

affordable for the local targeted customers and lucrative for companies, by reducing secondary functions to meet local market needs, as pointed out above regarding products and services, and by reflecting factors including as local income levels.

(Promotion)

In order for the Japanese-style attentiveness to come to light, it is important to inform customers of its good quality, but it is not easy to make them understand such good quality without actually experiencing it.

To make customers understand such good quality, traditional mass advertising methods are not enough to draw the attention of the target customer segment. It would be necessary to take actions such as establishing antenna shops and showrooms, gathering many people by marketing at public facilities and shopping malls, actively soliciting the wealthy class through word-of-mouth marketing, word-of-mouth marketing via the internet (including blogs and SNS), and collaborating with partner companies sharing the same values.

3. Toward promoting Japan — turning crisis into opportunity

As described in 2. above, Japanese-owned companies, under pressure due to the ongoing world economic crisis, have come to have a growing awareness that their important task is to explore markets of emerging economies and the Asian economic zone, particularly the middle-income class markets. This Section introduces commitments that would be ways to turn the world economic crisis into opportunity, including the exploration of markets in emerging economies and the Asian economic zone.

(1) Promoting Japan through innovation

Active efforts in research and development exerted by Japanese-owned companies and government, which had continued even under the period of extreme shortage in natural resources and capital following World War II, have paved the way for Japan to grow into a technology-based nation and create the world's leading technologies. Offering products that reflect the advantages of Japanese technologies will remain as an effective means for capturing overseas markets. However, Japan's status in terms of technologies will not always remain solid.

The following discusses the possibility of overseas business expansion through innovation, while taking into account the present level of Japanese technologies.⁵⁰

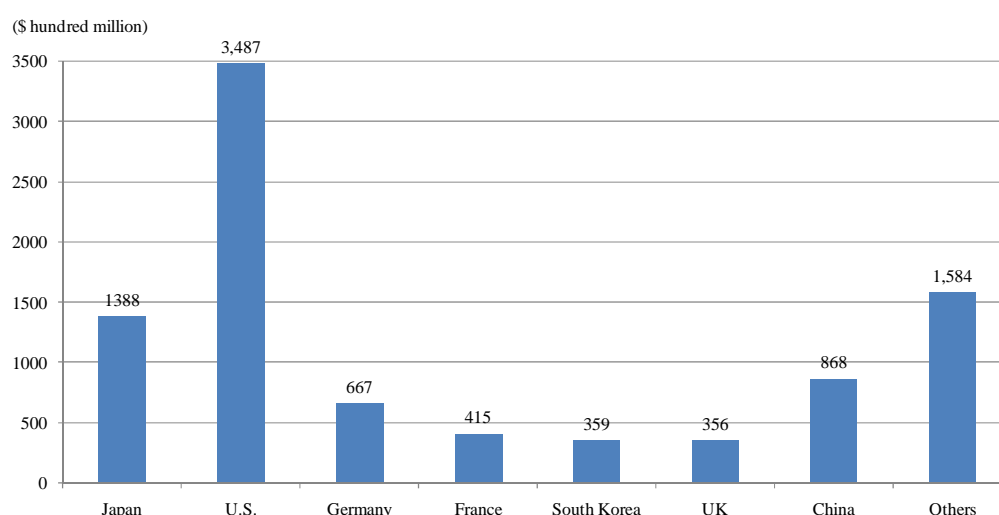
⁵⁰ Innovation does not always mean the achievement of research and development outcomes or technological advancement. According to Schumpeter's *Theory of Economic Development* (first edition published in 1912), a classic masterpiece on innovation, innovation means (i) production of new property or a property having a new quality; (ii) introduction of a new method of production; (iii) exploration of a new market, (iv) procurement of a new source of materials or semi processed goods, and (v) implementation of a new organizational system. Items (iii) through (v) mentioned above are not always the results of research and development outcomes or technology advancement. However, the TFP growth rate, which is a benchmark showing innovation, is linked to research and development activities, as far as Japan is concerned. For example, Kwon, Fukao and Kim (2008) demonstrate that, in Japan, R&D expenditures has statistically positive effects on TFP growth rate. Thus, discussion in this paper is focused on technical aspects generating innovations.

(A) World-class Japanese technology

Japan's current primary export products comprise machine equipment, such as electrical machinery, general machinery and transportation equipment, for which technology is the most crucial factor underlying their competitiveness. Furthermore, Japanese products account for large shares in regard to various industrial products.⁵¹ It is obvious from these facts that the Japanese industries' technical level ranks among the world's best.

Technology is supported by activities to pursue innovation. As far as innovation is concerned, Japan has not lagged behind other major countries. For example, a comparative review of R&D expenditures spent by major countries shows that Japan has maintained second place in the world ranking, after being surpassed by the United States (Figure 2-2-3-1).

Figure 2-2-3-1 Comparison of R&D expenditures of major countries (2006)



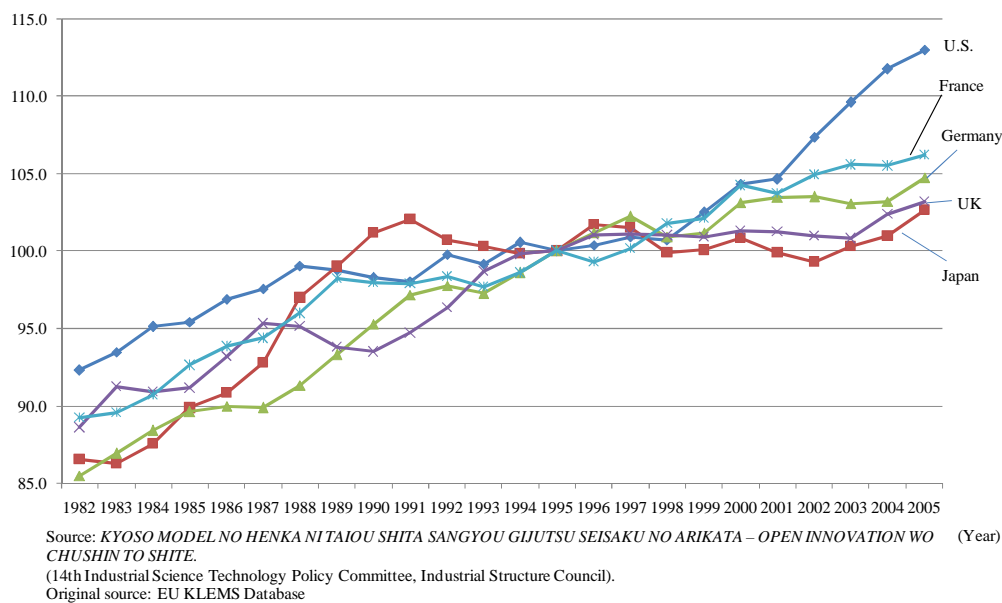
Notes: "Others" refer to the values for OECD members excluding Japan, U.S., Germany, France, South Korea and UK
Source: WAGAKUNI NO SANGYO GIJUTSU NI KANSURU KENKYU KAIHATSU KATSUDOU NO DOUKOU – SHUYO SHISUU
TO CHOU SA DATA – DAI KYU HAN (Ministry of Economy, Trade and Industry, Japan, 2009).
Original Source: *Main Science and Technology Indicators* (OECD, 2008).

(B) Relative downturn in Japan's technology level

However, in recent years, Japanese technologies have stayed sluggish in terms of development. As described in Section 1, the growth rate of total factor productivity (TFP), which is a benchmark of the contribution of innovation, etc. to productivity enhancement, has slid to a considerably low level compared to that of 1980s. The TFP indicator is stagnant, compared to that of other major countries (Figure 2-2-3-2).

⁵¹ For example, 36.8% of the production quantity of solar batteries in 2006, the aggregate of which was 2521.4 MW, was produced by four Japanese-owned companies (Figure 3-1-23, *White Paper on International Economy and Trade* 2008).

Figure 2-2-3-2 Changes in TFP indicators of major developed countries (Year 2005 = 100)

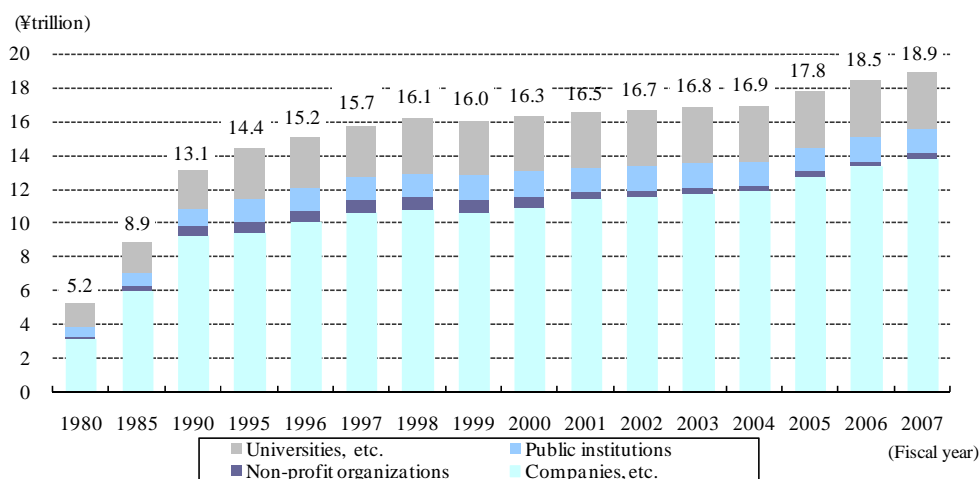


It is estimated that the sluggishness in TFP has resulted from various factors, including the following:

(a) Slowdown in increase in R&D expenditures

Japan's research and development financial investment steadily increased until the 1980s, however, thereafter the growth rate gradually declined, and remained almost unchanged for the period from the late 1990s to the mid 2000s (Figure 2-2-3-3).

Figure 2-2-3-3 Changes in Japan's R&D expenditures (Natural sciences + social sciences + humanities)



Notes: 1. Due to changes in classification of survey targets, the research costs of non-profit organizations before 2000 refer to research costs of private research institutes.

2. Values before conversion into full-time equivalent value.

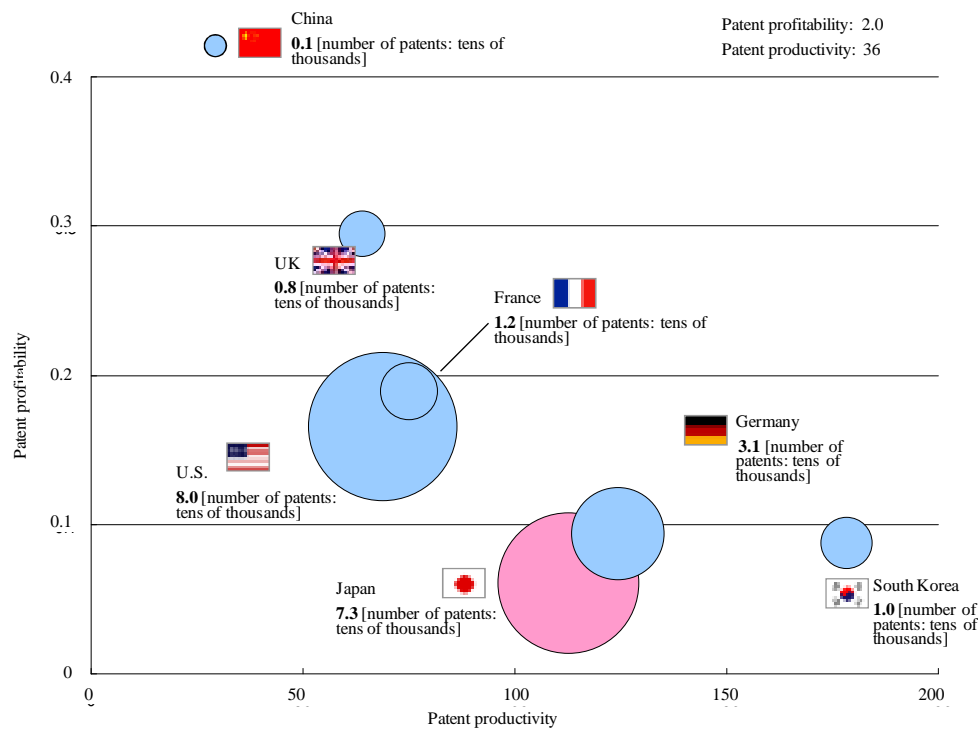
Source: *Report on the Survey of Research and Development* (Statistics Bureau, the Ministry of Internal Affairs and Communications, Japan).

(b) Research and development not generating profits

In Japan, compared to R&D expenditures the number of patents is relatively large, but the GDP is small compared to the number of patents (Figure 2-2-3-4). Such facts suggest that Japanese-owned

companies are vigorous in patenting, but that not all of such patents are lucrative.

Figure 2-2-3-4 Comparison of productivity and profitability of patents of major countries



Notes: 1. Patent profitability = GDP (2006)/ number of patents (total number for the period from 2001 to 2005)

2. Patent productivity = number of patents (total number for the period from 2001 to 2005)/research and development costs (total amount for the period from 1997 to 2001)

3. The diameters of the circles indicate the number of patents (2001 - 2005)

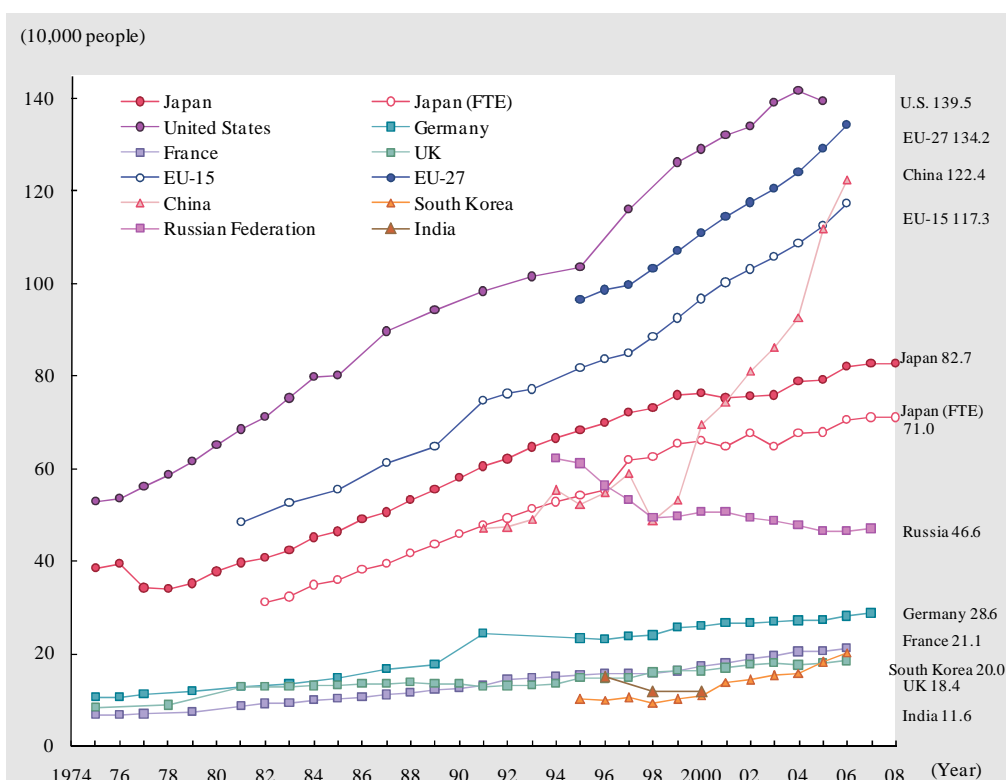
Source: Materials of 25th Research and Development Subcommittee, Industrial Science Technology Policy Committee, Industrial Structure Council

Original Source: *World Economic Outlook Database 2008* (IMF, 2008), *Factbook 2008 Economic, Environmental and Social Statistics* (OECD, 2008).

(c) Research and development activities of emerging economies catching up with Japan

In addition, in recent years, emerging economies have been putting more effort into research and development. For example, an international comparison of numbers of researchers shows that, at the beginning of this century, there were more Chinese researchers than Japanese (Figure 2-2-3-5).

Figure 2-2-3-5 Changes in number of researchers in major countries and regions

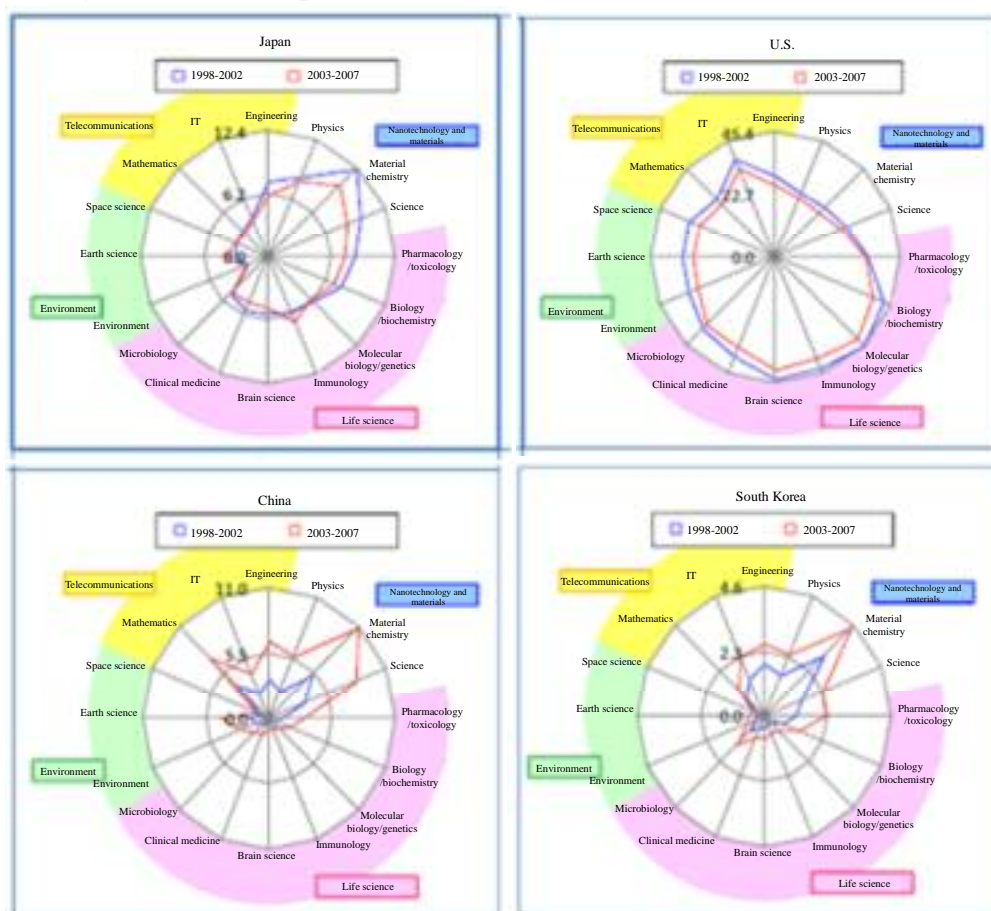


Notes:

1. Results of all countries, excluding South Korea, reflect number of researchers in humanities and social science.
2. The base date for Japan is April 1, for the results on or before 2001, and March 31, for the results on or after 2002.
3. Japan's FTE values on or before 1995 are overestimated presumptive values, or values estimated by OECD based on overestimated data.
4. Germany's result for 2007 is its own estimated value.
5. With regard to the UK, the results on or before 1983 represent the total number of industry researchers (scientists and engineers) and researchers at national research institutes (holders of bachelor's degrees or higher), but do not include researchers at universities or private research institutes.
6. With regard to the U.S. and EU, the results are OECD estimates.
7. The results for China do not always conform to the OECD definition of researcher.
8. The original sources are as follows:
 Japan: Number of researchers: *Report on the Survey of Research and Development* (Statistics Bureau, the Ministry of International Affairs and Communications), FTE: *Main Science and Technology Indicators Vol 2008/2* (OECD).
 India: *UNESCO Institute for Statistics S&T database*.
 Other countries: *Main Science and Technology Indicators Vol 2008/2* (OECD).
 Source: *Indicators of Science and Technology 2009* (Ministry of Education, Culture, Sports, Science and Technology, Japan, 2009).

