Section 4 Domestic and overseas-oriented expansion of activities in the Japanese service sector

<Key Points>

1. Progress of the service economy and importance of expanding activities in the service sector
   In developed countries, the proportion of economic activity or employment accounted for by the service industry is increasing, and the process towards the so-called “service economy” is continuing to develop. In the US where the service economy developed in the 1990s, the development of the service industry has made a large contribution to the expansion of employment opportunities. In addition, outsourcing in the manufacturing industry has brought about further development in the service industry, which in turn is strengthening further competitiveness in the manufacturing industry. This has resulted in a deepening in the relationship between manufacturing and the service industry, in functional divisions and mutual interdependence.

2. Current status of and challenges for the vitalization of the service industry in Japan
   The expansion in demand for services in Japan is not only vitalizing the service industry itself, it is also contributing to increased competitiveness in the manufacturing industry with which a mutually interdependent relationship exists, through the invigoration of business support sector. In the future, in order for the domestic service industry to be further vitalized, it will be necessary to take the following measures: (1) promotion of competition and regulatory reform; (2) development and utilization of IT and service technologies; (3) promotion of creation of new business, and advancement of the vitalization of community businesses; and (4) securing of flexible employment and human resource development systems.

3. Current status of and challenges for the expansion of services export
   The service sector in Japan is expected not only to provide services to domestic companies and the Japanese people, but also to expand its activities to the international community that includes foreign companies and foreign customers, in particular in the contents and tourism sectors. The development in the infrastructure of digital contents distribution in the Asian region, has given rise to expectation of significant expansions in business opportunities in the contents industry. The overseas development of the contents industry, in addition to increasing the added value of the Japanese contents industry, could contribute to increasing the competitiveness of Japanese industry as a whole and enhancing Japanese brand value by enhancing understanding of the diversity of Japanese culture. In addition, the tourism industry could not only have a knock-on effect on other industries, but considering the diverse significance of enhanced international mutual understanding and regional economic vitalization that could be accrued, the tourism industry should be actively invigorated in Japan. Through the expansion of such economic activities, in addition to realizing a “society that evokes feelings of comfort and affluence,” it is necessary to aim for the creation of a national image and brand that can be proudly presented to the world, and broaden international understanding about Japan around the world, which has an ingrained image of Japan as an industrial and economic big power focused on manufacturing. From this broad perspective Japan needs to expand the export of services, while strengthening competitiveness in the service sector.
1. Progress of the service economy and importance of expanding activities in the service sector

(1) Progress of the service economy

In developed countries, the proportion of economic activity or employment accounted for by the manufacturing industry is decreasing while that of the service industry is increasing, and a so-called “service economy” is progressing. A specific look at the service industry’s share of the amount of added value and number of employees in foreign countries and Japan reveals that while Japan has relatively low levels compared to the United States (US) and United Kingdom (UK), where service economies are highly developed, the gradual advance of the service economy in Japan throughout the 1990s is evident (Fig. 3.4.1).

In the US, through the 1990s, employment expanded greatly in the tertiary industry centered on the service industry, with an increase of about 15 million in employment, and the service industry made a large contribution to the expansion of employment opportunities in the US\(^1\). Moreover, this progress of the service economy in the US in the 1990s also contributed to strengthening the competitiveness of the US manufacturing industry. For example, a business model aimed at securing profitability by adding services to products or developing new service businesses based on strengths in areas such as products production, sales processes and customer data management became popular. In addition, management strategies that raise a company’s profitability by concentrating resources on departments that generate high added value and outsourcing the work of inefficient departments were frequently observed. In other words, the development of the service industry in the US has been driven by outsourcing and other measures aimed at strengthening the competitiveness of the manufacturing industry, while the development of the service industry in turn is bringing about further strengthening of the

\(^1\) Meanwhile, employment rose by only about four million in the tertiary industry in Japan in the 1990s.
competitiveness of the manufacturing industry. In this way, the development of the service economy in the US has resulted in a deepening in the relationship between manufacturing and the service industry, in functional divisions and mutual interdependence².

