**II. Analysis of the international business situation**

1. **Economic, political and legal analysis of the trading country**
   1. **Describe the trading country’s economic system, economic information important to your**

**proposed business/ product/ service, the level of foreign investment in that country**

Japan has had a mixed economy, in which there is a large amount of private enterprise, but also a fair amount of of government, since the end of World War II. In the past thirty years, Japan’s growth has been incredibly rapid, which is a quality that could be advantageous for our business. A growing economy means a growing market of people who are able to buy products, something that is especially good for an overseas company. Despite a few setbacks in the economy due to natural disasters like the earthquake and tsunami of 2011, Japan’s economy has been recovering.

In 2013 particularly, when Shinzo Abe became prime minister, many economic reforms have helped the economy immensely. The main components of Abe's plan have been monetary easing, “flexible” fiscal policy, and structural reform. The policy of monetary easing reduces interest in Central Banks, which is meant to encourage spending. This policy has encouraged citizens to spend more, and it would work in our company’s favor if we were to introduce our product to Japan.

Unfortunately, the flexible fiscal policy may actually hinder our business. This policy means that Japan is not setting a governmental spending cap, even though most economists are critical of this strategy. The policy is based on the assumption that Japan will do economically well, but it involves a lot of risk, and companies in Japan may be more inclined to play it safe or keep their business dealing within Japan in order to contribute to their own economy. Investing or partnering with our company would be a risk because it has yet to be proven that our company will actually do well in Japan. To help ease doubts about our product, it might be wise to ask potential partners and investors to give our product a test run to see how well it would sell in Japanese markets. For maybe a month or two, we could have products sold in the toy shops of a small area and monitor the sales. The information would be useful as marketing information in addition to being a part of what helps Japanese executives make a decision about whether or not they want to work with our company.

The different structural reforms that Japan has been making will affect our company in different ways. For example, the Japanese government is currently trying to reform the labor section by making it easier to fire employees who get hired. If this law gets passed, then there may be more people who lose their jobs, and consequently less people who can buy toys. However, another structural reform includes increasing foreign competition in order to help Japanese companies get more competitive. This could be beneficial to our business, which of course, is a foreign company. If our products are welcomed into Japanese markets, then we can all help each other become more competitive. It also would benefit customers by giving them more choices, higher quality products, and lower prices.

Japan's Gross Domestic product as of 2014 was $4.75 trillion, which when compared to America's Gross Domestic Product of $17.42 trillion may not seem like that much, but Japan currently has the fourth highest ranking Gross Domestic Product in the world (it was beaten by the United States, China, and India). The Japan's high Gross Domestic product is beneficial to our company because it means that, despite some economic issues, the country is stable enough to accept business ventures from outside of the country. Japan’s Gross Domestic Product Growth rate has only dropped to -.1% since 2014, and although that means that the number is going down, it is only declining by a very small amount.

The unemployment rate in Japan has been slowly but steadily decreasing for the past decade. Right now Japan’s unemployment rate is 3.30%, giving the country a rank of 30 on the list of countries with the lowest unemployment rate. This means that the majority of the population is earning an income, and if we can expose our product to the proper market, then the people will be able to actually purchase the toys. Also, the fact that the already low unemployment rate is decreasing means that Japan’s economy is keeping people employed and contributing to the Gross Domestic Product of the company.

The inflation rate of Japan may pose a problem to our business. In 2013, the inflation rate was .4%, but by 2014, it had risen to 2.7%. This is probably largely due to the recent devaluation of China’s yuan. The yuan makes up a large percentage of the Japanese yen’s trade-weighted index, and its devaluation has caused inflation in the currencies of various nations that are economically tied to China. 2% is the inflation of a healthy economy, and Japan’s number is only slightly higher. Shinzo Abe’s policies have been working to decrease the inflation rate, but only time will tell how sustainable the decrease will be. In the meantime, a higher inflation rate will make business in Japan a little more costly than it would have been a year ago, but we still believe that expanding our company is worth it.

* 1. **Describe the trading country’s governmental structure and stability, how the government**

**controls trade and private business**

Japan's government is a constitutional monarchy. Similar to England, the government consists of a parliament, otherwise known as the Japanese diet, and a prime minister. Japan's electoral system is different from America's. In Japan, the House of Representatives has 500 seats, and 300 of the people in the House are elected differently from the other 200. Three hundred of the seats are elected from single member districts, in which voters in a given district get a single vote towards the district representative. For the other 200 seats, the country is divided into 11 different districts that vote to determine the percentage of representation each political party gets.   
  
The country's current prime minister is Shinzo Abe, who took office in 2012. With the condition of Japan's current economy, the prime minister has been under a lot of pressure to make good decisions. So far, the prime minister's strategies for improvement (dubbed "Abenomics") have been successful in slowly but steadily healing the economy, but the improvement is threatened by Japan's greying population, which continues to decrease the country's labor force.   
  