Emerging economies are catching up with developed countries in terms of research and development outcomes as well. The trend seen in Japan is also seen in China and South Korea, as they present high citation rates for theses related to the fields of nanotechnology and materials, especially materials chemistry (Figure 2-2-3-6). In China and South Korea, the proportion of theses on materials chemistry has been steadily increasing, which shows that both countries are rapidly catching up with Japan.

Figure 2-2-3-6 Comparison of number of cited theses, by field of studies



Source: WAGAKUNII NO SANGYO GIJUTSU NI KANSURU KENKYU KAIHATSU KATSUDOU NO DOUKOU – SHUYO SHISUU TO CHOUSA DATA – (Ministry of Economy, Trade and Industry, Japan, 2009).
Original Source: *Essential Science Indicators* (The Thomson Corporation).

(C) Possibility of overseas business expansion through innovation

As pointed out thus far, Japanese technology remains at the world-class level; however, its relative position has been weakening. Moreover, owing to the occurrence of the world economic crisis, companies now tend to fail to secure allowances for making investment in research and development.

Under these circumstances, the launching of overseas business through innovation is not an easy task. Nevertheless, the following commitments would be effective:

(a) Making full use of innovation tailored to local needs

As also pointed out in 2., many Japanese-owned companies recognize themselves as being superior to emerging economies in terms of technology (Figure 2-2-2-22 above). However, as also pointed out in the *White Paper on International Economy and Trade 2008*,⁵² looking at market shares of products in emerging economies, Japanese-owned companies have not always succeeded in

⁵² The Figure 2-3-3 of *White Paper on International Economy and Trade 2008* refers to “GLOBALIZATION GA SEKAI OYOBI WAGAKUNI NI ATAERU EIKYOUNI KANSURU CHOUSA KENKYU” published by The Japan Economic Foundation. According to above, 46.3% of Japanese-owned companies operating in China and 67.1% of Japanese-owned companies operating in India answered that they “have not succeeded in capturing market shares,” the result of which shows failure by Japanese-owned companies in securing sufficient market shares in emerging markets.

capturing sufficient shares. The circumstance in which technology does not always win market shares suggests that there may be certain problems in the process of getting technology to the stage of product sales.

For example, a possible reason may lie in Japanese-owned companies' failure to adequately identify the preferences of local markets and reflect such preferences in product and service development. It is necessary to strive to fully identify local market needs, like the companies introduced below have done.

<<Example Case>> Company identifies overseas market needs in relation to its advanced elementary technology (Chukoh Chemical Industries, Ltd.)

Chukoh Chemical Industries, Ltd. (Headquarters: Tokyo; Production hub: Matsuura City, Nagasaki Prefecture; 467 employees; Capital: ¥113 million) was incorporated in 1963 as a new chemical manufacturer after it switched its business domain from coal mining in Matsuura coalfield, which was suffering successive discontinuances in coal mining operations due to trends in energy resource conversion. The company's core technology is the fluoroplastic coating of cloth for industrial use, such as glass cloth, based on which it has grown into a leading company manufacturing fluoroplastic coated products including adhesive tape and belts, and "Skytop," Japan's first roofing membrane material. It is the only company in Asia that manufactures roofing membrane material for domes.

The company succeeded before its competitors in the industrialization of the coating process for fluoroplastic, which was the most difficult plastic material to process. The company's fluoroplastic-coated cloth has the merits of heat resistance, insulation, sound absorption and non-adhesiveness that prevents the adhesion of dust. It has been widely used in industrial fields involving chemicals, machinery, electricity, communications, etc.

The domestic market had become saturated. The company gained a reputation as the world's top-ranked manufacturer of advanced fluoroplastic coated membrane material that "accommodates customers' every need," in terms of both quality and quantity. The company underwent a difficult time when competing to capture overseas markets, but it has continued its efforts by taking advantage of its meticulous quality, delivery management and technological responsiveness, which brought about good results.

For example, the terminal concourse of Suvarnnaphum International Airport in Bangkok, Thailand uses 160,000 square meters of the company's roofing membrane material, which is the among world's largest-scale usage. Moreover, with the "Bird's Nest" (China National Gymnasium), the main venue for the Beijing Olympics, the company's readiness to address every difficult problem raised by Chinese and Swiss designers enabled the company to come out on top of the triangular bidding competition between the United States, Germany and Japan. Furthermore, the company's product is to be used as roofing material for the stadium for the 2010 FIFA World Cup in South Africa. Such facts show that the company's technology has gained worldwide recognition.

The company has launched business in new domains by taking advantage of coating technology cultivated by fluoroplastic coating. In July 2007, Toyota announced that its entire passenger car range will be equipped with silicon-coated side-curtain airbags, which protect drivers' and passengers' heads when an automobile rolls in an accident. In 2009, the United States government decided to make the installation of such airbags mandatory. Thus, the growing expectation for a prospective increase in

manufacturing of such silicon coating resulted in the expansion of its markets worldwide, including China and emerging economies. The company launched business in such domains from an early stage.

Example: Suvarnnaphum International Airport (Bangkok)



Column 14: From Ama Town of the Oki Islands to the world — exporting fresh cuttlefish and rock oysters through collaboration between a fishery and industry

This column refers to Ama Town, which is on Nakanoshima Island of the Oki Islands. The Oki islands are located in the Sea of Japan approximately 60km from the coast of Shimane Prefecture. Owing to their distinctive isolation, the islands suffer the dual problem of accelerating underpopulation and increased population aging. The total population has now declined to 2,400, and only ten babies a year are born on the islands. Adding to this, the isolation precludes the islands from merging with another local government. On top of this, continuous reduction in national government subsidies and a gradual worsening in employment have revealed the fragility of industries and the economy of the region.

Under such severe economic conditions, K.K. Furusato Ama (Capital: ¥250 million; 25 employees) was incorporated in 2005, with the objective of making good use of the island's unique resources in order to procure "foreign funds" from the mainland, and thereby create job opportunities on the island through developing and distributing products primarily consisting of agricultural, forestry and fishery goods. The representative director of the company is Mr. Michio Yamauchi, the mayor of Ama Town.

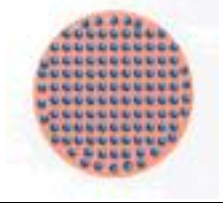
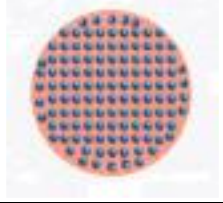
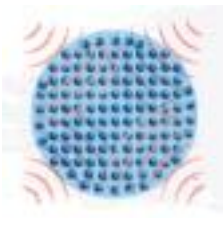
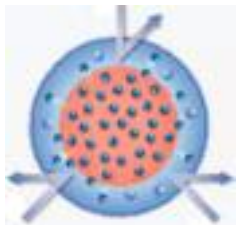

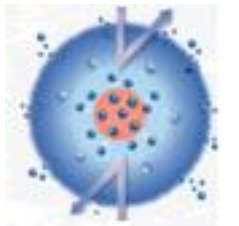
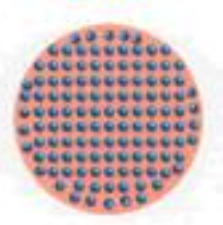
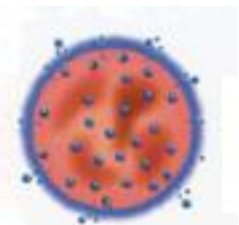
The Oki Islands are designated as a national park, and are a good fishing area. In fact, they are known as "miketsu-kuni" (a region that produces food for the emperor), and had delivered seafood to the Imperial Court since ancient times. The distance from the mainland, which takes three and a half hours to cross by ferry, made it impossible to ship rich seafood caught in the sea while maintaining the same fresh condition as that which was available for the island's people. In order to overcome such an obstacle to shipping the island's products without having it spoil, Furusato Ama adopted the CAS freezing system.⁵³ The system enabled commercialization of the island's specialties, such as rock oysters, cuttlefish, turban shells, and sea bream, and the distribution thereof by restaurant franchises in

⁵³ "CAS" is revolutionary freezing technology system developed by Kabushiki Kaisha ABI, located in Abiko City, Chiba Prefecture. It stands for "Cell Alive System," whereby cells are not destroyed by freezing and the food maintains its freshness perfectly even after defrosting. ABI has acquired patents related to its CAS freezing system in more than ten countries in addition to Japan, and has been carrying out joint research with more than 30 universities and research institutes in Japan and overseas. Prime Minister Aso visited the company on May 9, 2009, and praised the technology, saying that, "use of this technology may help to promote growth in agriculture and forestry industries."

the Tokyo metropolitan area and major mail order distributors. The distribution area for such seafood expanded throughout Japan. The company also exports cuttlefish and rock oysters to Shanghai, China. The freezing system technology allows the supply of seafood resources, which is one of the attractive points of Japan, to the world. The company's blog "From Ama Town, Oki Island — Furusato blog"⁵⁴ presents up-to-date regional information to the world, and has gained a good reputation.



⁵⁴ <http://shimakazelife.blog45.fc2.com/>

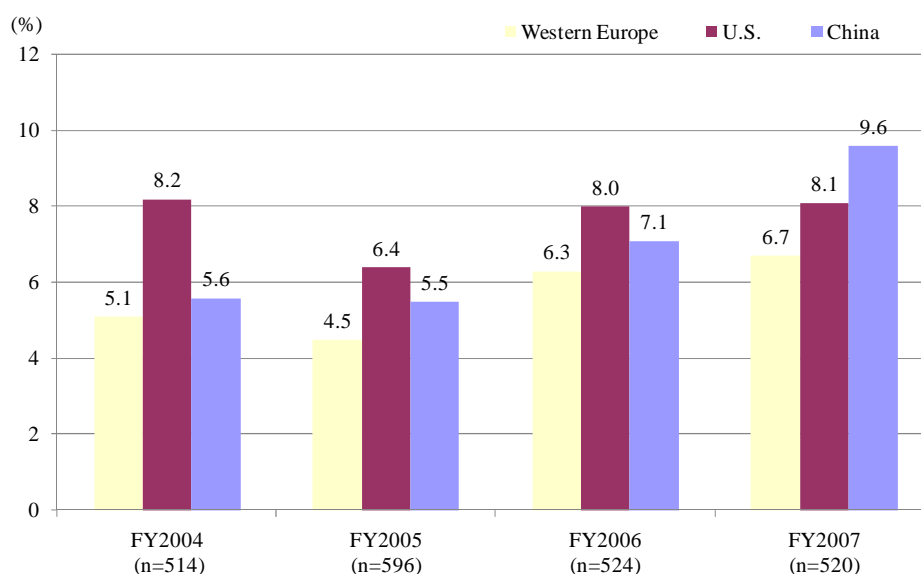
Freezing by CAS System		Former Quick-Freezing System	
Water molecule of material before freezing			Water molecule of material before freezing
Freezing Process Super cooled condition is sustained by restraining ice crystallization, while vibrating water molecules of material by adding combined multiple faint energies, for the purpose of minimizing the damage caused to the cells, which is an important determinant of taste of food.			Freezing Process When a material is directly exposed to a chilled wind of -40 to -50 Celsius, freezing starts from the surface. The ice created on the surface forms a barrier which prevents freezing of the inside. This cycle of accumulative freezing is then repeated. Therefore, it takes time for the entire material to be frozen.
Frozen state Material in its entirety freezes at once.		J 	Frozen state Before the whole material freezes, ice on the surface grows, resulting in a capillary phenomenon, whereby the water molecules in the non-frozen inner portion move and become absorbed into the cells of the ice on surface. This capillary phenomenon causes water evaporation, which causes water discharge and drying.
After Defrosting The defrosted water molecule returns to the same state as before it was frozen. Therefore, the freshness, taste, flavor, etc., of the material is restored to the original state before it was frozen.			After Defrosting The cell membrane is destroyed, and water molecules inside the cell starts to move. A drip phenomenon of the cell membrane together with “umami” compounds occurs, ruining the taste, changing the texture, and also resulting in senility of the cells.

(b) Localization of research and development

The momentum to establish overseas research hubs with a view to developing products reflecting overseas market needs emerged at an early stage; however, in recent years, such tendency has expanded to include the establishment of research and development hubs in emerging economies.

For example, according to a survey implemented by JETRO, from among the companies which responded to the survey, the proportion of the companies that have established a research and development hub in China has been increasing, reaching 9.6% in fiscal 2007, which exceeds the proportion of companies who have established an R&D hub in the United States (Figure 2-2-3-7).

Figure 2-2-3-7 Countries and regions where research and development hubs have been established



Note: Constituent ratio to companies with established overseas hubs.

Source: *Survey report on overseas business operations by Japanese companies 2007* (JETRO).

Establishing an overseas R&D hub is an effective means of employing skilled local researchers and of actively cooperating with and utilizing neighboring research institutes, as well as of reflecting local needs at the product development stage.

<<Example Case>> Panasonic — a company makes a thorough study of the lifestyles of local people⁵⁵

Panasonic released a refrigerator in China in the summer of 2007 that has seen ten-fold per-year sales increases. A refrigerator for general household use (210–230 L capacity) that was formerly sold by Panasonic in China exceeded 60 centimeters in width. Simply downsizing the refrigerator to 55 centimeters in width made it a smash hit.

The idea to narrow the width was suggested by China Lifestyle Research Center, established in Shanghai in April 2005. The center has eight Chinese staff members, excluding the president, who

⁵⁵ Partial citation from the article titled, *OGAWARA KATSUYUKI NO KOREHA “NEWS” DESU: HABA WO GO SENCHI MIJIKAKU SHITA SHIN HASSOU GA CHUGOKU DE OUKE! REIZOUKO WO JUUBAI UTTA PANASONIC*, published in *Nikkei Trendy Net*, Nikkei Business Publications, Inc. dated November 10, 2008

visit Chinese households to gain detailed information and to thoroughly analyze the lifestyles of Chinese people.

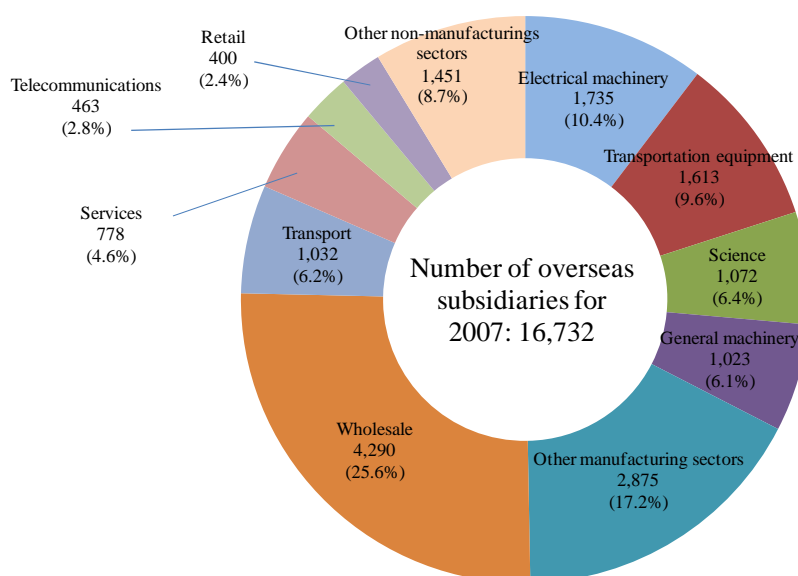
The analysis revealed that in China, about 40% of households place their refrigerator in a space other than the kitchen, such as in the living room or the dining room. It was also revealed that the reason for placing a refrigerator in such places was the lack of kitchen space, in addition to Chinese people's unique preference in that they like to place their refrigerators in the living room, etc. where it can be seen by visitors. Downsizing the refrigerator to 55 centimeters in width enabled most Chinese households to install one, and thereby resulted in a smash hit.

A Panasonic staff member says that, unlike audiovisual devices and televisions, household appliances do not sell well unless they are adapted to local environments and customs. In many cases Japanese manufacturers sell unmodified products to emerging economies, however, the development of localized products is necessary if they wish to capture a large market.

(2) International expansion of service sectors

It has been pointed out that Japanese service sectors, compared to manufacturing sectors, have made less progress in overseas business expansion. However, non-manufacturing sectors are now making headway in overseas business expansion. Looking at the composition of types of Japanese-owned companies operating overseas in fiscal 2007, the proportion of nonmanufacturing sectors accounted for the majority (Figure 2-2-3-8).

Figure 2-2-3-8 Distribution of overseas subsidiaries of Japanese-owned companies, by sector (FY2007)



Notes:

1. "Electrical machinery" refers to electrical machinery and telecommunications machinery.

2. "General machinery" refers to multipurpose machinery, production machinery and service machinery.

Source: *Basic Survey of Overseas Business Activities – Actual Results for FY2007-* (Ministry of Economy, Trade and Industry, Japan, 2009).

It is expected that the domestic market for services, especially personal services, will suffer the impact of a substantial medium-to-long-term decrease in population caused by a declining birth rate and increased population aging. Under such circumstances, overseas business will continue to grow in importance for Japanese service sectors.

(A) Significance of international expansion of service sectors

The “Report by the Global Service Study Group — Efforts Toward Innovation Through the Creation of Value in Cooperation with Asian Consumers,” issued by the Ministry of Economy, Trade and Industry, Japan (2009), remarks that the international expansion of service sectors has the following significance, in addition to the expansion of markets:

(a) Acceleration of innovation

Advanced service sectors are communicating with customers in order to understand their needs and to create valued, all-new services. Expansion of such commitments to the collaborative creation of value to include overseas customers, in addition to Japanese customers, would improve the scheme for such collaborative value creation and accelerate further innovation.

(b) Differentiation

International business expansion leads to the enhancement of reliability and brand awareness of the company, and encourages differentiation from other companies. In particular, with regard to personal services, if the company strives to expand services while reflecting on the needs of overseas customers, who have different cultures and backgrounds from Japanese consumers, and seeks feedback from them, it would have a positive effect on gaining customer confidence regarding the company and encourage brand establishment in Japan.

(c) Cost cutting

With regard to service sectors, especially service sectors offering products in addition to services, there may arise a case where progress in international business expansion and success in capturing a larger market would enable the procurement of such products under more favorable conditions, due to an increase in buying power.