(2) Importance of expanding activities in the service sector

For the Japanese economy to maintain its vitality and continue growing in the future, balanced development of the manufacturing and service industries is desirable in light of the merits seen in the US service economy. In particular, for Japan at present, there is a need to adapt to changes in its domestic employment structure and industrial structure in accordance with the expansion of the overseas business activities of Japanese corporations³. In this environment, it is necessary for Japan to vitalize its service industry through the expansion of activities in the health and welfare, contents and tourism sectors. These sectors contribute to the expansion of employment and are characterized by the industrial ripple effect. They can also adapt to changes in values regarding people’s lives which accompany the advancement of an aging population, among other factors. In addition, as outsourcing of previously internal services in the manufacturing industry proliferates, there is a trend toward deepening of mutually interdependent relations between the activities of the manufacturing industry and the service sector. Expanding activities in the Japanese service sector is becoming an indispensable element from the standpoint of strengthening the competitiveness of the manufacturing industry. Furthermore, amid the progress of the expansion of the global service sector, it is hoped that the service trade in Japan will not stop at the provision of services to Japanese companies and citizens, but will also include international activities that bring the world’s companies and citizens into view.

From this standpoint, this section takes an overview of the current status of and challenges for the vitalization of the service industry in Japan and expansion of service exports.

2. Current status of and challenges for the vitalization of the service industry in Japan

(1) Domestic expansion in demand for services and qualitative changes

The basic reason for the progress of the service economy in developed countries is qualitative changes in consumer demand accompanying increase in income levels. In Japan as well, the service economy is expected to progress as interest shifts from material desires to more personal and diverse needs centered on services. Specifically, a look at the ratio of products and services in domestic consumption expenditure and income elasticity reveals a trend wherein service consumption is more elastic than product consumption, and people are spending the increase in their income on consumption of various services (Figs. 3.4.2, 3.4.3).

Along with this expansion in demand for services, a qualitative change in the services demanded can be seen, together with changes in values regarding people’s lives, against a backdrop of expanded interest in health and old age, and increased leisure time. Expansion in the provision of services tailored


³ See Sections 2 and 3, Chapter II.
to these changes in values regarding people’s lives is needed in order to vitalize the domestic service industry. Specific service sectors that can be cited are the health and welfare, contents and tourism sectors.

Figure 3.4.2 Trends in the ratio of products and services in household consumption expenditure

![Graph showing trends in the ratio of products and services in household consumption expenditure from 1984 to 1999.](source)

Figure 3.4.3 Income elasticity of service consumption

![Bar chart showing income elasticities of various service consumptions.](source)

The health and welfare sector is exemplified by medicine, care and sports. As the rapidly declining birthrate and aging of the population continue in Japan, there are expectations for future growth of this sector from the standpoints of economic growth and employment expansion.

The contents and tourism sectors include movies and music, publishing, games and tourism. For the contents sector, because of its ripple effect on consumption of hardware devices and other products of other industries, there are expectations for the expansion of the magnitude of domestic industry and international development. There is also hope for further development in the tourism sector from the diverse significance of the sector.
(2) The deepening of mutually interdependent relations in the activities of the manufacturing industry and the service sector

The vitalization of activities in the service sector, amid the deepening of its mutually interdependent relations with the manufacturing industry, is an indispensable element from the standpoint of strengthening the competitiveness in the manufacturing industry. In particular, along with moves in the manufacturing industry in recent years to outsource previously internal services, it is anticipated that activities in the business support sector that will take over these service areas will be vitalized (Fig. 3.4.4).

![Figure 3.4.4 Comparision between Japan and the US of amount of demand for business-support services and GDP ratios](image)


The business support sector leads to the strengthening of the competitiveness of companies, and is exemplified by IT, consulting and personnel dispatch businesses. A large element in strengthening a company’s competitiveness is the selection and concentration of activity that accompanies outsourcing of non-core business. For doing this, each company needs to create an environment where it can strategically use external business support services to reinforce its weaknesses and draw the maximum from its strengths. In order to strengthen the competitiveness of a company, it is also imperative that the capabilities of each and every one of its employees are increased. Improvement of human resources through vitalization of activities in the human resource development sector is also important.