From one point point of view, Japan may be considered a politically unstable country. Prime ministers have barely been spending two years in office since 1989, and there have been 20 cabinets since 1998. Japan's government has been changing often and unpredictability for a long time. The current prime minister is seeking to stabilize the government and keep his office long enough to take the measures to do so, but his cabinet has already seen a number of scandals that threaten that goal. However, at the same time, it's not like Japan is on the verge of a civil war or anything. The country actively tries to give political parties fair representation, and the system of government in place has been working for years now.   
  
Political stability is a big factor in determining whether or not a country is considered attractive to investors. Companies usually like stable countries because they know what they are getting into, and it is unlikely that the government will make a sudden drastic change that affects the company. It is true that Japan's record of political instability makes our company think twice about moving there, but Japan has been integral to the global economy for a long time now, and the country has basically relied on selling its own products and services to foreign markets for decades. It is unlikely that Japan's government will place major restrictions on foreign trade.   
  
Earlier it was mentioned that Japan is now seeking ways to decrease market regulations in order to make its own companies more globally competitive. Japan has a mixed economy, so while it has a lot of private enterprise, the government helps encourage new businesses and sets regulations. The government takes an active role in the economy while encouraging people to run their own companies.

* 1. **Describe laws and/or government agencies that affect your business / product / service:**

Japan is our fourth largest export market, as well as our fourth largest import supplier of goods and our fourth largest trading partner. For our company, this is a good thing because our countries already have a history of trade with each other. People in Japan have already had a certain amount of exposure to American products, and many Japanese executives may have already dealt with American executives in the past. They would understand our customs and mannerisms, and we could find American business workers who have worked with Japanese companies and ask for advice.

The major trade agreement that the United States has with Japan (among other countries) is the Asia-Pacific Economic Cooperation. This trade agreement encourages free trade between countries with borders on the Pacific Ocean. This is a trade agreement that would be beneficial to our company because it removes the trade barriers that would be an obstacle otherwise. Being able to trade freely with Japan helps us save money as a company, and that is exactly what motivates us to trade under a free trade agreement.

Right now, Japan is trying to reform its labor laws. In the past, it has been difficult to fire workers once they get a job, even if it becomes clear that they are very obviously not fit for the job. Earlier in this essay, it was mentioned that Japan is trying to pass legislation to help make it easier to hire and fire company employees. The government wants to reduce the role of regular workers in the economy because these people get lifelong benefits paid which the company pays for, whether they still benefit the company or not. Meanwhile, a large number of people have a harder time finding regular well paying jobs that are being given to these other people who may no longer be qualified for their job. In American terms, Japan is looking to become a “right to work” country, which companies benefit from. This aspect of the reform could actually potentially be helpful to our company because we would also need to hire Japanese workers if we hope to expand there, and these laws would make it easier to weed out employees who show themselves to be lacking in work ethic.

In addition, Japan is trying in to increase the roles of females and the elderly in the economy. Because our company is selling toys for children, and our main selling point is the eco-friendly aspect of these toys, we will probably be advertising to parents as well as their kids. On one hand more women in the workforce could mean that mothers have the money to buy these toys for their children. However, the effect of having more women in the workforce will probably hurt us more than it will help us because women in the workforce tend to have less (if any) kids. Less kids of course means less customers for our company, and the population of young children is already shrinking. This could be a real problem.

**B. Trade area and cultural analysis**

* + - 1. **Geographic and demographic information, important customs and traditions, other**

**pertinent cultural information, competitive advantages and disadvantages of the**

**proposed product and/or service.**

Japan is an island country in the Pacific Ocean. Compared to the rest of the worlds' superpowers, Japan has relatively little land area, which limits agriculture and resources. Plus, many regions of Japan are mountainous, which can limit transportation too. For these reasons, Japan relies heavily on importing goods and raw materials. Manufacturing is Japan's major industry, and that is what has helped it thrive for the past few decades.   
  
Japan is a country that holds a lot of pride in its culture. The people try hard to preserve traditions, and people value their elders and ancestors. Respect to those above your station is a highly held cultural value, and one way of showing respect to those with a higher status is through the way a person bows. Bowing has practically become Japan's signature greeting, but the way a person bows carries meaning. Close friends nod to each other, acquaintances bow 15 degrees to each other in greeting, and subordinates bow 35 degrees to their bosses. Understanding this gesture is a subtle but helpful thing to know when doing business in Japan, and all representatives sent by our company will be educated on the subject.   
  
Another thing our representatives in Japan will be educated on is the Japanese language. It is a given that Japanese is the most spoken language in Japan, and it is simply business etiquette that we communicate with our overseas associates in their language. Our representatives will at the very least be taught the basics of Japanese before they meet with our partner companies in Japan, but it is likely that we will be specifically looking to hire people with a background in Japanese.   
  