(d) Leveling of risks

Expanding business in multiple countries and regions is effective in the sense that, even in the case of a drop in sales in a specific country’s market due to depression or any other contingent event, the loss arising in those segments would be covered by businesses carried out in other countries and therefore the risk would be leveled off.

(B) Issues involved in international expansion of service sectors

The overseas business expansion of service sectors is expected to generate the effects as mentioned above, while on the other hand, such business expansion has been facing difficulty in making progress, owing to the following factors:

(a) Standardization of operational methods and business administrative management

It is said that, compared to foreign countries such as Europe and the United States, Japan is a society with stronger cultural homogeneity in which the proportion of tacit knowledge is high (a high context society). Thus, it is very possible that Japanese-owned companies face various difficulties in expanding business overseas, in various aspects, such as methods of providing services and the

transfer of management methods.

Therefore, for the purpose of discussing the international business expansion of Japanese-owned companies, it would be important to share the tacit knowledge by reducing it to a manual and standardizing it as much as possible, and to establish a scheme for sharing knowledge and know-how on a global basis, through meetings and other methods of communication.

(b) Dialogue with local consumers, etc.

— Establishment of the function of local consumption intelligence for the purpose of innovation and reflecting the preferences of local consumers —

It is said that, in general, the quality level of services required by Japanese consumers is high, compared with the level required in other countries. Therefore, in order to satisfy consumer demand for high-quality, service companies that have gained a reputation in the domestic market, are creating high-quality services by accumulating their unique know-how as Japanese-owned companies in respect to improving the quality of services and the provision of services, and based on high-level hospitality.

In order for Japanese service companies to successfully expand business overseas, it is essential to establish a function of identifying the characteristics of local customers and tailoring the service to such characteristics, based on communications with customers through a service offering process (“consumer intelligence function”) in emerging markets, including Asian countries. At the same time, such companies need to make good use of their experience in offering services that withstood the scrutiny of demanding Japanese customers while primarily focusing on the concept of collaborative creation of value with customers. It is important for a company to strive to make its service model innovative by learning from overseas markets and its customers.

Column 15: Points to be taken into account for learning from overseas markets

In order for a service sector to strengthen its communication with customers in order cater services to emerging economies including Asian countries, while making good use of its experience in Japan, the following commitments would be effective:

<Establishment of local consumption trends intelligence systems>

High quality and hospitality are features appreciated by consumers throughout the world. But, in actual cases, as income level, social and cultural backgrounds, living environment, consumption habits, etc. of overseas market differ from that of Japan, there is no guarantee that service models which have become popular in Japan and features thereof will always win reputation in overseas markets. Even Japanese service companies, which offer high-quality services, need to collect diversified information on: local market business practices, people’s lifestyle and customers’ needs in order to analyze characteristics of local markets, to evaluate applicability of characteristics and elements differing from Japanese service models and to modify such models to meet local needs.

<Maintenance of favorable Japanese service models and direct adaptation of those models to localized markets>

It should be taken into account that adherence to models effective in the Japanese service sector may actually operate as an obstructing factor in establishing consumption intelligence related to overseas markets. It is important to ensure that confidence in models developed in Japan does not operate as a psychological obstacle in evaluating and objectively analyzing local market information. It is important to maintain confidence in service models established in Japan, while keeping open to learning from local society, in a well-balanced manner.

<Necessity of "international business knowledge integrator">

In order to adapt characteristic elements of service models offered in Japan into service models applicable to international localized markets, businesses must differentiate service models applicable to specific countries and service models applicable only in Japan (categorization based on applicability after discounting Japanese consumers tacit understanding of “appropriate” service models. (i.e. de-contextualization)). This may be achieved by gathering information based on the status of local markets and also on individual customer feedback. In this way, businesses can identify elements lacking in Japanese models that should be added to satisfy the target market, and this will allow them to build all-new service models based on modifications of distinctive elements (i.e. re-contextualization to new service models) and provide human resources capable of objectively analyzing distinctive characteristics of markets and consumers within each country.⁵⁶ For this, international business knowledge integrators are necessary.

Considering the importance of implementing both the maintenance of characteristics of service established in Japan and the adaptation thereof to local characteristics, it is desirable that a company has both Japanese and local personnel to act as international business knowledge integrator. In addition, coordination of outside personnel and the above suggested local partner company staff will also be an important consideration in conducting business.

(c) Fostering of international business knowledge integrator

For fostering Japanese personnel to become international business knowledge integrator, it is important to ensure that he/she has a deep understanding of local markets. In addition, from the viewpoint of restructuring the company’s own business models based on the knowledge newly derived from local markets, it is also important that he or she fully understand the characteristics and values, etc. of the company’s business model.

On the other hand, for local international business knowledge integrator, an ability to understand

⁵⁶ Such personnel need to be fully acquainted with social and cultural backgrounds and have a sense of the local society’s values and consumption customs. On the other hand, such a person needs to understand the characteristics and values of service models that have gained a favorable reputation in Japan and understand the social and cultural background of Japanese society underlying its business models. Further, in order to extract useful information from various sources in the local society and to make such information available for use for new business models, such personnel needs to have a wide range of interests on events which would take place in the local markets in relation to various types of businesses. In addition, such personnel who have gained a deep knowledge of social and cultural backgrounds and have sense of value of both Japanese and local society is expected to be able to build brand awareness and to manage advertising strategies. In this way, they will be able to promote the characteristics and value of the company's services so that it may gain a good reputation while observing cultural differences underlying such service.

characteristics of the company's service and to identify and objectively analyze the characteristics of the local market is required.

From the standpoint of local human resource development, it is also necessary to foster staff in charge of actually supervising the local service site, in addition to international business knowledge integrator. For a personal service sector or retail sector business, which provides products and services to people unlike in the case of the manufacturing sector, it is essential to ensure that each staff member working in-store fully understands the corporate vision, methods for serving customers, and has general day-to-day operational knowledge.⁵⁷

(d) Adoption of business models which match development phase of local consumption market

So far, international expansion of service sectors has primarily targeted the wealthy and semi-wealthy classes living in metropolitan areas and the like. However, it would also be an option to sow business seeds in regions with a potential for future growth in consumption markets while seeking, from the long-term standpoint, approaches to groups of customers who earn a low income but have the potential to become a bigger consumer.

(e) Development in harmony with local communities

Overseas expansion of service sectors, especially retailers, may arouse various concerns and discussions in local society, in respect of impact on local distributors, especially small and medium-size retailers, etc.

Taking into account the surrounding circumstances, in order for a retailer to advance its overseas business expansion, it is necessary to identify innovations in the local distributing sectors to be initiated by retailers themselves, and for new value-added products and services to be provided to consumers while actively promoting themselves within the local society.

Column 16: Mutual cooperation among different business sectors

For overseas business expansion of service sectors, cooperation among different business sectors may enhance the possibility of achieving success.

<Cooperation between service sector entities such as retailers and personal service providers>

As previously mentioned, in Asia the proliferation of wealthy and middle-income class people has accelerated urbanization and redevelopment and thereby brought about a change in their lifestyle, such as motorization. It is said that, under such circumstances, there is a growing tendency for wealthy and middle-income class people living in urban districts of Asia to enjoy various types of consumption activities by driving their cars to large shopping malls and redeveloped commercial areas. Retailers, commercial facility operators and urban developers have played important roles as suppliers of facilities for consumption activities.

Of course, success of personal services largely depends on the selection of locations for stores,

⁵⁷ In particular, for the purpose of businesses operating multiple stores, such as franchises, in foreign countries with cultures and commercial practices differing from that of Japan, it is necessary to maintain value in the company's brand name and have high-quality services available in all stores.

which serve as the access points for customers. In this sense, securing tenancy of business sites in places such as shopping malls and newly developed commercial areas is a crucial factor in achieving success for a Japanese service sector business targeting local wealthy and middle-income class people.

Presently, saturation of Japanese domestic markets has driven Japanese retailers to strengthen their efforts in expanding business to other Asian markets, using various schemes such as placement in department stores and general merchandise stores. If a Japanese retailer develops a new commercial facility for itself in Asia and a Japanese personal services sector business operates their stores as tenants of such facility, it may be possible for both of them to achieve the synergistic effect of sharing of customers and creating differentiation against other commercial facilities. Thus, retailers and personal services sector businesses have large opportunities to coordinate and cooperate with each other in expanding business into other Asian markets.

In addition, for some types of personal services, cooperation with other facility-type consumption hubs such as hotels may be appropriate.

In addition, from the personal service sectors' side, there is no guarantee that they come across a Japanese-owned company providing facility-type services in the same country, city, or targeted area in the city in which they wish to launch business. Therefore, it is important for them to increase opportunities of cooperation between personal service sectors and facility-type service operators in the local area, regardless of whether such service operator is a locally-owned or foreign-owned business.

<Linkage between retailers and Japanese brand consumer goods>

In overseas business expansion, not all Japanese retailers have tried to attract local consumers by appealing to their identities as distributors of Japanese brand products.

However, there is large room for retailers to establish themselves as providers of Japanese brands through offering safe, secure and sophisticated Japanese products that have been refined by feedback from Japanese consumers, who are demanding in terms of level of product quality. Such commitment would serve as “soft power” to naturally build reliability and sympathy toward Japan in emerging markets including Asia, which would be the target of launching business.

<Linkage with media and contents>

For a Japanese retailer to actively distribute Japanese brand consumer goods in overseas markets, it is necessary to enhance understanding in regards to, and reputation of, designs and functions of Japanese brand consumer goods and Japanese lifestyle in the target areas through media such as TV and magazines.

To achieve such a goal, it is important to promote broadcasting and the distribution of Japanese contents in local society. It is also important to provide a variety of foreign media with information on Japanese lifestyles, which informs Japanese brands consumer goods with their unique style. Providing “monogatari” (storytelling) information, which gives a background to the “monozukuri” (craftsmanship), and stimulating local consumers through TV programs and magazine articles also contributes positively to brand image.

Meanwhile, in Chinese markets, there is an awkward situation, as even though there are popular Chinese editions of Japanese woman's fashion magazines, clothing made in Japan that is featured in the magazines is not available for purchase in Chinese market. Japanese manufacturers and retailers

must actively promote product marketing, while responsively accommodating Chinese people's feedback in regards to Japanese brand consumer goods that are supported by media contents. In addition, acceleration of linkage between everyday items such as toys and stationery and media contents including Japanese anime, etc. will be another task for the future.

<Linkage with commitment to attracting foreign tourists>

The increase in inbound tourists in recent years has urged domestic service sectors to improve systems to accommodate foreign tourists. The Japanese government has been committed to the “Visit Japan Campaign” to attract foreign tourists since 2003. Private sectors have also accelerated their commitment to attracting foreign tourists, such as can be seen in the launch of the “YOKOSO! HYAKKATEN forum”⁵⁸ by department stores.

Such commitments to attracting tourists have the effect of securing a larger number of inbound tourists. In addition, such commitments have a large effect on Japanese service sectors in capturing markets upon expansion of overseas business, as foreign tourists who return home spread the reputation of Japanese services and consumption trends via word-of-mouth, and this arouses awareness toward high-quality Japanese service sector businesses in overseas market and generates potential customers.

Thus, a commitment for linkage with the attraction of inbound tourists is an effective means in laying the foundations for overseas business expansion.

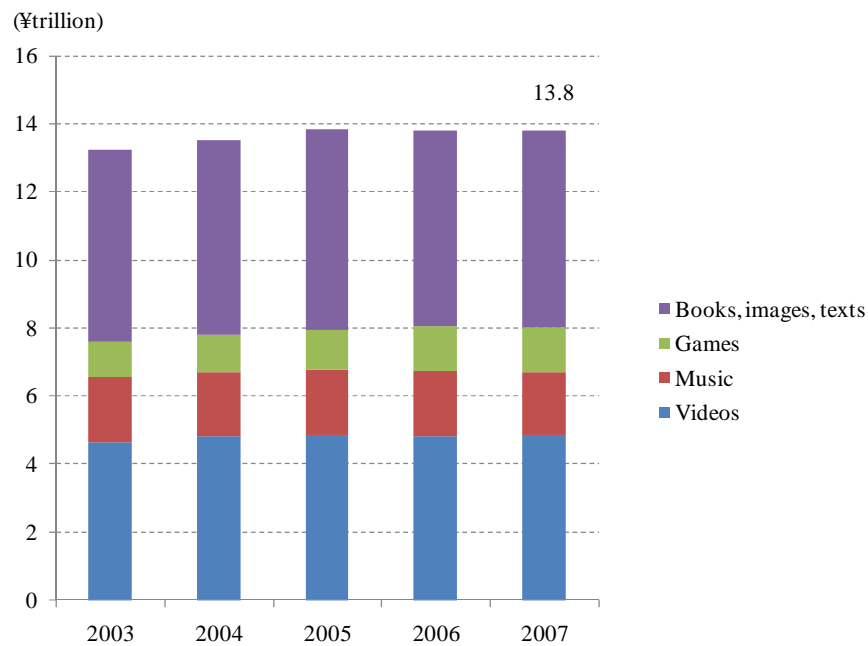
(3) Promoting Japan's “soft power” — International business development of entertainment contents

“...Unfortunately, the “soft power” of Japan has not generated business overseas. Japanese content is excellent; however, content has not been established as an industry. A survey on sales from the Japanese contents' sector shows that the percentage of overseas sales is only 2% of its entire sales, which is only one-tenth of that of the United States, whose overseas sales represent approximately 20% of the total. (Extracted from speech by Prime Minister Taro Aso, “Toward new growth”)

Japan's soft power has already led to the growth of a large industry. According to the Digital Content Association of Japan, the contents industry market in 2007 reached ¥13.8 trillion (Figure 2-2-3-9).

⁵⁸ “YOKOSO! HYAKKATEN forum” was an event convened by the Japan Department Stores Association in June of 2008 in collaboration with government agencies, etc., and with the objective of motivating the department store sector to attract foreign tourists.

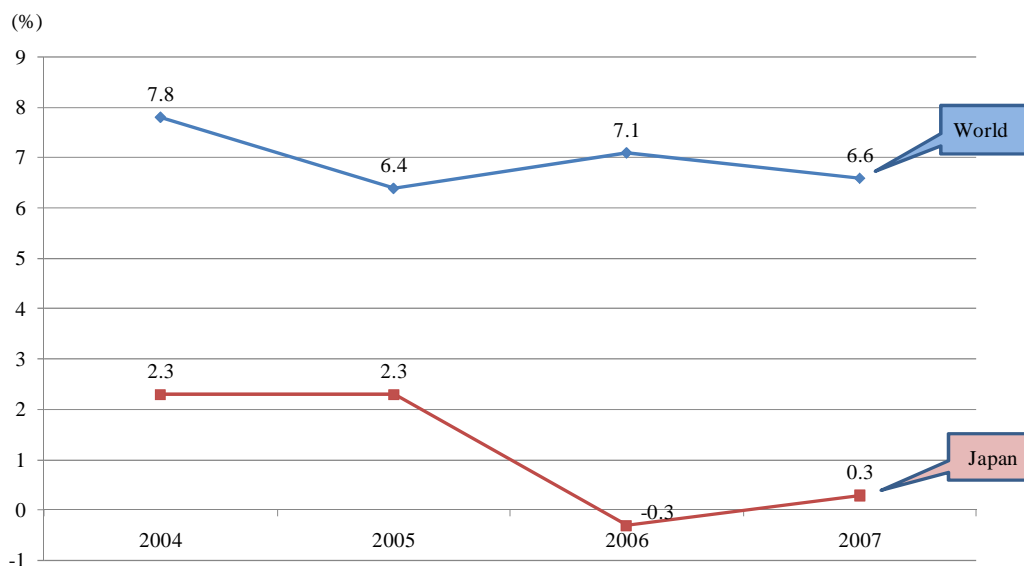
Figure 2-2-3-9 Change in market scale of the contents industry



Source: *Digital Content White Paper 2008* (Digital Content Association of Japan).

However, the market scale of contents has been leveling off since 2005. Contrary to this, in recent years, the contents industry throughout the world has been displaying growth of approximately 6-7%, and it has become crucial for Japanese contents industry businesses to expand markets overseas in order to develop their business (Figure 2-2-3-10).

Figure 2-2-3-10 Growth rate of market scale of the contents industry



Source: Materials of 8th Meeting of Contents-Japan Brand Committee, Intellectual Property Strategy Headquarters

Presently, the Japanese contents industry is, for the most part, a domestic demand-type industry, with 98% of sales generated domestically (Figure 2-2-3-11). This is in contrast to the United States contents industry, in which 17.8% of sales come from overseas.

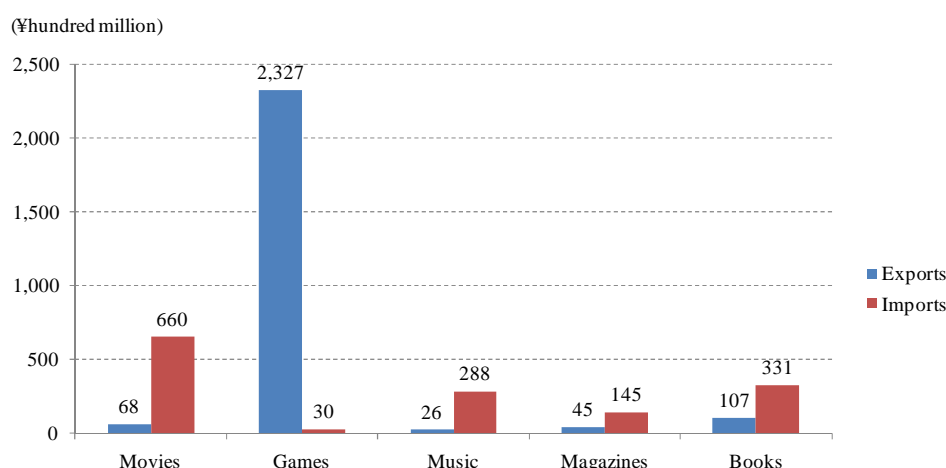
Figure 2-2-3-11 International comparison of data related to the contents industry (2004)

	Scale of contents market	Ratio of overseas sales
Japan	\$0.1 trillion	1.9%
U.S.	\$0.6 trillion	17.8%
World	\$1.3 trillion	

Source: Compiled by the Ministry of Economy, Trade and Industry, Japan, from data on World Bank website, *DCAJ White Paper 2006 and DCAJ Survey*

The tendency in imports and exports categorized by content type shows that, with regard to contents other than game – such as movies and music – the amount of imports far exceeds the amount of exports (Figure 2-2-3-12).

Figure 2-2-3-12 Status of imports and exports, by media and content



Source: *Field Study Report of Production and Distribution of the Media Software* (Institute for Information and Communications Policy, 2006).

As pointed out in *Nihon Brand Senryaku – Soft Power Sangyo wo Seicho no Gendoryoku ni*, published by the Task Force on Contents and Japan Brand of Intellectual Property Strategy Headquarters (2009), “In order to take full advantage of the reputation of the Japan brands already established overseas, and for making it lucrative as an actual business, it is necessary to strive to expand local markets and to actively pursue marketing strategies. Therefore, it is necessary that there is comprehensive assistance measures, such as assistance for overseas business expansion, covering production and development of contents and products focused on overseas business expansion, exploration of markets, etc.”

