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CEO Insight: Deglobalization increases Japan's relevance, also for Investors

The emerging decoupling of global trade should support Japan's economy and attract even more foreign real estate investors.

Many Europeans were only passingly aware of the massive uproar in the US over the shooting down of a suspected Chinese spy balloon. But this event seems to have accelerated the realization in the U.S. to pay more attention to China's aggressive activities. Therefore, outside of Europe, the focus is likely to soon return from Ukraine to Asia. We will see more controls on high-tech exports to China, and global trade will continue to decouple.

Japan is a potential winner in this development. The U.S. and its Asian allies need an economically strong Japan to defend Taiwan against Chinese aggression. That's why the U.S. has already stepped up cooperation with Japan in areas such as semiconductors and nuclear technology. "Japan is well-positioned for the new high-technology environment," says Homin Lee, chief economist at Lombard Odier, a Swiss bank that specializes in asset management for wealthy private clients. As a trusted partner of the West, Japan will benefit from the restructuring of supply chains and the redirection of direct investment away from China, he says. In my view, real estate investors will be even more attracted to Tokyo and Osaka in the future.

Lombard Odier economist Lee presents some interesting arguments to support his plausible thesis. For example, although China is Japan's most important trading partner, exports to China account for only 3.5% of Japan's GDP. Japan also tends to feel more secure when it comes to energy. By restarting idle nuclear reactors, it can defy high fuel prices, while European countries must buy expensive liquefied natural gas to replace Russian gas.

Lee also sees Japan at the center of key strategic initiatives and landmark trade agreements, including the Indo-Pacific Economic Framework (IPEF) of 2022, the CPTPP Asia-Pacific Free Trade Area, the China-initiated RCEP Free Trade Area, the Quad alliance for a Free Indo-Pacific with Australia and India, and the "Chip 4" announced by U.S. President Joe Biden in January for a dedicated semiconductor network with Japan, South Korea, and Taiwan.

Even unfavorable demographics have become one of Japan's smaller problems, relatively speaking. The country may be old, but it is now aging more slowly than many other industrialized nations. For example, according to the United Nations' median projection, Japan's share of the working-age population will decline by only 1.2 percentage points over the next ten years, compared with a decline of 4.1 points in Germany, nearly 7 points in South Korea, and almost 4 points in Switzerland over the same period.

From my perspective, the increase in foreign workers in Japan is also noteworthy. Their number rose 5.5% year on year to a new high of 1.82 million at the end of October, despite the restricted number of arrivals due to the pandemic. A quarter is from Vietnam and a fifth from China. 300,000 Japanese companies now employ foreigners, also a record. And these mostly young foreigners are showing a great willingness to integrate into Japan to achieve economic success here.

The monetary environment also remains positive. The "deflationary mindset" is slowly disappearing. Under the leadership of Haruhiko Kuroda, the Bank of Japan (BoJ) has dispelled the "specter" of deflation. Many companies are daring to raise prices for the first time in decades, and many plan to raise their employees' wages in the spring by the largest amount in a long time. Nevertheless, the central bank will not turn off its wide-open money taps. The nomination of Kazuo Ueda as the new BoJ governor confirms this assessment. The economist, who previously served on the BoJ board for seven years, said after his selection that monetary easing should continue.

For the foreseeable future, Japan will continue to play a special role in many areas of the economy. Nevertheless, Japan has not received the attention it deserves as an investment destination for German investors, unlike, for example, US investors. However, German investors have already missed out on favorable entry prices once in the short history of the institutional real estate market in Japan (more on this in the next column), with currency gains beckoning this time as the period of massive yen depreciation is behind us.

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