Japan is not a very diverse place. Ninety-eight point five percent of the 126,919,659 people living in Japan are Japanese. This is helpful to our company because we can focus on making our promotions appeal to one ethnic group. However, even though the diversity of the population is unchanging, the number of people in the population is. Demographers are finding less children being born in Japan, and the largest age groups in Japan are 35-50 and 70-80. With modern technology, people are expected to be able to live an average of 84 years, but people are having less kids. Right now, the birth rate is 7.93 for every 1000 people, and the death rate is 9.51. In addition, 2015 has had a net migration of zero, according to the Central Intelligence Agency world fact book. A smaller population will limit our range of potential customers in Japan

* + - 1. **Market segment analysis target market (age, income level, population estimate, other**

**specific demographic and economic information) customer buying behavior related to the**

**proposed product and or service.**

The target for our product will be people ages 15-24. In other words, we are targeting school aged people who may be studying for school or entrance exams. Japan is an extremely academically competitive country, and students have to take an entrance exam in order to get into not only colleges, but high schools as well. Students are always aiming for the top schools in their region, so in order to gain a competitive edge, they will go to cram school after regular classes have ended for the day. Our company's product is a program that assesses and analyzes a student's understanding of different concepts in math and teaches them how to solve problems they do not understand. We believe that our product will be extremely beneficial to both students who struggle with math and instructors who want to give students tools to study at home. Students, parents, and teachers would all be able to see merit in purchasing subscriptions and textbooks.   
  
The average income is $36,039 per year, and the Gross National Product in Japan is $35,900. In addition, the unemployment rate in Japan is 4%, which is relatively low when compared to the United States' unemployment rate of 7.4%. These numbers tell us that the people are able to afford luxuries and products like ours. Japanese citizens are earning a stable income, and that is beneficial to our company. Double income families with children especially will be willing to spare some expense in order to help their kids.   
  
Coming full circle here, the main reason that so many people are able to get and maintain jobs is because most people are staying in school and competing against their peers to do well. People in Japan go to school for an average of 11.49 years, and they are expected to stay for 15.3 years. The country has high expectations for its students, and most kids get at least a secondary education before going on to be contributing members of society. Not only do we expect our product to perpetuate that, but this pattern helps Japan's economy immensely, and also allows for a lot of class mobility. People who start off poor are able to work hard and earn a higher income for their family by going to school.   
  
The standard of living is high in Japan. People go to school for an adequate number of years, the life expectancy is 83.6, and the Gross National Product per capita is $36,747. All together, this gives Japan a Human Development Index score of .890, making it the world's 17th highest ranking country in that area. The fact that the people are already used to living well is helpful to a company hoping to sell a product that is not necessarily an absolute necessity.   
  
There are roughly 12.2 million people in our main target market group of people ages 15-24. Our product will be aimed at both Japanese males and females who attend some sort of school. The median age for the people in that age group is 19.5. At that age, most students are either living in college dorms or commuting to school from their homes. It is unlikely that people in our target market will be married, but some may be dating. It is likely that the people buying our product will be getting money from their parents, rather than from their own jobs, and our company will keep that in mind.

* + - 1. **Analysis of the potential location- importance and requirements of each trade documents**

**required by the U.S.A. and/or Canada and the country of choice.**

One helpful advantage of Japan's location is that it shares an ocean with the United States, namely the Pacific Ocean. Textbooks can be easily shipped by boat or by plane, and both Japan and the United States have large populations, so there is an abundance of people who can be hired to travel back and forth between the two countries. However, our business will mainly be a footloose industry, and so most of our products are electronic and more easily purchased with a credit card online.   
  
The product will be made available to all regions of Japan as soon as it is launched, but initially the promotions will be centered in Tokyo, which is Japan's capital and most populated cities. Our company will personally approach a number of randomly selected high schools and colleges in the area to convince them to try and eventually purchase our product for student use. Afterwards, if everything works out, we will continue to advertise in other big cities like Kyoto, Osaka, Nagoya, Hokkaido, etcetera. By running physical advertisements like posters and demonstrations in major cities where there are many schools around, more people hear about the product, and the news of our program is more likely to spread through word of mouth.   
  
In addition, our company is planning on having a customer service calling headquarters based in Tokyo. For our purposes, it would be cheaper to rent or buy out a building or a floor on a skyscraper than it would be to construct an entirely new building. We will be hiring mainly Japanese citizens to run these customer service centers, and possibly some Japanese learning Americans who are interested in the job.   
  
The major trade agreement that involves both America and Japan is the Asia-Pacific Economic Corporation. It involves twenty-one different countries, but the main benefit of this agreement is that it reduces trade barriers between our country and the country we hope to expand to. Trade between the United States and Japan is largely encouraged, and both countries have been benefitting from trading with each other for decades.   
  
Japan is ranked as number 34 out 189 countries in terms of ease of doing business. Although it does not have many tariffs, Japan does have some non-tariff trade barriers such as requirements in some sectors to have prior experience in Japan, official regulations that discriminate against foreign products, cartels, and cultural emphasis on personal relationships that heavily influence business relations in Japan. In addition, there are certain documents that must be obtained in order to import goods into Japan. Anyone wishing to import goods must get an import permit from the Director-General of Customs, and sometimes importing certain items requires a Japanese import license. People exporting from the United Stated might have to have an Import Declaration Form and a certificate of origin.