Japanese contents industry businesses are aware of the necessity of overseas business expansion, and have made the following commitments (Figure 2-2-3-13):

Figure 2-2-3-13 Examples of overseas expansion of contents-related business

Company name	Details
SHOGAKUKAN Inc.	In 1986, the company, under joint investment with SHUEISHA Inc., incorporated VIZ Media in the U.S., aimed to distribute and sell manga and videos in North America. The company has entered into business transactions with 19 book stores in North America, including Barnes & Noble. In 2007, the company established a subsidiary in Europe.
TOEI ANIMATION CO., LTD.	The company launched the broadcasting of animes, including "Saint Seiya," in the U.S. The company produced the anime "Powerpuff Girls Z" jointly with Cartoon Network, a cartoon channel of the U.S.
SQUARE ENIX CO., LTD.	The company incorporated its local subsidiary in the U.S., the UK and China. The proportion of overseas sales for the period of March 2008 was 15% (overseas sales amounted to ¥22.4 billion out of total sales of ¥147.5 billion).
Polygon Pictures Inc.	The company's businesses are development and licensing of CG characters; planning, production and distribution of digital contents; and planning and production of movies and TV commercial films. The company actively expands market activities in overseas markets. The company is in the process of planning and developing TV programs jointly with Nickelodeon, a U.S. company.

Source: Prepared by the Ministry of Economy, Trade and Industry, Japan, based on various data.

(4) Development of BOP business

As described in 2. of Section 2, in emerging markets, Japanese-owned companies primarily regard the middle-income class as their customers, and secondly the high-income class. However, approximately 20% of Japanese-owned companies target the low-income class.

It has been considered difficult for companies of developed countries to target low-income class people of emerging economies, as they had only small purchasing power. However, recently, some companies from developed countries have expanded business with the assistance of public agencies.

The following discusses possibilities for growth of business oriented toward BOP (Bottom/Base of Pyramid), i.e. low-income class people in developing countries.⁵⁹

(A) What is a BOP business?

According to World Resources Institute and International Finance Corporation (2007),⁶⁰ the term “BOP” means people at the bottom of the global income pyramid, who live on an annual income of less than \$3,000. About 4 billion people, who account for approximately 72% of world’s population, lie in the BOP class.

The BOP market is said to top some \$5 trillion. Some global companies from Europe and the United States have begun to target the BOP class, which was formerly out of their scope, in an attempt to achieve both successful business and assist toward the elimination of poverty.

<<Example Case>> Unilever

Unilever, by the utilization of the “Global Public-Private Partnership for Handwashing with Soap”

⁵⁹ The following descriptions are based on Ministry of Economy, Trade and Industry, Trade and Economic Cooperation Bureau (2009), *BOP BUSINESS NO KENTO NI TSUITE*.

⁶⁰ World Resources Institute and International Finance Corporation (2007), *The Next 4 Billion: Market Size and Business Strategy at the Base of the Pyramid*

program of USAID,⁶¹ and based on human resources and funds for public education activities provided by USAID, the World Bank and UNICEF, attained drastic cost cuts in public education activities. In addition, Unilever has succeeded in lifting the buying barrier by packing cleanser and shampoo in small portions and selling them at a low price. The company, under the scheme of “large number of customers” × “purchase by small portion” × “everyday use” = “large quantity of consumption,” succeeded in capturing a new market and in commercialization of the products as a profitable business venture.

Unilever has been furnished with free personal computers for IT spread from local governments, which it utilizes for business.

Advancement of Japanese-owned companies’ commitments toward launching similar businesses or programs in support of such commitments by assistance agencies has been slow. However, there are some leading cases such as the following:

<<Example Case>> Sumitomo Chemical Co., Ltd. “Olyset Net”

Sumitomo Chemical Co., Ltd. has developed a mosquito net using threads made of resin containing insecticide for malaria prevention and supplies it mainly to Africa through relevant international organizations, etc.

The Olyset Net has high durability and its insecticide effect lasts for over five years. Its cost efficiency and effectiveness in preventing malaria has been highly appreciated by the World Health Organization (WHO), and consequently demand is growing. By producing such nets in Tanzania, the company has created job opportunities for approximately 4,000 people and has encouraged sustainable commitments by local communities. A case such as this is noteworthy as a model.



<<Example Case>> Sumitomo Chemical Co., Ltd. "Olyset Net"

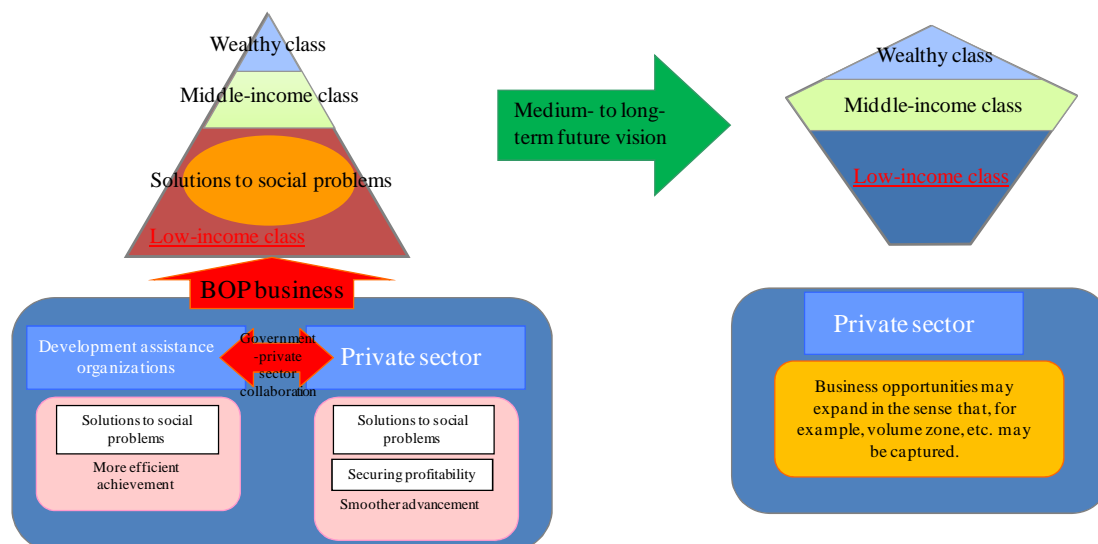
(B) Commitment toward revitalization of BOP business

As shown in the aforementioned case of Unilever, European and U.S. companies make use of assistance for BOP business given by assistance organizations such as USAID and UNDP. Advancement of BOP business through government-private collaboration allows development assistance organizations to efficiently achieve solutions of social problems of developing countries, while utilizing funds and technologies furnished by private sectors. On the other hand, such advancement allows private sector businesses to operate in developing countries, both finding

⁶¹ USAID (U.S. Agency for International Development) is an organization under the Department of State, which is in charge of programming and executing international bilateral assistance.

solutions to social problems and securing their profitability at the same time. Moreover, given that individuals in the low-income class shift to higher income classes, business opportunities may expand, in the sense that, for example, a large purchasing power market (volume zone) may be captured. Thus, cooperation between development assistance organizations and private sectors enables the attainment of solutions to social problems, while benefiting both sides (Figure 2-2-3-14).

Figure 2-2-3-14 BOP business advanced through government-private sector collaboration



Source: *BOP BUSINESS NO KENTOU NITSUITE*

(Trade and Economic Cooperation Bureau, Ministry of Economy, Trade and Industry, 2009).

In order to revitalize BOP business in the future, it is necessary to spread the concept of BOP business and to raise awareness through means such as seminars for encouraging dissemination and public awareness, as well as to make commitments for assisting BOP business through government-private collaboration.

Column 17: Provision of rice-cleaning technology supporting Japan's rice-based food culture – global contribution by Satake

Japanese foods have ignited a boom overseas, and nowadays sushi has become available all over the world. However, in the past, Japanese rice was not available in foreign countries, especially in developing countries. For example, in Egypt, it was a daily routine for the wife of a businessman of a Japanese-owned company to spread rice on a newspaper and remove insects and stones from out of it. Japanese rice was available in Egypt; however, due to underdeveloped rice-cleaning technology, it was impossible to completely remove stones and foreign objects contained in rice, and rice cooked without removing all foreign objects always tasted “crunchy.”

The device which dramatically improved the situation was Satake's rice-cleaning mill, introduced to Egypt under the ODA program of Japan. The advanced performance of the rice-cleaning mill delivered to the Ministry of Agriculture of Egypt astounded Egyptians. “No stone or straw is in rice. Is this some kind of magic?” The rice-cleaning mill was introduced to Egypt as a grant aid. It went on to be introduced on a business basis, enabling customers to buy “*ginshari*” (polished white rice)

produced in Egypt which has the same quality as that produced in Japan, at a supermarket in Cairo. Nowadays, rice produced in Egypt has become an important export product. This may be regarded as a successful case whereby ODA paved the way for overseas development of Japanese technologies and the creation of business opportunities for Japanese-owned companies, and whereby a win-win relationship (i.e. a relationship which benefits both Egypt and Satake) was attained.



Rice-cleansing mill

Satake has contributed to the development of food culture through the business of rice, which is Japan's staple food, for 110 years ever since its foundation in 1896. Satake's large-sized rice-cleaning mill occupies a share of 70% in the Japanese domestic market, 98% in the United States and 70% in the Asian market. Satake exports machinery to 140 countries to be used for all processes related to rice, e.g. harvesting, rice-cleaning and processing. Satake has distribution and production hubs overseas, including in the U.S., Canada, the United Kingdom, Australia, Thailand, China, India and Brazil. Satake may well be said to be supporting rice culture throughout the world.

The company developed "*shokumi kanteidan*" (rice taste appraiser), a type of taste testing equipment in 2008. Such equipment comprehensively evaluates rice in terms of its aroma (freshness), hardness and glutinosity (texture), in addition to its "taste", which was formerly assessed only by a rice taste analyzer, and calculates taste appraisal value which is closer to sensory evaluation than the former taste appraisal value. Such technologies raise expectation for contribution to enhancement of branding and international competitiveness of Japanese rice.

(5) Encouragement of inward direct investment

Amid the accelerating globalization of the world economy, Japanese-owned companies are required to attain growth by catching overseas market opportunities and by utilizing financial and human resources irrespective of their source countries. Advancement in acceptance of inward direct investment would be an extremely effective means for promoting tie-ups between Japanese-owned companies and foreign-capital or foreign-owned companies and for enhancing competitiveness and cosmopolitanism of Japanese-owned companies.

In fact, as pointed out in Section 1 of this Chapter, profitability of foreign-owned companies operating in Japan exceeds that of Japanese-owned companies. Acceptance of inward direct investment would not only allow procurement of investment funds from overseas, but would also contribute to an enhancement of productivity of Japanese-owned companies as a foreign-owned company incorporated through inward direct investment would expand employment opportunities and

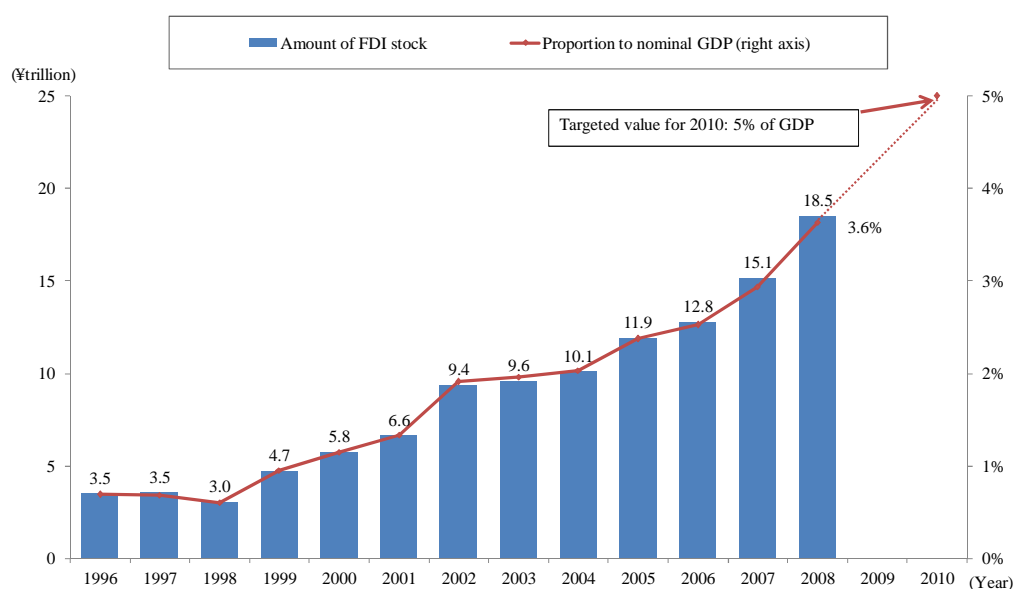
promote licensing of technologies and management know-how.

The following introduces the current status of inward direct investment in Japan and commitment for expansion thereof:

(A) Current status of inward direct investment

The value of Japan's FDI inward stock has been steadily increasing since 1999, jumping from ¥3 trillion in 1998 to ¥18.5 trillion in 2008 – a six-fold increase in the past ten years (Figure 2-2-3-15). However, Japan's FDI inward stock accounts for only approximately 1% of global FDI inward stock (Figure 2-2-3-16). Moreover, when comparing the ratio of FDI inward stock to GDP, the Japan's ratio is lower than that of the U.S. and major EU countries. Major EU countries show a lower ratio when compared on the basis of the balance of inward direct investment outstanding of countries outside the EU. However, Japan retains a low rank even in comparison with those EU countries (Figure 2-2-3-17).

Figure 2-2-3-15 Changes in inward direct investment in Japan



Source: Japan's Balance of Payments and International Investment Position (Ministry of Finance, Japan), System of National Accounts (Cabinet Office).

Figure 2-2-3-16 Composition of FDI inward stock, by country

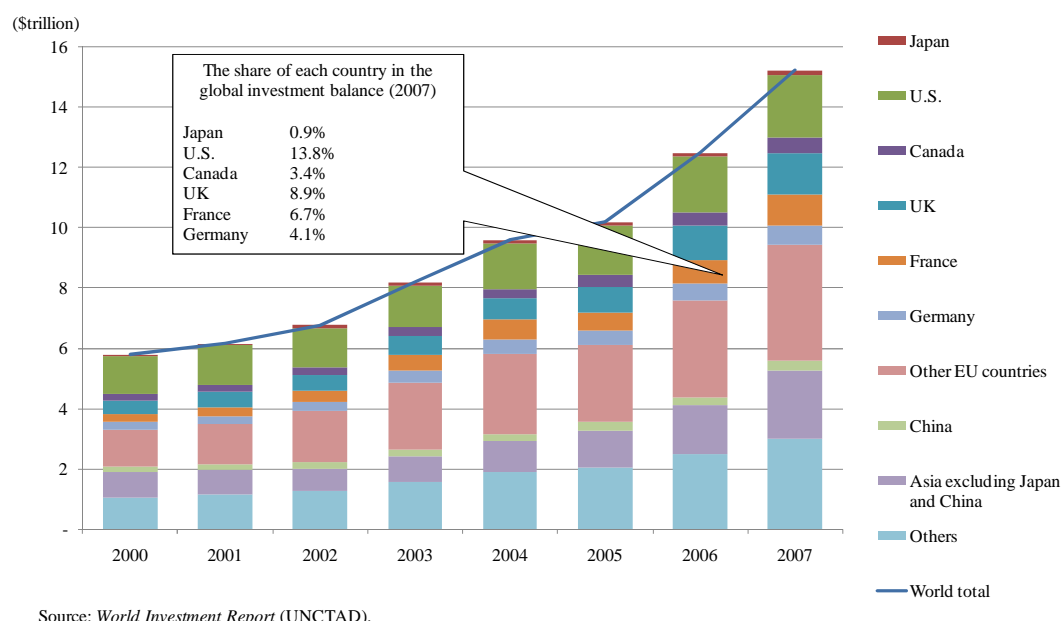
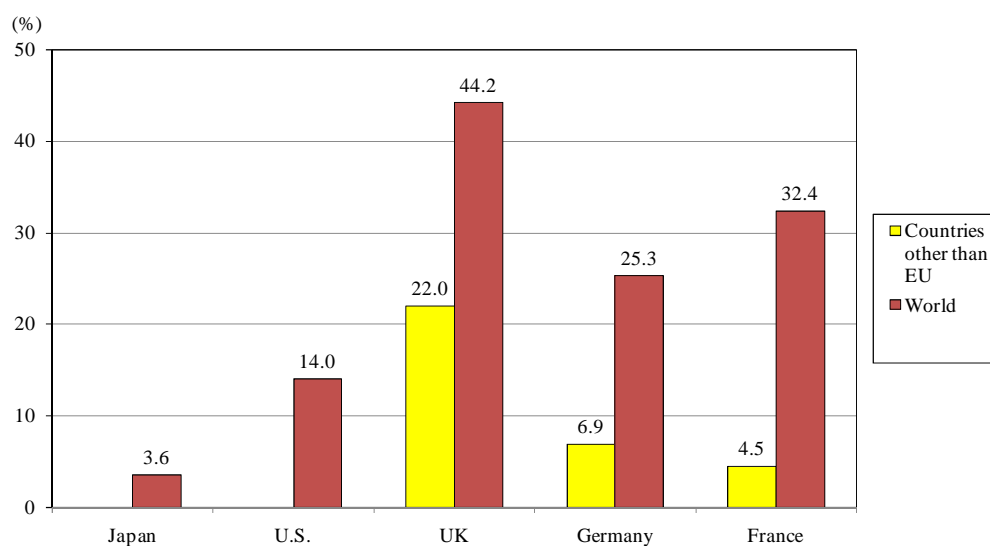


Figure 2-2-3-17 International comparison of percentage of GDP to FDI inward stock



Note: For Japan, 2008 data is used. For other countries, 2006 data is used.

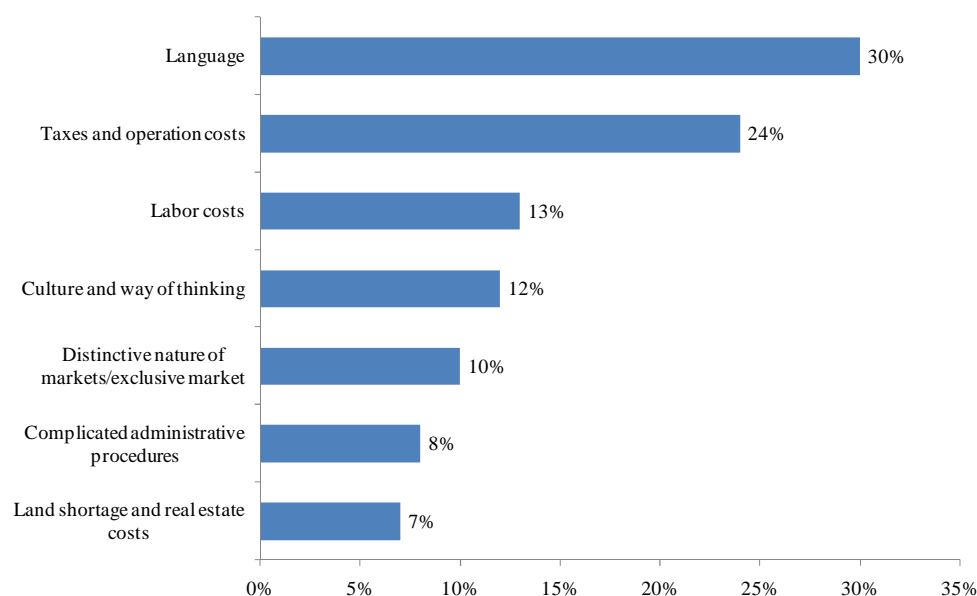
Source: *Japan's Balance of Payments and International Investment Position* (Ministry of Finance Japan), *National Statistics Business Monitor MA4*, *ET LA POSITION EXTERIEURE DE LA FRANCE*, *DEUTSCHE BUNDESBANK*, etc.