The human resource development sector includes professional schools within graduate school, professional schools for obtaining qualification and correspondence education. Amid the growing importance of professional education for members of today’s society, it is necessary to develop an environment where appropriate human resource development services that meet the needs of these industries and sectors are provided.

(3) Challenges and measures toward vitalization of the domestic service industry
(a) Promotion of competition and regulatory reform

Unlike Japan’s manufacturing industry, which from an early point was exposed to international
competition, the competition in its service industry was substantively weak, due to practices in the private sector and government regulations. Therefore, types of businesses with low productivity existed. However, in order to vitalize the domestic service industry from now on, it will be necessary to encourage private businesses to innovate with creative ingenuity, through competing in the market. In addition, today’s domestic service industry includes sectors, mainly in the public sector market, that are difficult for private businesses to enter. In these kinds of sectors as well, it is very important to level the playing field of competitive conditions between public corporations and private companies under the principle of “from the public to the private sector,” and develop an environment where diverse services can be provided based on free competition.

(b) Development and utilization of IT and service technologies

In order to vitalize the service industry, it is necessary to promote innovation in software and hardware, create new services and continually expand the market, through the introduction of IT, and the development and utilization of service technology. In particular, it is thought that there are still wide areas where IT can be used in the medical care sector and other sectors where IT has not been used much. There is also great potential for vitalizing the service industry using technologies other than IT such as biotechnology, nanotechnology and environmental technology.

Until now, hardware manufacturers have tended to be the main parties executing service-related technology development, but from now on, it will also be necessary for the service industry to be aware of trends in technological innovation, to promote the introduction of IT and new technologies and to actively develop service technologies on its own.

(c) Promotion of creation of new businesses and advancement of the vitalization of community business

Because service industries are generated to meet diverse needs, it is an area wherein a venture spirit that breaks from conventional wisdom and is rich in the spirit of enterprise is realized to the maximum potential, and there are expectations for expansion of business start-ups that are unrelated to scale of operation. In particular, franchising and SOHO (small office, home office) are methods that make it relatively easy to start up businesses based on new ideas, and it is necessary to promote the development of an infrastructure for businesses using these methods to develop healthily. In addition, when promoting a business start-up in the service sector, it is important to embrace the viewpoint of promoting a community business that lends purpose in life to individuals by having ordinary citizens get involved independently, even if profitability is low. Community businesses are wide-ranging, including health, medical and nursing care, childrearing, environmental conservation and recycling, lifelong learning and community development. It is necessary to continue to provide an environment for encouraging these efforts which are still in the fetal stages.

Moreover, when motivated individuals start a business in the service sector, procuring funds is often difficult, for example, due to insufficient collateral on property. On the financing side that provides funding, there is also a lack of human resources that is able to properly carry out evaluation of these service businesses. Because of this, in order to further promote new start-ups in the service sector
henceforth, it will be necessary to develop methods for funding and cultivate human resources that is able to properly carry out business evaluations in the service sector.

(d) Securing of flexible employment and human resource development systems

Due to the development of IT, the service industry is characterized by the ability to employ ways of working such as SOHO and telework that allow separation from the “place” of workplace and are centered on “work” that has higher degrees of specialization. In addition, amid the declining birthrate and the aging of the population, it is becoming difficult to secure the necessary capabilities what with Japan’s traditional uniform employment system centered on male employees and includes the bulk hiring of new graduates, promotion by seniority and lifetime employment. Furthermore, in today’s world where knowledge begets value, in many cases the significance of attributes such as gender, age and disability fades. In this situation, it is necessary to make a change in type of employment from the traditional fixed systems toward more flexible ones.

Measures adapted to the service economy are also needed in human resource cultivation. That is to say, up until now, human resources in specialized fields in the service industry were developed systematically. However, management personnel had not been systematically cultivated and insufficiencies have been cited. Traditionally, in the service industry, medical care, welfare, culture, education and other services for the public interest have tended to be emphasized. However, from now on, it will be necessary to cultivate in these service sectors, too, human resources that have not only expertise but also management sense.

