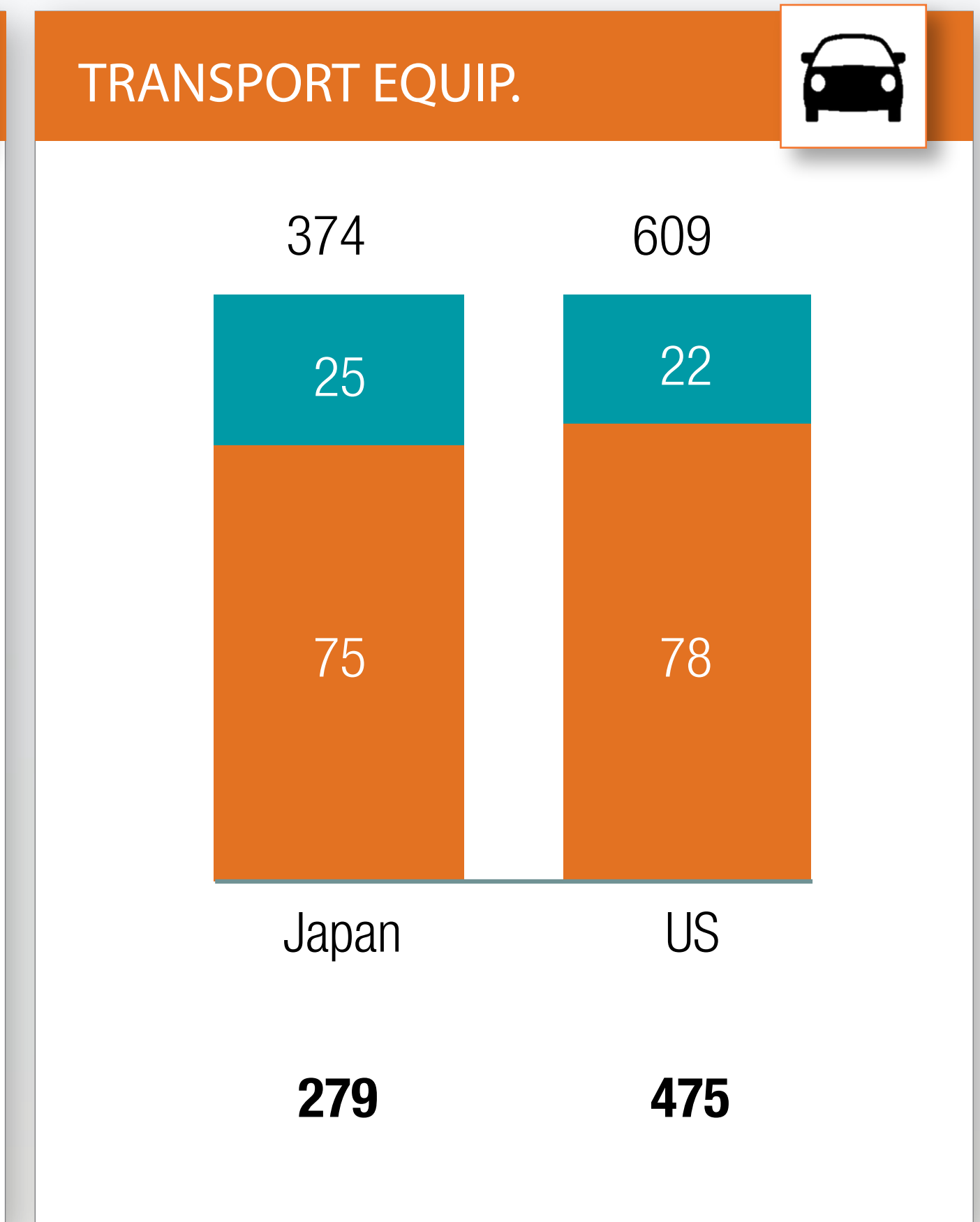
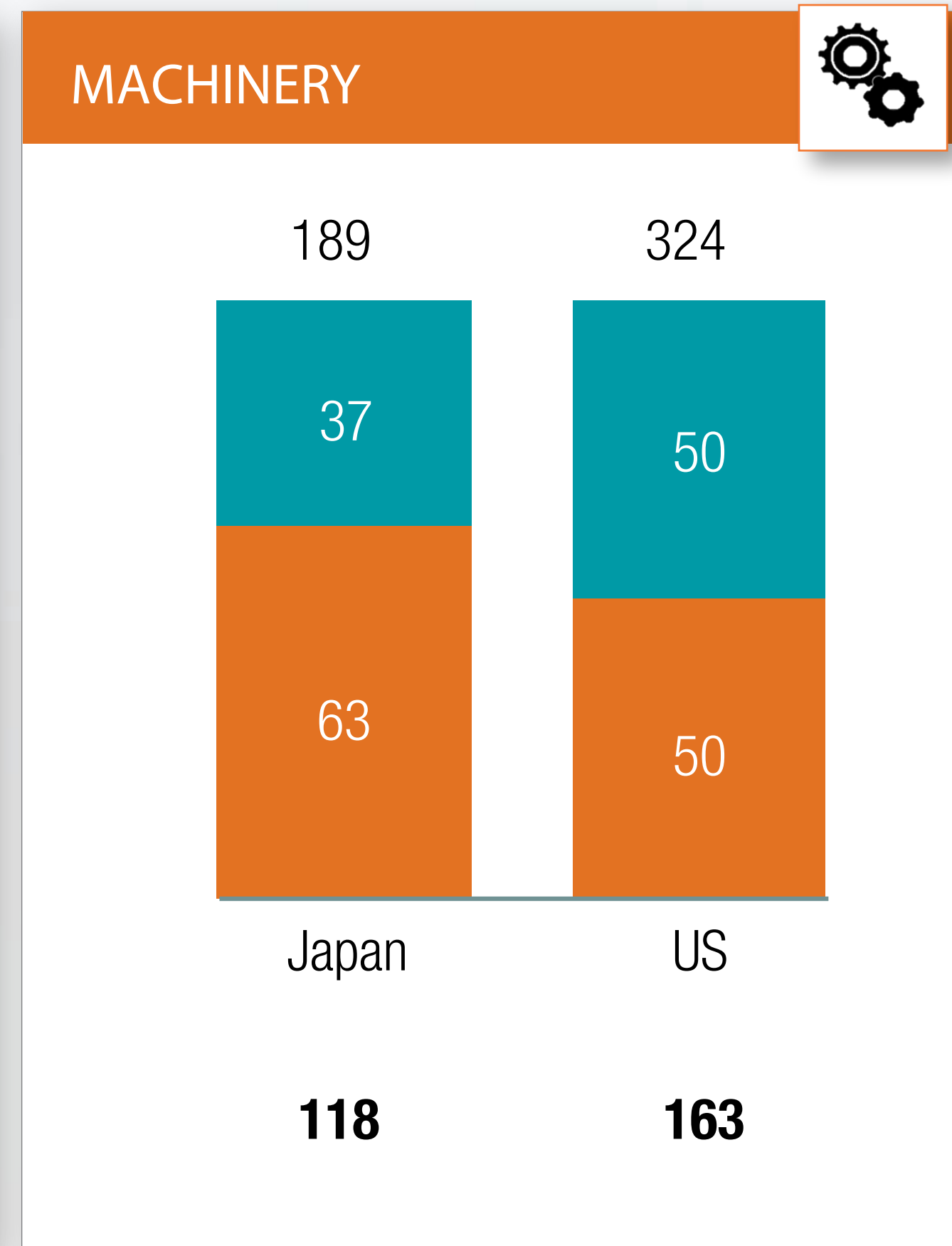