(B) Obstacles and incentives to the inward direct investment environment in Japan

As for obstacles for investment environment in Japan, many foreign-owned companies from Europe, the United States and Asia have pointed out factors related to language, taxes, and costs including personnel costs (Figure 2-2-3-18).⁶²

⁶² JETRO, *HEISEI 19 NENDO OUBEI ASIA NO GAIKOKU KIGYO NO TAINICHI KANSHINDO CHOUSHA*, (Period of interview: from December, 2007 to January, 2008; Companies interviewed: foreign-owned companies judged by JETRO to have the potential of investing into Japan and

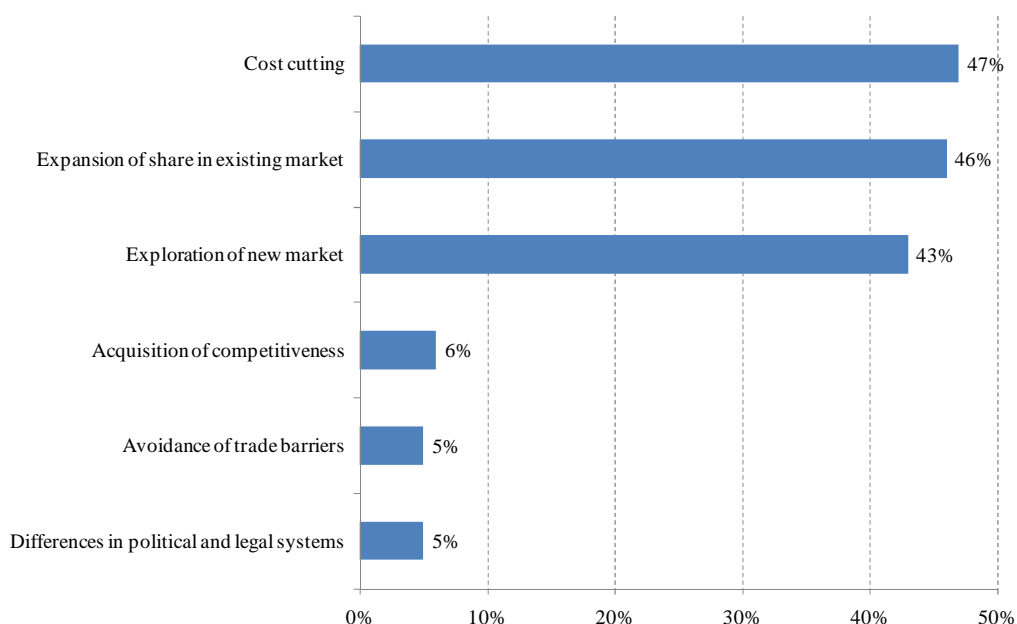
Figure 2-2-3-18 Major obstacles to investment in Japan



Source: HEISEI 19 NENDO OUBEI ASIA NO GAIKOKU KIGYO NO TAINICHI KANSHINDO CHOUA (JETRO)

Approximately half (47%) of the foreign-owned companies answered that, when making decisions about new investments in Asia, they place importance on cost cutting as a determinant of investment target. Thus, the high-cost nature of investment in Japan may be considered as a material obstacle for inward direct investment (Figure 2-2-3-19).

Figure 2-2-3-19 Determinant factors in selecting investment targets



Source: HEISEI 19 NENDO OUBEI ASIA NO GAIKOKU KIGYO NO TAINICHI KANSHINDO CHOUA (JETRO)

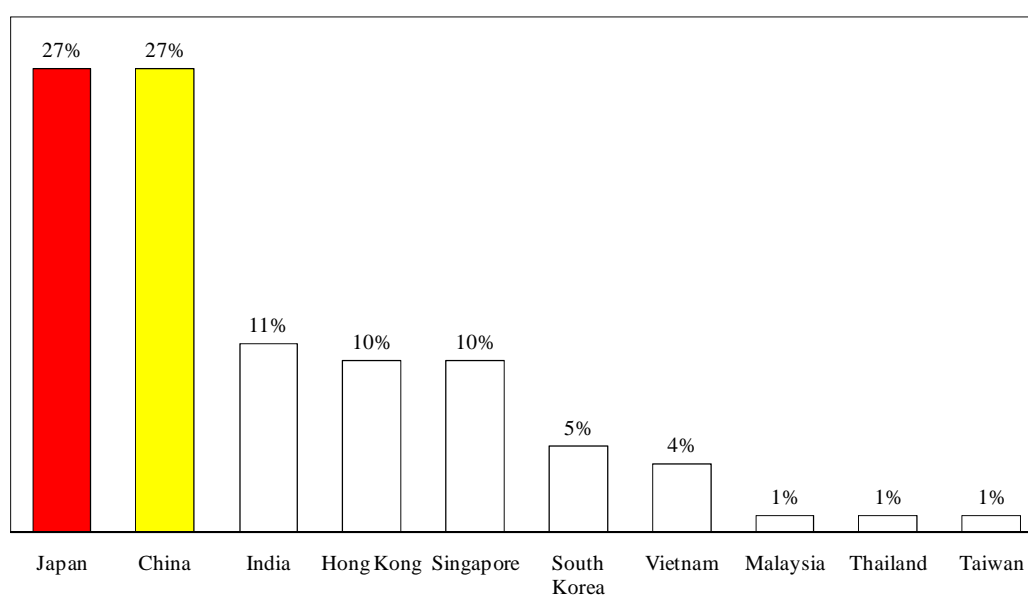
Meanwhile, as for the investment environment in Japan, foreign-owned companies from Europe,

foreign-owned companies operating in Japan judged by JETRO to have the potential of extending investments: the total number of which was 209).

the U.S. and Asia chose Japan, in addition to China, as the most attractive country in Asia (Figure 2-2-3-20). Moreover, Japan has gained good reputation from the standpoint of political stability, reliable legal system and high level of skill of human resources and workers (Figure 2-2-3-21).

Further, it can be noted that an evaluation of the investment environment of Japan differs remarkably depending on whether or not a company has had business experience in Japan. As for the proportion of the companies that answered that they would give credit to the level of skill of human resources and workers, companies without business experience in Japan accounted for 20%; but, in contrast to this, 44% of companies with business experience in Japan agreed on the high quality of Japanese personnel, more than double that of those without experience in Japan. This fact indicates that companies with business experience in Japan tend to give higher credit to Japan (Figure 2-2-3-22), compared to companies without such experience. In addition, Japan's technology level may be focused upon as an attractive incentive to investment in Japan. Japan has advantages in that it has a wide variety of small and medium-size enterprises, having technologies, and parts related technologies essential for final products, in addition to the world's top-ranked number of patents and the world's leading environment and energy-saving technologies for implementing a low carbon society. It is therefore necessary to actively promote these investment advantages to overseas investors.

Figure 2-2-3-20 Most attractive countries in Asia (ten countries)



Source: HEISEI 19 NENDO OUBEI ASIA NO GAIKOKU KIGYO NO TAINICHI KANSHINDO CHOUZA (JETRO).

Figure 2-2-3-21 Advantages and disadvantages of Japan as investment target

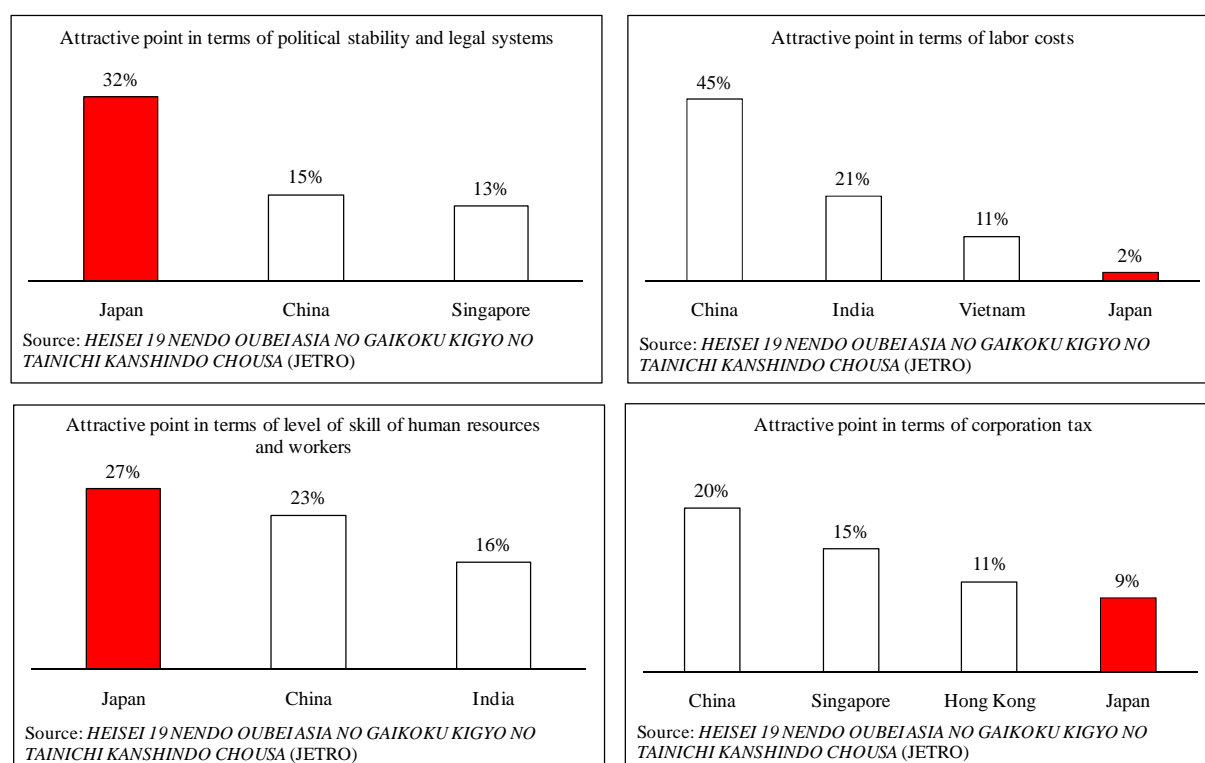
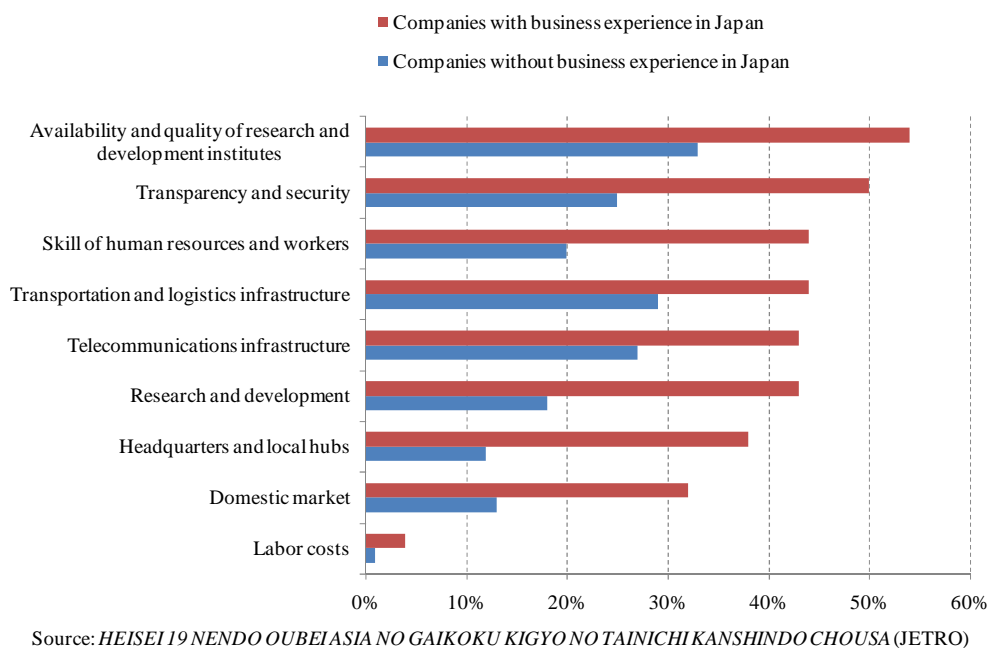


Figure 2-2-3-22 Knowledge of investment environment in Japan



(C) New trends in direct investment in Japan – Increase in inward investment from Asia; increase in inward investment in non-manufacturing sectors; and alliance with foreign-owned companies

Looking at the trends in direct investment in Japan, companies from Asia have been increasing, doubling in the ten years from 1996 through 2006. In addition, as for the rate by business category,

non-manufacturing sectors have been increasing, accounting for three-fourths of foreign-owned companies operating in Japan (Figure 2-2-3-23).

Figure 2-2-3-23 Change in countries of origins of foreign-owned companies and composition, by business category

	1996	(%)	2001	(%)	2006	(%)	Growth rate for a decade (1996-2006)
World total	1,467	-	1,678	-	2,665	-	182%
Asian	195	13.3	237	14.1	447	16.8	229%
American	601	41	666	39.7	944	35.4	157%
European	615	41.9	682	40.6	1,135	42.6	185%
Manufacturing sectors	484	33	556	33.1	671	25.2	139%
Non-manufacturing sectors	983	67	1,122	66.9	1,994	74.8	203%

Note: The total of the breakdown per country of origin is not 100%, as data related to other region has been omitted from the figure.

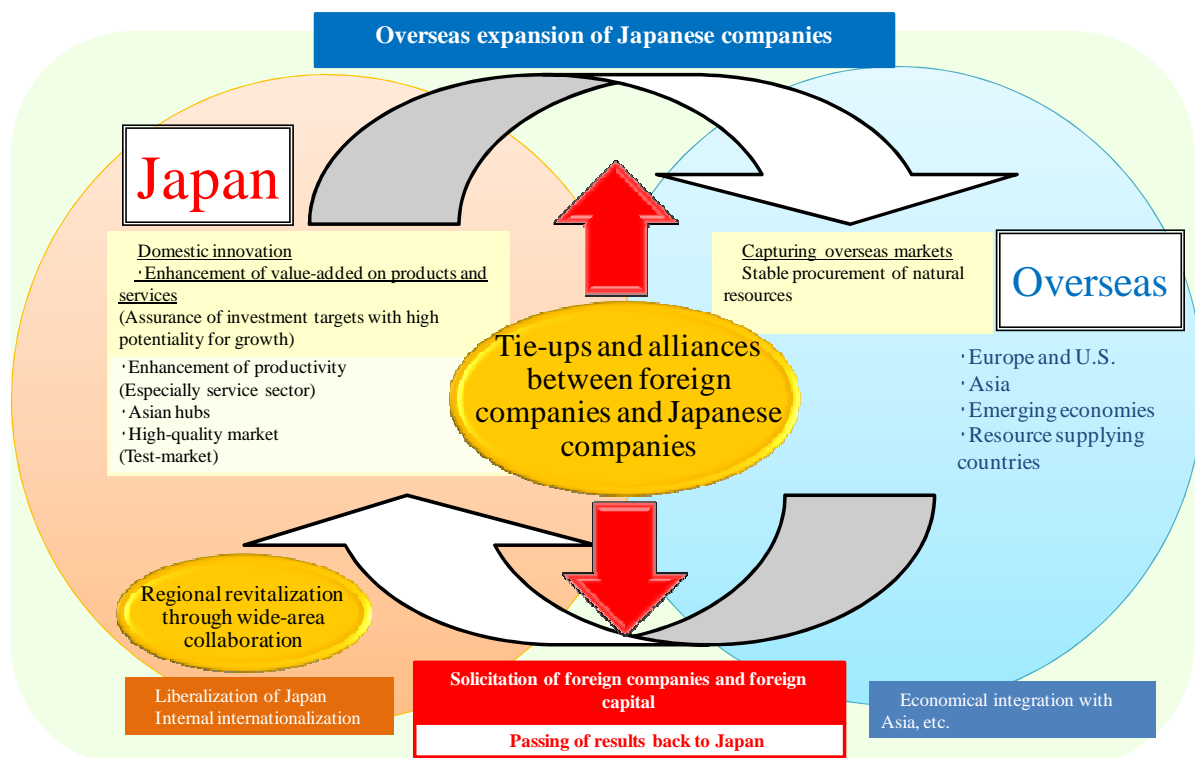
Source: *Survey of Trends in Business Activities of Foreign Affiliates (31st, 36th and 41st)* (Ministry of Economy, Trade and Industry, Japan).

As Japan changes into a society with declining population, and as emerging economies including Asia are gaining prominence in the global economy, the growth strategies Japan should take are: the overseas expansion of Japanese-owned companies/economical integration with Asia, etc. and the enhancement of value-addition on domestic products and services establishing Japan as an innovation hub (Figure 2-2-3-24).

These two approaches are correlated. In other words, a positive cycle may be created, wherein overseas business expansion by Japanese-owned companies is encouraged, and wherein profits derived from this are passed on to Japan and give rise to domestic innovation.

It has become necessary to facilitate the attraction of inward direct investment in a manner consistent with such growth strategies. Japan has many companies boasting advanced technology, and many companies are aware that their task is to strive to expand their business into growing overseas markets while make use of such technologies. For instance, such companies' alliance with foreign-owned companies and procurement of those company's overseas markets would be a shortcut for expanding into markets overseas (See Column 18).

Figure 2-2-3-24 Growth strategy and investment in Japan: establishment of positive cycle



Source: Ministry of Economy, Trade and Industry, Japan

Column 18 Successful global business development through active tie-ups with foreign-owned companies

Case 1

It was a management task of a Japanese company that develops and manufactures computer systems (Company A) to launch business overseas so as to break deadlock of a saturate domestic market. The company had been making preparations, such as participating in overseas exhibitions for overseas business, since several years previous; however, obstacles such as the language barrier made it difficult for the company to expand business overseas through establishment of an agency solely through its own efforts. Meanwhile, a European company carrying out the same type of business (Company B) was considering a strategy to add “Made in Japan” products to its product lineup. Under such circumstances, in 2007, Company A accepted capital injection from the foreign-owned Company B (at 65%). It launched business expansion without modifying its identity, such as its employee roster or its company name, and has now achieved overseas business expansion that was impossible for it to implement by itself alone. And this was made possible by taking advantage of Company B’s worldwide markets.

