

Can Japan's service industry guide the world?

By Masakazu Toyoda

Many years ago, Japan established its reputation as a “nation of manufacturing”. Yet the manufacturing sector's share of GDP gradually declined by half, from around 30% in the 1970s, to currently about 15%. Conversely, the service industry's share has steadily increased from around 50% in the 1970s to 70% since 2000s.

Japan's leading service industries maintain exceptionally high levels of standards in terms of attentive service. Industries such as the railways, lodging, retail, and consulting remain largely domestically oriented, while the general trading companies, finance, and shipping do business within and outside Japan.

Despite government policies aimed at boosting the birth rate, Japan's population peaked at approximately 128 million in 2008 and has been declining ever since. According to estimates by the Ministry of Health, Labour and Welfare, the population could reach about 95 million by 2050, a decrease of about 25% compared to the peak. A population decrease is not a surprising phenomenon, as it is affecting many developed nations. Without an increase in population, however, seeking an overall market expansion will require the leading service industries to substantially accelerate their overseas activities. The profitability of those industries is expected to be at least comparable to that in the manufacturing sector.

Although Japan's general trading companies are prominent globally, their domestic sales ratio exceeds 50%, suggesting that an intensification of their overseas operations will be necessary going forward. While no overseas companies replicate the business model of the Japanese general Trading Houses, a comparison with investment firms like Berkshire Hathaway reveals that individual Japanese trading houses generate about one-third of the turnover and between one-third to one-half of the profits. On the other hand, the Japanese general trading houses are characterized by greater stability in both sales and profits than the overseas investment firms.

Regarding the financial institutions, some companies generate over 50% of their profits overseas, but this still does not represent the majority of the companies. Although the Japanese financial institutions boast profitability around 20%, their sales and profitability are only about half, compared to Morgan Stanley or CITI Group, for example.

The profitability of the shipping industry ranges from 5% to over 40%, with sales equivalent to one-third or one-half that of Danish, Chinese, and German companies. Although volatile, reflecting instability in the global market, the shipping industry holds its own.

To further scaling up those companies (general trading companies, financial institutions, and shipping) would require a shift away from their current business model which “primarily” focus on the Japanese market. Those companies are, in a way, similar to the retail, lodging, and consulting industries (discussed below).

An expert perspective on the challenges facing the retail,

lodging, and consulting industries will be presented in the January/February 2026 roundtable discussion of the Japan Spotlight, “Aiming for a Service Industry that Leads Japan and the World.” I strongly recommend reading it.

The roundtable will emphasize the importance of promoting DX, overseas investment, and M&A. In short, it will stress the importance of localizing service. For example, in retail, convenience stores such as Seven-Eleven and Lawson have experienced a significant growth recently. As of September 2023, 80% of Seven-Eleven's total 80,000 stores are overseas, and as of February 2025, nearly 35% of Lawson's total 20,000 stores are also overseas. However, the majority of these are in Asia where shopping by car isn't the norm. So it's easy to imagine why the convenience of stores, which offer proprietary products such as rice balls, is being so highly valued. Creating a different appeal for the regions with car-dependent societies or lack of Sunday shopping habits, such as in Europe and America will be necessary. It is crucial that they find a niche for themselves that would be different but capable of surpassing Walmart in the US, for example. Walmart's sales are nearly twice as those of the three major Japanese convenience store chains combined.

What about the lodging industry? Oriental Land and Resort Trust report profit margins around 10%, comparable to Hyatt and Marriott Hotels. However, their combined scale is only one-third to one-half of these two companies alone. While it is essential to maintain a Japan's lodging industry that is recognized as “extremely clean with meticulous service”. It is also necessary to meet the needs of other Asian and Western customers. Sending a few managers from headquarters to understand those needs and customs is crucial.

Japan's consulting industry, which is known for its careful attention to details, is comprised of some firms that are IT-focused, creating a tendency for vendor lock-in with clients. To meet overseas customer needs, securing top international talent or leveraging foreign companies through M&A will likely be necessary.

Finally, I would like to touch on the railway industry. Japanese railways, exemplified by the Shinkansen, boast the outstanding feature of high frequency coupled with punctuality. Expectations for the introduction of a Japanese railway system abroad are high, and could be achieved through cooperation with local companies.

I hope the potentially negative impact on economic growth of a decline in total population could, at the very least, be neutralized with an overseas expansion of Japan's excellent service industries. Japan's experience could serve as a guide to stimulate the service sector, leading to further development globally. **JS**

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