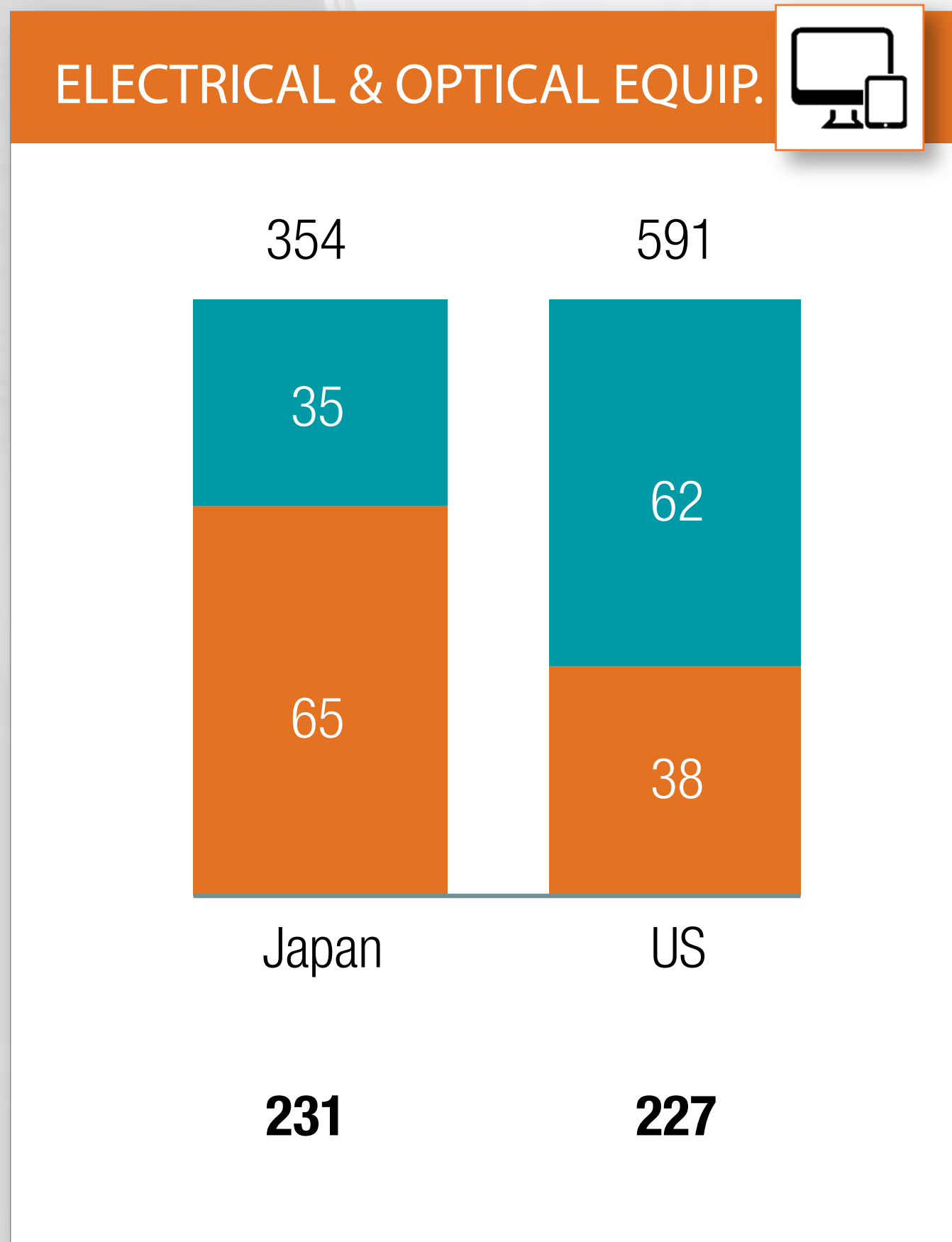
JAPAN SUFFERS FROM A LOWER VALUE ADD, PARTICULARLY IN ELECTRICAL AND OPTICAL EQUIPMENT