Case 2

Digital Electronics Corporation, a manufacturer of touch-panel indicators, entered into a capital tie-up in 2002 with Schneider Electric S.A. (ownership interest: 100%), a global company having advantage in controlling devices, under which Digital Electronics Corporation would maintain company name and brands as well as initiative in business management, and thereby achieved a

remarkable enhancement of its marketing competence through business integration. Digital Electronics Corporation had performed marketing for manufacturing products; however, in many cases, the manufacturing of products was initiated by a single individual's idea or inspiration, as a result of which quite a few projects ended without any success. The tie-up allowed Digital Electronics Corporation to learn more about management policies thorough Schneider's marketing stance based on development costs and marketing simulations of Schneider. This allowed them to remarkably enhance marketing competence in Japan and overseas, and thereby to expand their business specializing in indicators to overseas markets including BRICs.

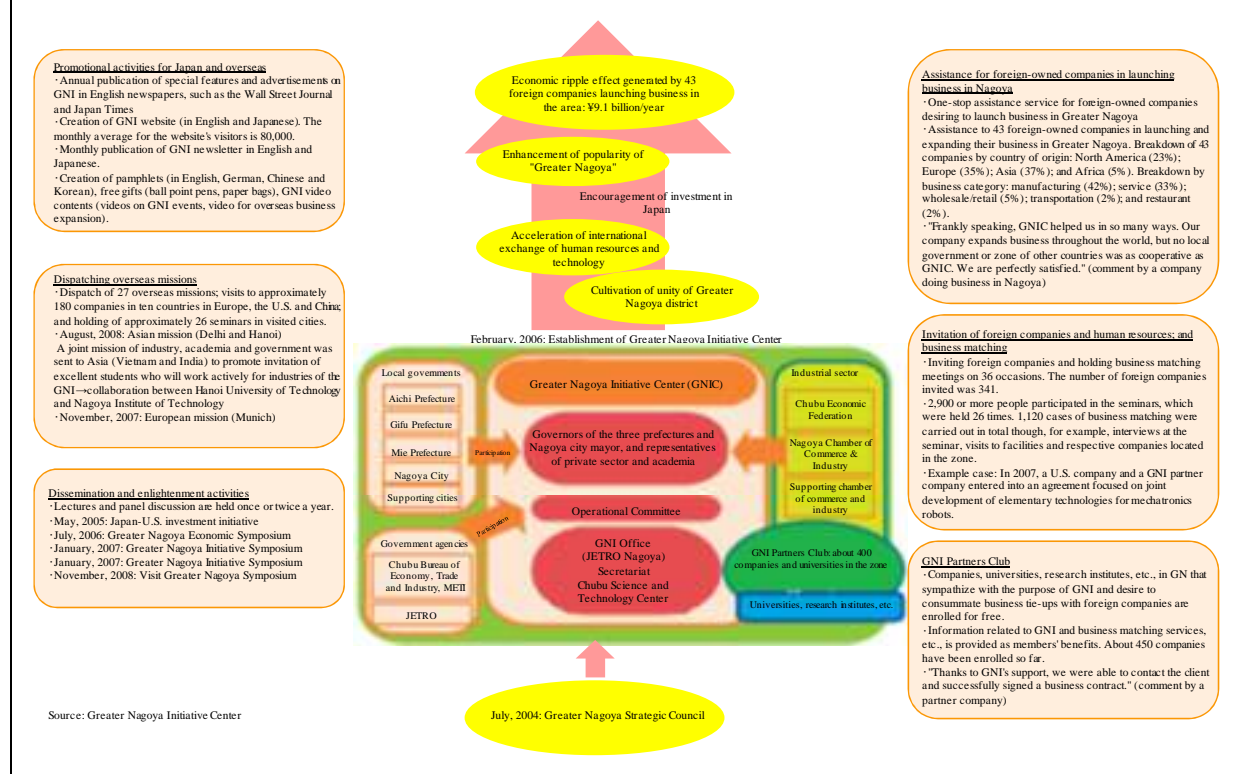
In addition, wide-area collaboration among local governments can be noted as an important domestic commitment in promoting direct investment in Japan. Taking into account the recognition by foreign-owned companies and the size of the market for foreign-owned companies, it has become important for local governments in a wide area centered on industrial clusters (wide-area economic zones) to collaborate with each other, beyond the boundaries of prefectures, so as to commit to activities for solicitation of foreign-owned companies and to encourage tie-ups with such (See Column 19).

Column 19 Greater Nagoya Initiative

The Greater Nagoya Initiative (GNI) was launched in July, 2004, as a commitment for encouraging international economic exchange, wherein prefectures, cities, industry sectors, universities and research institutes located in similar economic zones covering areas approximately 100km from Nagoya, such as three prefectures of Aichi, Gifu and Mie (i.e. "Greater Nagoya"), work together to lure outstanding companies, technologies, human resources and information from all parts the world. The detailed activities thereof include provision of one-stop assistance service for launching business for foreign-owned companies desiring to expand business in Greater Nagoya, promotional activities through dispatching overseas missions, solicitation of foreign-owned companies and business matching services.

By the end of fiscal 2008, the activities of GNI induced 59 foreign-owned companies to expand their business in the Greater Nagoya area. A survey shows that the economic ripple effect on the area brought on by the 43 foreign-owned companies that launched business in the area by the end of fiscal 2007 amounted to ¥9.1 billion per year.

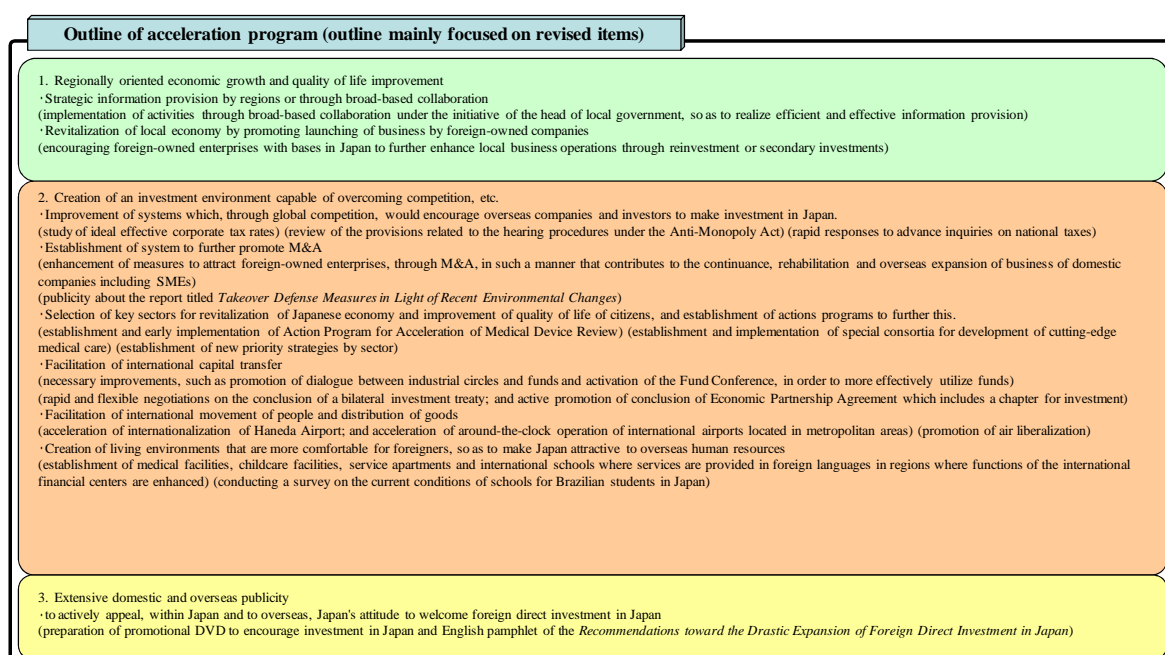
Column 19 Figure 19-1 Overview of Greater Nagoya Initiative



(D) Commitment toward expansion of inward direct investment

The Japanese government regards the increase of inward direct investment as an important political task, and makes it a goal to raise the ratio of FDI inward stock to GDP to 5% by 2010. The Japanese government established the *Program for Acceleration of Foreign Direct Investment in Japan* in June, 2006. In addition, the *Economic and Fiscal Reform 2008* prepared in June, 2008 instructed relevant ministries and agencies to revise the *Program for Acceleration of Foreign Direct Investment in Japan*, with the objective of expansion of investment in Japan, and to make the following commitments. Based on the *Economic and Fiscal Reform 2008*, the revisions to the *Program for Acceleration of Foreign Direct Investment in Japan* were approved by the cross-ministerial committee in December, 2008. Measures for achievement of further increase in foreign investment in Japan are described in the above-mentioned revised *Program for Acceleration of Foreign Direct Investment in Japan* (Figure 2-2-3-25).

Figure 2-2-3-25 Outline of Program for Acceleration of Foreign Direct Investment in Japan



Source: Cabinet Office

Furthermore, the following policy measures have been implemented since April of 2009 as major commitments for facilitating inward direct investment in Japan (Figure 2-2-3-26).

Figure 2-2-3-26 Major commitments to promoting inward direct investment in Japan

<p>Tax reform Creation of special provision on taxation for non-residents and foreign corporations which are limited liability partners of investment limited partnerships and which satisfy certain requirements</p> <p>Innovation Network Corporation of Japan Incorporation of Innovation Network Corporation of Japan, an entity which provides risk money to a business that creates new added value by combining management resources, such as technology, beyond the boundaries of the industry sector and organization</p> <p>TOKYO AIM Opening by Tokyo Stock Exchange of a market oriented for professional investors, "TOKYO AIM," for medium- to long-term investment in risk capital.</p>

Source: Ministry of Economy, Trade and Industry, Japan

(6) Economic growth through an increase in inbound tourists

In recent years, the number of foreigners visiting Japan is rapidly increasing. With a view to making sure that Japan's attractiveness contributes to economic growth, the following analyzes the impact on Japanese economy leveraged by the increase in inbound tourists, as well as issues involved in promotion of attracting foreign tourists.

(A) Increase in global tourist population

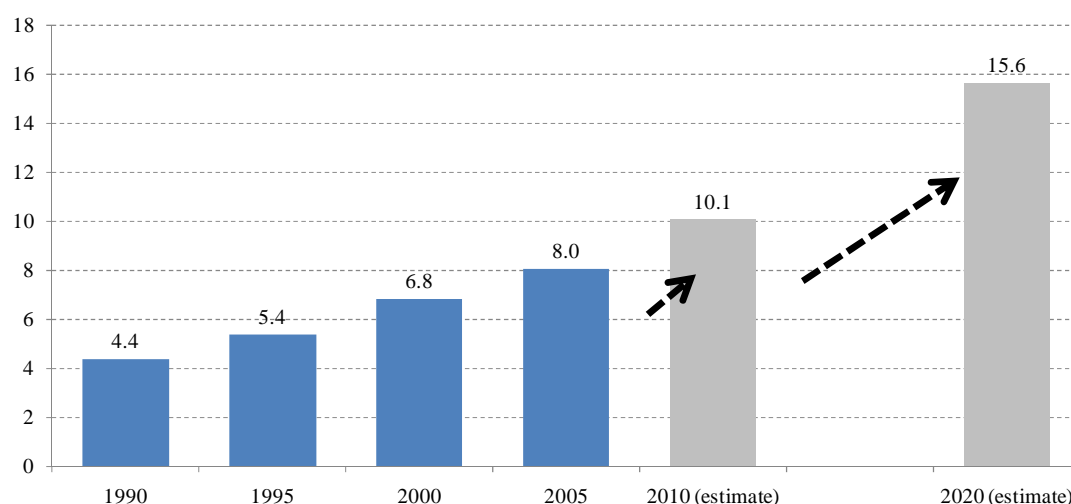
The global tourist population has continued its upward trend in recent years. World Tourism Organization (UNWTO) foresees that the number of overseas tourists, which was 540 million in 1995, will keep on rising at the average annual rate of 4% until 2020, reaching 1.56 billion in 2020 (Figure

2-2-3-27).⁶³

Economic growth and an increase in disposable income in emerging economies have accelerated global tourist population growth. The UNWTO survey shows that the average annual growth rate in the number of global overseas tourists was 4.1% for the period from 2000 to 2007. The growth rates for America and Europe were 1.9% and 3.3% respectively, which were below the average, and that for Middle East, Africa, and Asian-Pacific marked 10.6%, 7.4% and 6.9% respectively, which far exceeded the average. The number of high-income class people willing to spend money for overseas travel has been increasing in emerging economies. The number of wealthy class having financial assets not less than \$1 million reached 10.1 million in 2007. The countries demonstrating the highest growth rates on a year-on-year basis were emerging economies including India (increase by 22.7%), China (increase by 20.3%), Brazil (increase by 19.1%) and South Korea (increase by 18.9%).⁶⁴ In particular, the number of outbound tourists from China is surging. According to the National Tourism Administration of the People's Republic of China, the number of outbound tourists surged by 19% in average on a year-on-year basis for the period from 1999 to 2008, and the number for 2008 rose to 45.84 million, which is a five-fold increase from 1999 (Figure 2-2-3-28).

Counting tourism as an export product, the aggregate amount of international tourism revenue and international tourists fare for 2007 was \$1.21 trillion, which accounted for 6% of the aggregate value of exports of global goods and services (\$16.9 trillion), and increased at a rate almost equivalent to the aggregate value of food exports (Figure 2-2-3-29). World Travel & Tourism Council (WTTC) has made a tentative calculation that, after 2009, visitor exports will achieve growth of 4.7% per annum on average, a real figure after reflecting price rises, reaching \$2.131 trillion⁶⁵ in 2019.

Figure 2-2-3-27 Changes in the number of outbound tourists worldwide



Source: *Tourism Highlights 2008 Edition* (UNWTO).

⁶³ UNWTO (2008), *Tourism Highlights 2008 Edition*

⁶⁴ Capgemini, Merrill Lynch (2008), *World Wealth Report 2008*

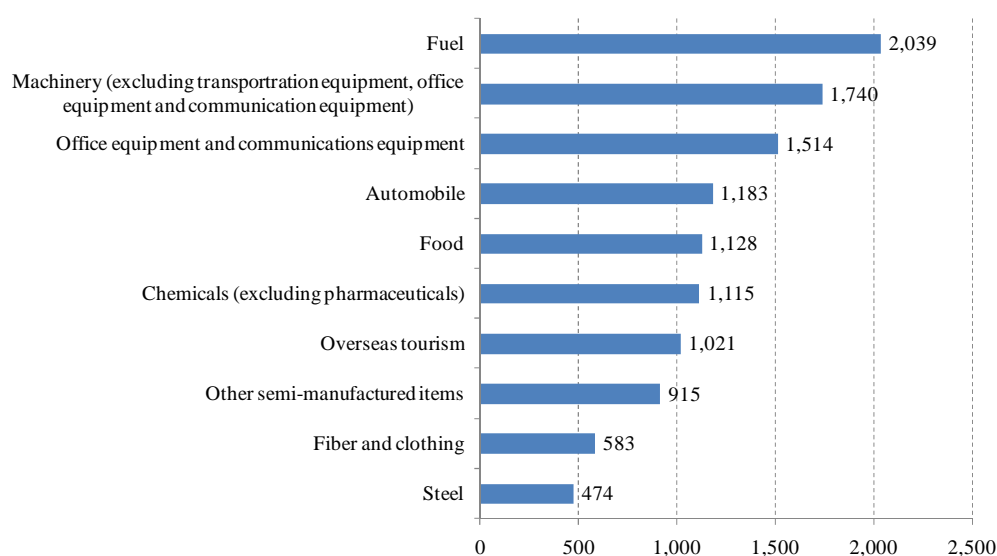
⁶⁵ WTTC (2009), *Travel and Tourism Economic Impact 2009 – Executive Summary*

Figure 2-2-3-28 Changes in the number of China's outbound tourists



Note: Includes tourists to Hong Kong and Macao.
Source: China National Tourism Administration

Figure 2-2-3-29 Value of exports, by major items, including overseas tourism (2007)



Note: International tourism includes international tourism revenue and international tourists' fares.
Source: *Tourism Highlights 2008 Edition (International Tourism)* (UNWTO), *International Trade Statistics 2008 (other export products)* (WTO).

(B) Increase in inbound tourists

The number of foreign tourists visiting Japan has been increasing. According to the Japan National Tourist Organization, the aggregate number of inbound tourists in 2007⁶⁶ totaled 8.347 million, which was a record-breaking increase by as much as 13.8% on year-on-year basis. As for 2008, thanks to good results in the first half (increase by 10.0% on year-on-year basis), 8.351 million, which exceeded the result for the previous year and which was also record-breaking, was attained; although, the global economic slowdown and the strong yen forced down the number of inbound tourists in the second half

⁶⁶ The aggregate number including persons visiting Japan on business.

(Figure 2-2-3-30). Tourists from Asia are pushing up the number of inbound tourists. Approximately 70% of inbound tourists comprised people from Asia. Japan's international travel balance in the Balance of Payment Statistics downsized from ¥3.588 trillion in 1996 to ¥1.7631 trillion in 2008. However, the breakdown of the balance by the counterparty countries and regions shows a decrease in Japan's deficit, owing to the decline in the amount of payment by Japan, in the case of the balance in connection with European and U.S. countries, and an increase in the amount of payment by counterparties, in the case of the balance in connection with Asian countries (Figure 2-2-3-31).

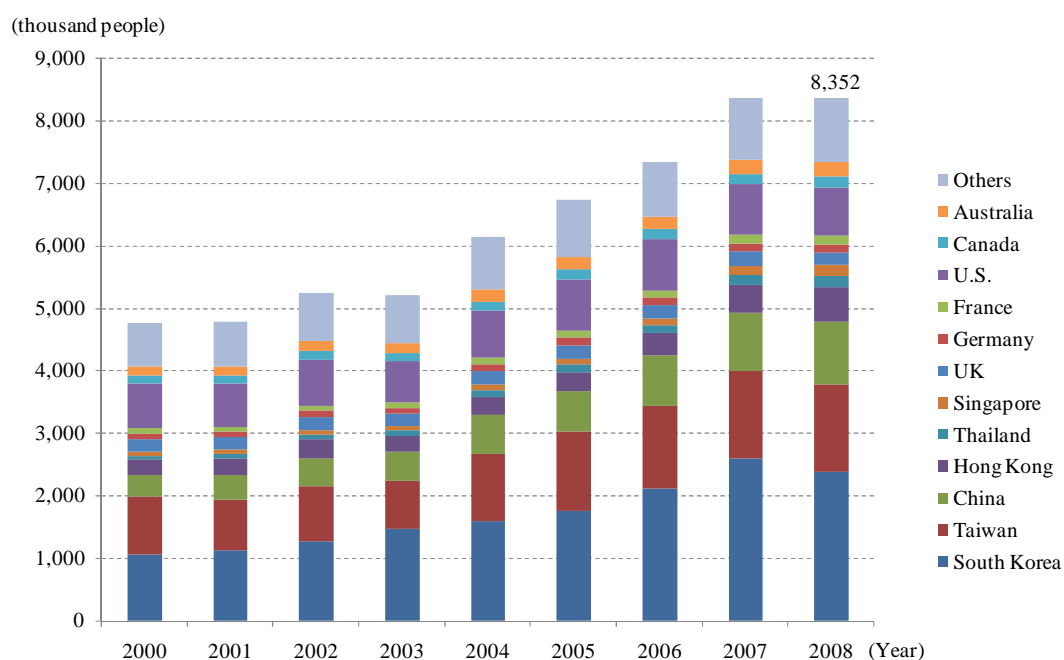
Comprising inbound tourists from Asia, Chinese and Hong Kong nationals represent a strong rise in numbers, and the number of people from China and Hong Kong that visited Japan in 2008 was one million and 0.55 million, respectively, marking an increase of 12.8% on year-on-year basis. The possible factors giving rise to the increase in Chinese inbound tourists may be due to the gradual relaxation of immigration regulations imposed on Chinese tourists by the Japanese government, for example by lifting restrictions on group tours to Japan in favor of residents of a part of China in September, 2000,⁶⁷ and the growing reputation of Japan as a sightseeing spot as encouraged by Visit Japan Campaign (as explained below). According to a survey by the National Tourism Administration of the People's Republic of China, in 2008, Japan ranked first as a foreign tour destination from Shanghai for the first time, ranking above Singapore, Malaysia, Australia, etc.⁶⁸ The number of inbound tourists for the six-month period from September, 2008 to February, 2009 fell by 19% on year-on-year basis, due to the impacts of the global economic slowdown and the strong yen since the Lehman shock which begun on September, 2008; however, the number of Chinese inbound tourists for the same period showed a comparative steady increase of 1% on year-on-year basis. Surge in Chinese tourists has led to an increase in member stores of Union Pay Card, used by Chinese for making payment, mainly consisting of purchases from domestic department stores and mass home electronics retailers, and an increase in the amount paid by such card. The number of member stores of Union Pay Card, which was only 200 at the time of the service launch in Japan in December, 2005, surged to 12,700 as of March, 2009 (Figure 2-2-3-22). The amount paid by such cards rose to ¥13 billion in fiscal 2008, surpassing the ¥4 billion recorded for the previous fiscal year.⁶⁹

⁶⁷ Group tour was permitted in 2009 to residents of Beijing, Shanghai and Guangdong Province who are registered in the family registries. Thereafter, in September, 2004, the eligibility was expanded to include residents of Tianjin City, Jiangsu Province, Shandong Province and Liaoning Province, and then to include people living in all parts of China. Further, from March 2008, the Japanese government decided to accept visa applications for small-group family tourists.

⁶⁸ Based on material published by the National Tourism Administration of the People's Republic of China dated April 14, 2009.

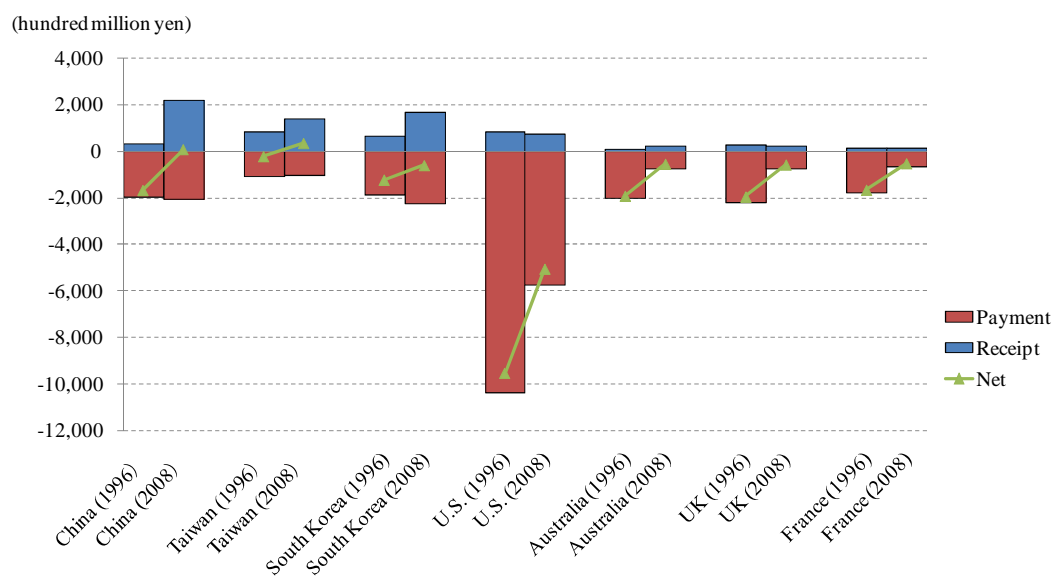
⁶⁹ Based on the survey implemented by Sumitomo Mitsui Card Co. Ltd.

Figure 2-2-3-30 Changes in number of Japan's inbound tourists



Source: *Tourism Statistics* (Japan National Tourism Organization)

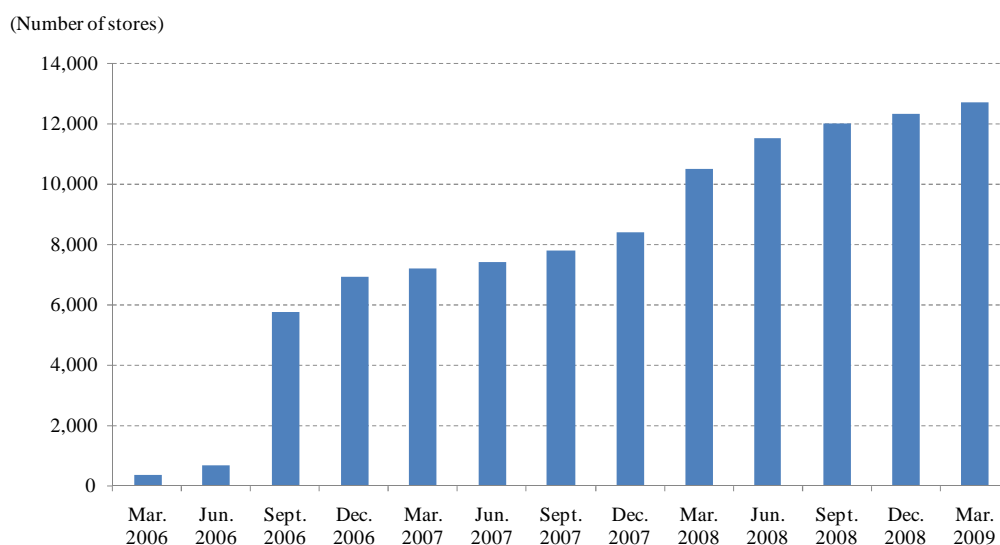
Figure 2-2-3-31 Changes in Japan's international travel balance, by partner country and region



Note: The method of calculation of the travel balance was revised in 2006.

Source: *Balance of Payments* (Ministry of Finance/Bank of Japan)

Figure 2-2-3-32 Changes in number of member stores of Union Pay Card



Source: Material prepared by Sumitomo Mitsui Card Co. Ltd.

(C) Economic effects caused by increase in inbound tourists

(a) Significance in terms of macroeconomics

The tourism sector covers diversified domains such as transportation, accommodation, foods (agricultural, forestry and fisheries industry supplying foods, food manufacturers, and logistics sectors), service, manufacturing of specialties, etc., commerce, and other types of sales of goods, and it is difficult to segregate business related to tourism from each sector. Therefore, with regard to market scale of the tourism sector, it is a general practice to refer to the tourism consumption value. With regard to the amount consumed by inbound tourists, the Ministry of Land, Infrastructure, Transport and Tourism implements “Research on the Economic Effects of the Travel and Tourism Industries for each fiscal year. The value of travel consumption of inbound tourists in fiscal 2007⁷⁰ increased by 8.7% on year-on-year basis, i.e., ¥1.48 trillion, which was equivalent to 0.3% of the gross domestic product (nominal) for the same fiscal year, and was also equivalent to 0.5% of domestic final consumption expenditure (nominal) for the same year. In addition, according to said survey, the gross value of travel consumption in Japan, including domestic travel consumption by Japanese, came to ¥23.5 trillion, which was equivalent to 4.6% of GDP (nominal).

Domestic travel expenditure by Japanese has been continuously decreasing, but, in contrast, consumption by foreigners in Japan has been rising. According to the tentative calculations of the World Travel & Tourism Council, for the period of ten years from 2009 to 2019, the consumption by foreign tourists in Japan will see growth of 7.9% per annum on average, which is the seventh largest growth rate in the world, and is the second largest among the major countries, after China (Figure 2-2-3-33).⁷¹ In addition, the Japan Tourism Agency estimates that, on the assumption that the medium-to-long-term goal⁷² to solicit 20 million inbound tourists by 2020 has been attained, the value

⁷⁰ Ministry of Land, Infrastructure, Transport and Tourism, *Research on the Economic Effects of the Travel and Tourism Industries, FY 2007*

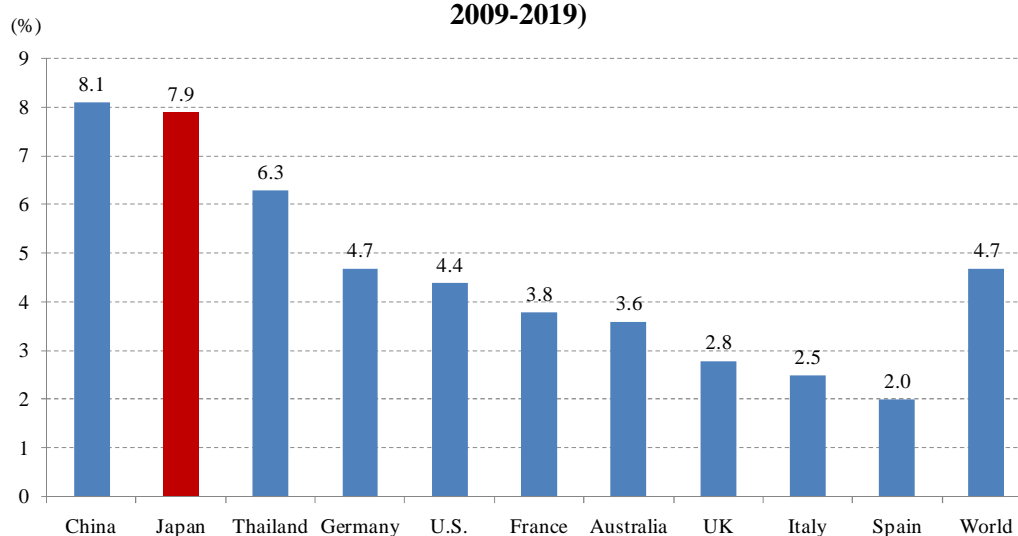
⁷¹ WTT (2009), *Travel & Tourism Economic Impact 2009 - Japan*

⁷² Currently, the medium-to-long-term goal is to increase the number of inbound tourists to 10 million by

of travel consumption will be ¥4.3 trillion, the ripple effect on production ¥10.4 trillion, the value-added effect ¥5.4 trillion, which is equivalent to 0.7% of GDP, and the employment effect will be 0.85 million people which is equivalent to 1.1% of all employees.⁷³ Based on these estimates, considering the downward trend in Japanese population, the decrease in domestic consumption caused by the decline of one permanent population unit may be supplemented by increasing foreign tourists seven-fold.⁷⁴ This suggests that an increase of inbound tourists has great significance in that it will curb the downturn in Japanese domestic demand attributable to declining population. Furthermore, an increase in domestic consumption by inbound tourists will contribute to a reduction in the travel balance deficit, thereby improving Japan's service balance, which has been chronically suffering from a deficit trend.⁷⁵

On the other hand, the proportion of Japan's international tourism revenue to GDP is 0.2%, which is on a level remarkably lower than the world's average of 1.6% (Figure 2-2-3-34). In contrast, countries such as Singapore (5.4%), which has been implementing policy measures laying emphasis on promotion of the tourism sector, has been maintaining high levels. Japan needs to focus on the high economic ripple effect generated from the promotion of tourism sectors, and to make a positive commitment toward advancement in the securing of inbound tourists.

Figure 2-2-3-33 Growth of international tourism revenue of major countries (estimate for 2009-2019)



Note: Average figure of real growth rate on year-on-year basis, after reflecting price rises
Source: *Travel and Tourism Economic impact 2009 – Japan* (World Travel & Tourism Council).

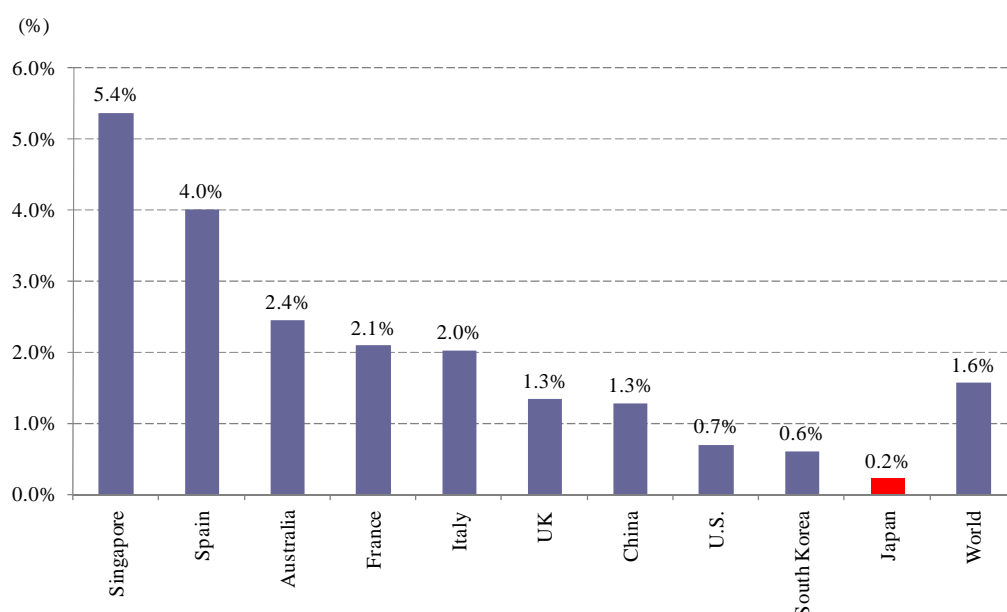
2010.

⁷³ Based on documentation submitted to the 13th Tourism Nation Promotion Strategy Conference.

⁷⁴ It is estimated that the annual consumption per permanent population member is ¥1.21 million, and that the travel consumption spent by a foreign tourist for each occasion is ¥180 thousand (based on documentation submitted to the 13th Tourist Nation Promotion Strategy Conference).

⁷⁵ Japan's service balance for 2008 resulted in deficit of 2 trillion and ¥137.6 billion, 80% of which was constituted by the deficit of 1 trillion and ¥763.1 billion in travel balance.

Figure 2-2-3-34 Major countries' ratio of international tourism revenue to GDP (2007)



Source: IFS (GDP) (IMF), *Tourism Highlights 2008 Edition* (international tourism receipts) (UNWTO).

(b) Significance in terms of promoting regional economies

An increase of inbound tourists has a large significance from the standpoint of promoting regional economies. For instance, the number of inbound tourists that visited Tokyo in fiscal 2007 marked 5.33 million, which was an increase of 4% on a year-on-year basis, and the amount consumed by tourists in Tokyo accounted for ¥359.2 billion, which was an increase of 5.7% on a year-on-year basis. The ripple effect on Tokyo's economy caused by increased production and employment due to tourism consumption is estimated to be ¥788 billion and 44,000 employments, respectively.⁷⁶ In addition, according to a tentative calculation,⁷⁷ the number of employees will increase by 310,000, given that the number of inbound tourists reaches 200 million in 2020, and given further that 45% of such tourists stay in the local areas other than the three metropolitan areas. For local areas suffering aging and declining population, the securing of inbound tourists can pave the way for regional revitalization, through means such as an increase in nonresident populations, the creation of vibrant town atmospheres and the creation of job opportunities.

In recent years, some local governments have focused on tourism sectors as a key to regional revitalization and have achieved good outcomes. In Takayama City, Gifu Prefecture, local government and private sectors, centered on Hida Takayama Kokusai Yakyaku Kyogikai (Hida Takayama Council for Solicitation of Inbound Tourists) participated in by administrative agencies, companies, tourism organizations, etc., work together to actively commit to activities for attracting inbound tourists. The city's website for sightseeing is available in eleven languages including English and Chinese.⁷⁸ The tourist information bureau in front of the station provides tourists maps written in seven languages,⁷⁹

⁷⁶ Tokyo Metropolitan Government, *Tourism Statistics, FY 2007*.

⁷⁷ Based on the documentation submitted to the 13th Tourism Nation Promotion Strategy Conference.

⁷⁸ English, Chinese (in traditional characters and simplified characters), Korean, French, Italian, Russian, German, Spanish, Portuguese and Thai.

⁷⁹ English, Spanish, French, Italian, German, and Chinese (in traditional characters and simplified characters)

and information boards showing major sightseeing spots are written in Japanese, English, Chinese and Korean. Moreover, the city maintains a landscape full of traditional beauty, by imposing restrictions on remodeling buildings in the district with rows of historic buildings built in the Edo Period, and by limiting the height of buildings in all districts, in addition to such historic districts. The city also carries out activities such as entry into travel exhibitions held in foreign countries, sales promotion by the city mayor and human resources development projects targeting business operators and citizens. There used to be times when the city encountered confusions created by cultural or language differences with foreign tourists, but thanks to the city's continuous solicitation activities based on the vision "a nice town to live in is a nice town to visit,"⁸⁰ the number of foreign tourists staying in the city increased from 37,001 in 2001 to 171,180 in 2008, which was an increase of 4.6 times (Figure 2-2-3-35).⁸¹ Due to the global economic slowdown after the Lehman shock, the number of foreign tourists visiting Japan in 2008 remained almost the same on a year-on-year basis. However, in contrast, the number of foreigners visiting Takayama City showed a remarkable increase of 29.4% on a year-on-year basis. The amount of tourism consumption in the city, including both consumption by Japanese and foreigner visitors, amounts to ¥77.1 billion, accounting for 22.8% of gross city product,⁸² and the economic ripple effect derived from an induced production coefficient (2.33 times) tentatively calculated by the city is ¥181.9 billion. The proportion of foreigners to the total number of guests at accommodation facilities has been increasing year after year, and nowadays one out of twelve guests is non-Japanese. Such facts suggest that continuance of commitments for capturing foreign tourists would positively impact the city's economy in material terms.⁸³

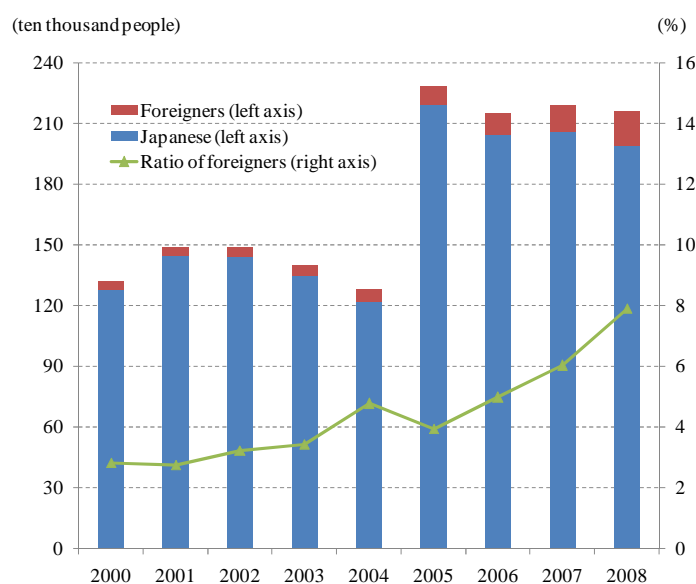
⁸⁰ The basic vision for improvement of town as stated in the Comprehensive City Plan of the Takayama-City Municipal Government (March, 2005).