Revenue breakdown by sub-sector in 2011

USD billions; 2009 PPP

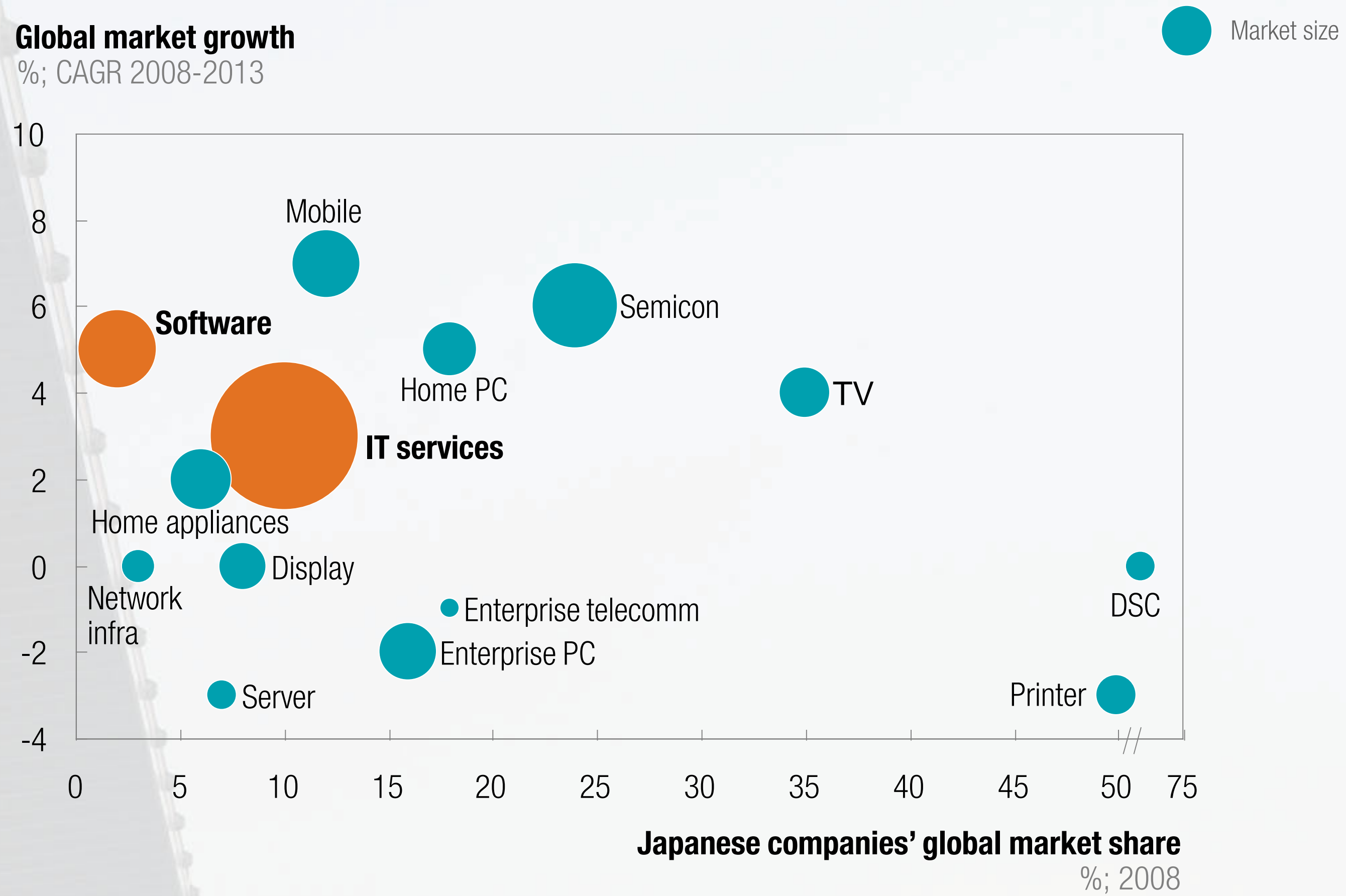
■ Value add (includes labor cost)
■ Non-labor cost of intermediate inputs

100% =



JAPANESE FIRMS HAVE MISSED ESTABLISHING SHARE IN FAST-GROWING AREAS LIKE SOFTWARE AND IT SERVICES

Global market growth
%; CAGR 2008-2013



ACCELERATING PRODUCTIVITY GROWTH WOULD CHANGE THE OUTLOOK FOR JAPAN'S ECONOMY OVER THE NEXT DECADE

3%

GDP annual growth

Aspiration for 2025

~1%

GDP annual growth
2000-2012

\$32k

GDP per capita,
2013

\$48k

GDP per capita

Aspiration for 2025

4%+

Annual increase in
productivity

Aspiration for 2025

2%

Annual increase in
productivity
2000-2011

16th

World ranking in
GDP per capita,
2013

5th

World ranking in
GDP per capita

Aspiration for 2025