⁸¹ The number of tourists in total, excluding same-day tourists.

⁸² The results for 2005 based on the survey of the sightseeing division of Takayama City.

⁸³ Approximately 25% of guests staying at major accommodation facilities in Takayama City are foreign tourists, and in many cases, foreign tourists constitute 80% of the guests staying at small-sized inns (based on hearing conducted in the city).

Figure 2-2-3-35 Number of tourists lodged in Takaya City; and ratio of foreign tourists



Note: The number of tourists is an aggregate number. The city merged with other local governments in February, 2005.
Source: *Tourism Statistics* (Takayama City)

Acceptance of foreign tourists also serves as a positive factor for the rehabilitation of the hotels and inns sector. Sawanoya Ryokan located in Yanaka, Taito-ku, Tokyo, is a family-run traditional Japanese-style inn founded in 1949. As no-frills hotels gained popularity, the management of the inn slid into deficit. In 1982, the hotel had no guests consecutively for three days, as a result of which the inn started hosting foreign guests. The guestrooms with traditional Japanese atmosphere (Figure 2-2-3-36) and the inn's stance not to offer any special services, but to display the ordinary Japanese way of living "as it is" won a good reputation among foreign guests, and nowadays 90% of the guests are foreign tourists. The inn hosts about 5 to 6 thousand foreign guests a year, and has hosted 0.137 million foreign guests coming from 100 countries in total, as of 2008. Hosting of foreign tourists remarkably improved the inn's business performance, and twelve guestrooms are almost always fully occupied throughout the year, regardless of the day of the week, month or season.⁸⁴ The inn has continued to be visited by many guests even after the Lehman shock, and average guestroom occupancy rate for the period from October, 2008 to March, 2009 was 93%, which was extremely good. Mr. Isao Sawa, the owner of the inn, has been selected as an example of "Tourism Charisma"⁸⁵ on the grounds of having hosted foreign tourists and thereby having gained broader perspectives which would accommodate different cultures and customs, in addition to the attainment of improvement of business performance. Mr. Sawa has been actively giving lectures throughout Japan in an attempt to increase the amount of inns willing to host foreign tourists. In another case, a major hotel employed foreign employees in order to facilitate accommodation of foreign guests, as a result of which the hotel succeeded in adding value to service for foreign guests, and, in addition, attained revitalization of the company through consciousness improvement and activation of communication among staff, including Japanese employees.

⁸⁴ The annual average occupancy rate of the inn for 2008 was 95.4%.

⁸⁵ The title was given in 2003 by the committee of the Ministry of Land, Infrastructure, Transport and Tourism.

Figure 2-2-3-36 Guestroom of Sawanoya Ryokan



Furthermore, adding value to local resources, such as preexisting traditional handicrafts, to enhance attractiveness for capturing foreign tourists would also be another option (See example case below). It would also be a good idea to utilize inbound tourists for marketing activities toward exploration of overseas market. Therefore, economic effects generated from securing inbound tourists would spread to manufacturing sectors other than sectors directly related to tourism such as hotels and inns.

<<Example Case>> Development of new products by Kumakura Garasu Kogei Ltd.

Edo kiriko (Edo-style cut glass), manufacturing of which is said to have begun in 1834, is popular among foreign tourists because of its luxurious designs and delicate cutting technology. Kumakura Garasu Kogei Ltd., located in Koto-ku, Tokyo produces a variety of works combining traditional and modern patterns, while maintaining the tradition of *Edo kiriko* (Figure 2-2-3-37). The company's atelier/showroom is visited by many foreign guests, mainly consisting of Europeans and Asians. The company is located in a residential area and its building site has no space for parking a tourist bus. The company has entered into a tie-up with a local shrine, wherein the company borrows the shrine's parking lot, and offers its atelier/showroom tour including a priest's brief explanation on the history of the Shinto religion and a tour to *mikoshi-gura* (sacred palanquin storehouse), to which tourists are usually not permitted access. This tour is welcomed by foreign tourists as it enables them to better appreciate the atmosphere of Edo period Tokyo. The company intends to expand the tie-up to include the local shopping arcade so as to facilitate in securing foreign tourism for the entire district.

Currently, the company makes a proactive commitment to the promotion of *Edo kiriko* technology, while adding value thereto in collaboration with other traditional handicraft makers. The company first focused on a lamp, as a glass product commonly used throughout the world, and started manufacture of a lamp in collaboration with *Takaoka doki* (Takaoka copperware), a traditional handicraft from Toyama Prefecture. The finished lamp consisted of a lampshade, created with the use of *Edo Kiriko* technology, and a stand made from *Takaoka doki* (Figure 2-2-3-38). The lamps retail for the high price of several hundred thousand yen each. The lamps were only released in 2008; however, the lamp has attracted foreign customers such as Russians, and the company has received offers for handling of sale thereof from multiple buyers from countries including Asia. Although the company's product is not inexpensive, there have been some cases where it has motivated wealthy foreign tourists, fascinated by the product which they received as a gift from their friend, to visit Japan solely for the purpose of buying from the company. So, the marketing effect generated by word-of-mouth communication

among foreign tourists is significant. The company seeks development of new products in collaboration with other types of business such as Arita ware, traditional Japanese paper, dyed goods, wood products, etc., in an attempt to create new “made in Japan” products embodying the very best of workmanship of Japan, which Japan proudly believes to be among the world’s best.

Figure 2-2-3-37 Original pattern of Kumakura's edo-kiriko

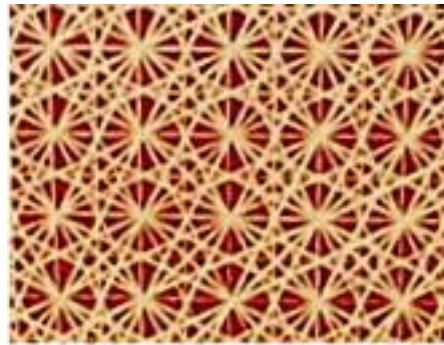


Figure 2-2-3-38 Lamp created by combination of edo-kiriko and Takaoka copperware



(D) Issues involved in further attracting inbound tourists

The above described the increase of inbound tourists and the economic effects it generates. Japan has remained sluggish in the international ranking on the number of inbound tourists, under which Japan ranked 28th, and 6th among Asian countries.⁸⁶ According to the Travel & Tourism Competitiveness Report 2009 published by the World Economic Forum, Japan ranked 25th out of 133 countries in terms of overall assessment, and 5th out of Asian and Pacific regions, which is lower than its ranks from the previous year (23rd out of 133 countries). According to this report, Japan has been highly rated in terms of development of domestic transport infrastructures, cultural resources, and

⁸⁶ Ministry of Land, Infrastructure, Transport and Tourism (2009), *White Paper on Tourism, Japan*

quality of personnel engaged in tourism sectors; however, Japan has been poorly rated in terms of systems for accepting foreigners, regulations including visa requirements, priority of promotion of tourism in policymaking, and marketing (Figure 2-2-3-39). In light of competition among various foreign countries in an effort to capture foreign tourists, triggered by elevation of the world's tourist population, Japan needs to strive to enhance international competitiveness of travel and tourism sectors through cooperation among government and private sectors, covering not only travel, accommodation and transport sectors, but also all types of related sectors such as retailers, including restaurant sectors, amusement sectors, advertisement sectors, etc. In March, 2009, the Tourism Nation Promotion Strategy Conference (chairperson: Mr. Jiro Ushio, Chairman and Ushio Group Representative, USHIO INC.), established under the Council of Ministers on National Tourism, agreed that international tourism is an effective instrument for stimulating the Japanese economy, especially in regards to regional revitalization, and to increase the number of inbound tourists to 20 million by 2020. Such opinion shows that this is an age when Japan will come to accept 20 million inbound tourists as "the second opening of the country," and suggests that Japan needs to exert all its efforts in encouragement of its commitments towards becoming a tourism nation, while lifting the boundaries between government sectors and private sectors.

Currently, the Japanese Tourism Agency, newly established in October, 2008 with the objective of the realization of Japan as a tourism nation, carries out the "Visit Japan Campaign," wherein it promotes the attractiveness of travel to Japan to the world and creates and assists attractive package tours to Japan. And, these activities have surely had an effect on increasing the amount of tourists from Asia. In connection with promotional activities for luring overseas high income class people seeking consumption of high quality products, which are carried out for the purpose of effectively promoting the Japan's position as a "Premium Destination,"⁸⁷ the Ministry of Economy, Trade and Industry and the Ministry of Land, Infrastructure, Transport and Tourism, in collaboration with each other, participated for the first time in the "International Luxury Travel Market" convened in France in December, 2007. Moreover, the Ministry of Economy, Trade and Industry seeks to create a network among genuine Japanese-style contents such as Japan's excellent traditional handicraft and cultures, etc., to thereby establish a system which would enable accommodation of the needs of overseas high-income class tourists. Looking at the local district, commitments for improvement of systems for accepting foreign tourists which reflect their needs, are being made, as can be seen in activities such as the experimental interpretation service carried out by the Hokkaido Bureau of Economy, Trade and Industry (see Example Case). In addition to such commitments, in order to capture demands for overseas travel in emerging economies, it is necessary to: grant entry visas in a more timely manner and more smoothly and to reduce waiting time for immigration/emigration examination, while taking into account consistency with immigration control policies; to improve international access such as air flights and ferries; and to promote the posting of signs for transportation facilities, etc. in foreign languages. Furthermore, to further expand consumption by foreign tourists in Japan, it is necessary to

⁸⁷ According to the opinion submitted by the Tourism Nation Promotion Strategy Conference as mentioned above, as a basic concept for gaining 20 million inbound tourists by 2020, high-quality living environment which is among the world's best, outstandingly safe and secure society, sophisticated cultures and arts, and life cultures including foods shall be placed at the core of Japan branding. Remarks were also made that the attractiveness of Japan as a "Premium Destination" shall be promoted, as a place where visitors can gain special memories of travel and more satisfaction than they expected.

make commitments toward increasing facilities which accept payment or give cash out from credit cards, etc. issued in foreign countries.

On the other hand, according to the “Survey of Awareness of Receiving Foreign Travelers” prepared by the Ministry of Internal Affairs and Communications in October 2008, approximately 40% of the hotel and inn operators answered that they had no foreign guests in 2009, and approximately 70% of such operators answered that they were reluctant to host foreign guests in the future.⁸⁸ In addition, approximately 60% of the local governments which responded to the questionnaire answered that they are “not running, and have no plan to run,” any program for the promotion of accepting inbound tourists (Figure 2-2-3-40). Acceptance of inbound tourists generates considerable economic ripple effects, such as expansion in domestic demand, as well as the creation of job opportunities and new industries, and the revitalization of related companies and regions. In addition, such acceptance enables the regions to enhance their vitality by rediscovering and refining their distinctive natural environment, traditions and cultures, from the global standpoint. Therefore, in addition to national government commitments, each local government, business operator and citizen is strongly requested to advance foreigner-friendly human resource development and town planning, in order to break free from the exclusive, introversive way of thinking.

Figure 2-2-3-39 World rankings of competitiveness in tourism

	1st	2nd	3rd	Japan (out of 133 countries)
Overall	Switzerland	Austria	Germany	25th
Policy rules and regulations	Singapore	Hong Kong	Ireland	38th
Air transport infrastructure	Canada	U.S.	Australia	24th
Ground transport infrastructure	Swiss	Hong Kong	France	8th
Tourism infrastructure	Spain/Austria	-	Italy	40th
Price competitiveness	Egypt	Brunei	Indonesia	86th
Human resources	Singapore	Denmark	Iceland	20th
Competence in marketing and branding	UAE	Mauritius	Singapore	89th
Cultural resources	Spain	Sweden	UK	10th
Affinity for travel & tourism	Montenegro	Barbados	Mauritius	131st

Source: *The Travel & Tourism Competitiveness Report 2009* (World Economic Forum).

⁸⁸ According to the questionnaire, reasons for reluctance to host foreigners were “not capable of providing services in foreign languages” (75.7%), “lack of facilities suitable for foreign tourists” (71.8%) and “concerns about handling any problems that may arise” (63.4%) (the questionnaire allowed multiple answers).

Figure 2-2-3-40 Results of survey on awareness surrounding accepting inbound tourists

Respondent	Question	Results (%)		
		Practice	Plan to put into practice	Do not practice, and have no plans to put into practice
Hotel and inn operators	Signs and information provided in foreign languages at its facilities	38.0	22.1	36.7
	Preparation of website in foreign languages	18.1	20.4	60.5
Travel agents	Arrangement of travel for inbound tourists	22.5	30.0	47.5
Transport business operators	Information provision in foreign languages	43.1	10.5	45.7
Local governments	Program for promotion of acceptance of inbound tourists	28.8	7.8	62.5

Note: The survey was conducted as of April, 2008. Number of respondents: 7,067 hotel and inn operators, 1,251 travel agents, 982 transport business operators and 1,533 local governments.

Source: *Survey of Awareness of Receiving Foreign Travelers* (Administrative Evaluation Bureau, Ministry of Internal Affairs and Communications, Japan).

<<Example Case>> Experimental multi-language interpretation service in Niseko

In recent years, a ski boom in foreign countries has caused a surge in the number of foreign tourists, including tourists from Australia, traveling to Niseko, Hokkaido. In fiscal year 2007, 60,413 foreigners stayed in Niseko,⁸⁹ 2.1 times as many as the number of the previous fiscal year.⁹⁰ The number of people who used the free night shuttle bus connecting ski areas in the district with the town center in fiscal 2007 was the largest ever: 26,724.⁹¹ Foreign tourists accounted for 53% of such people. The presence of foreign tourists plays an important role in making the atmosphere of the district lively.

Under such circumstances, there has been an increase in the number of cases where foreigners who are injured while skiing visit the local hospital for medical treatment, or where they shop and eat at shopping arcades and other facilities. However, local residents can currently offer only limited services in foreign languages. Thus, Hokkaido Bureau of Economy, Trade and Industry carried out an experiment using a remote interpretation service in English, Chinese and Korean from December 2008 to February 2009 as a model case in an attempt to attract more foreign tourists by adding value to services oriented toward them and revitalize the local economy.

For the purpose of the experiment, 32 places in the district, including hospitals, stores and restaurants, were equipped with personal computers. An internet communication system was created, whereby an interpreter interpreted conversations between foreign customers and store staff talking in front of personal computers (Figure 2-2-3-41). During the experiment period, the service was used by 18 foreigners in total. The language most frequently used was English, and in particular, the majority of people used the service when seeking medical treatment, including during consultations regarding injuries and when giving consent for x-ray photography. Such a fact revealed foreign tourists' growing demand for such a system for medical services. The experiment revealed a variety of other foreign tourist needs. For example, some foreign tourists asked a personal seal shop to make a seal for a

⁸⁹ This is the total number of foreigners who stayed in Niseko Town and Kutchan Town.

⁹⁰ Hokkaido Government, *HEISEI 19 NENDO HOKKAIDO KANKO IKIKOMI KYAKUSU CHOUSA HOUKOKUSHO*

⁹¹ The number of people using the bus service in fiscal 2008 is expected to exceed 30,000 (based on a survey conducted by the Kutchan Tourism Association).

souvenir, and some of them asked a shop to print out data stored on a USB memory stick. Due to a decline in foreign tourists who visited the district in the experiment period, as a result of the global economic slowdown and strong yen following the Lehman shock, the system was used less than initially expected. However, the district has begun discussion on putting the interpretation service to practical use, based on the know-how derived by the experiment.

Figure 2-2-3-41 Demonstration experiment for interpretation service



Column 20: Promoting the tradition of karate to the world — Okinawa Traditional Karatedo Kobudo International Study Center Kabushiki Kaisha

Traditional Okinawa karatedo and kobudo have served as martial arts protecting the people of Okinawa, who have loved peace and therefore have not used weapons since ancient times. Karatedo and kobudo have been passed down and developed as martial arts for cultivating and training the mind and body. Thereafter, karatedo, through regions such as America, gained prevalence as “karate” throughout the world. Nowadays, karate is said to have attracted about 50 million enthusiasts from 178 countries and regions.

Karate enthusiasts from all over the world are studying the philosophy and art of karatedo, and they have strong admiration for and interest in Okinawa. The Okinawa Traditional Karatedo and Kobudo International Study Center was established for the purpose of meeting their expectations.

The center was founded in 2004 with the objective of accepting trainees from all over the world and fostering traditional Okinawa karatedo instructors, under a scheme wherein karate enthusiasts from Japan and overseas and the villagers of Yomitan Village make equal financial contributions.



Okinawa Traditional Karatedo Kobudo
International Studying Center



Training

<p>The establishment of the center has led to expectations for ripple effects on various sectors, for example, manufacturing and sales of protective gear and goods for karate and worldwide dissemination of information on karate, in addition to ripple effects on the tourism sector.</p> <p>The 2009 Okinawa Traditional Karatedo World Championship, the first world championship karate meet in six years, will be held in August this year. People from 31 countries entered the previous championship, and even more countries are expected to enter this year.</p>	
--	--

4. Toward finding solutions to global issues

From the 1990s through the first decade of the 2000s, in connection with the global economy, emerging economies, including Asia, achieved rapid economic growth; however, on the other hand, global greenhouse gas emissions have surged, drawing closer attention to global warming issues. In addition to this, the development of industries and enhancement of the purchasing power of consumers in emerging economies have initiated an increase in global demand for natural resources and foods, and global consumption of water.

Such global issues are difficult problems not easily resolved without unified commitments by every country, and they require international cooperation. In particular, countries with high-level technology, like Japan, are expected to make active commitments. Meanwhile, such commitments to resolve global issues will also give rise to worldwide business opportunities.

The following discusses global issues, such as global warming and concerns about shortages of resources,⁹² foods and water, and introduces example cases where excellent technologies of Japanese-owned companies succeeded in solving these kinds of issues overseas.

(1) Global warming issues

(A) Movements involving global warming issues

2008 was the first year of the first commitment period (2008 to 2012) as prescribed in the Kyoto Protocol. The parties to the protocol are required to promote commitments to reduce greenhouse gases. Coping with the issue of global warming has become one of the most important tasks for companies as well.

On the other hand, in comparison with the rest of the world, Japan has top class energy-saving technology and high energy efficiency. Japan was the first nation in the world to establish a sustainable society where both environmental protection and economic growth can be attained. Thus, overseas business expansion by Japanese-owned companies based on their advantageous environment-related technologies will contribute to finding solutions to the issue of global warming.

⁹² For flow of international trade, etc. of energy (crude oil, coal and natural gases) and mineral resources, refer to Supplementary Note 2-5.