3. Current status of and challenges for the expansion of service export

(1) Expanding the presence of the Japanese contents industry in Asia

(a) Current status of the Japanese contents industry in Asia

Export of Japanese copyrighted works through video (films, television programs, etc.), music, game software, animated characters and other contents industries is expanding, mainly in Asia. Specifically, a look at the Asian region reveals that Japanese music, animation, and trendy television dramas are enjoying popularity especially among youths. Characters created in Japan are also being received warmly (Fig. 3.4.5).

Figure 3.4.5 Most Popular Cartoon Characters in China

<table>
<thead>
<tr>
<th>Rank</th>
<th>Character</th>
<th>Votes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Crayon Shin-chan</td>
<td>74</td>
</tr>
<tr>
<td>2</td>
<td>Son Goku</td>
<td>73</td>
</tr>
<tr>
<td>3</td>
<td>Doraemon</td>
<td>68</td>
</tr>
<tr>
<td>4</td>
<td>Detective Conan</td>
<td>57</td>
</tr>
<tr>
<td>5</td>
<td>Chibi Maruko-chan</td>
<td>53</td>
</tr>
<tr>
<td>6</td>
<td>Snoopy</td>
<td>49</td>
</tr>
<tr>
<td>7</td>
<td>Donald Duck</td>
<td>43</td>
</tr>
<tr>
<td>8</td>
<td>Mickey Mouse</td>
<td>39</td>
</tr>
<tr>
<td>9</td>
<td>Garfield</td>
<td>39</td>
</tr>
<tr>
<td>10</td>
<td>Sakuragi Hanamichi</td>
<td>37</td>
</tr>
</tbody>
</table>

Note: 1. The highlighted lines are for cartoon characters that originated in Japan.
2. The survey covered 1,000 men and women over 20 years of age residing in one of three Chinese cities (Beijing, Shanghai, Guangzhou).
Original source: Results of survey conducted by Cyber Brains in December 2001.
It is also said that 60 percent of animated videos broadcast around the world are made in Japan. Considering individual works also shows that they are gradually gaining high acclaim internationally, and that Japan’s contents industry has relatively high competitiveness. For example, *Spirited Away* (directed by Hayao Miyazaki) received the top prize at the 2002 Berlin International Film Festival and then garnered the 2003 Academy Award for Best Animated Feature Film.

Furthermore, the popularity of Japanese films is also high. Based on the report *On Future Promotion of Japanese Films (Recommendation)*, compiled by the Council on Film Promotion established in the Agency for Cultural Affairs in May 2002, Japan is currently working to promote its films. There are expectations for the creation of further outstanding Japanese films and other video contents in the near future.

(b) Progress of development in the infrastructure of digital contents distribution in the East Asian region

Next, looking at the state of diffusion of cable television (CATV), asymmetric digital subscriber lines (ADSL) and other broadband networks, which will form the main infrastructure of contents distribution in coming years, reveals that East Asia, led by the Republic of Korea (ROK), has a high rate of diffusion that outstrips Europe and the US (Fig. 3.4.6). At the same time, Japan currently realizes the world’s cheapest environment in terms of costs related to broadband communications (Fig. 3.4.7) and is expected to grow rapidly in this area in a short period of time. The growth of China’s broadband users by threefold from 2 million to 6.6 million over the 1.5-year period from June 2001 to December 2002 has been previously cited⁴.

![Figure 3.4.6 Number of broadband users per 100 population in 2002](image)

![Figure 3.4.7 Monthly charges for broadband communications](image)

<table>
<thead>
<tr>
<th>Country/region</th>
<th>Charge</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>0.18</td>
</tr>
<tr>
<td>ROK</td>
<td>0.29</td>
</tr>
<tr>
<td>Belgium</td>
<td>1.09</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>1.27</td>
</tr>
<tr>
<td>Singapore</td>
<td>2.19</td>
</tr>
<tr>
<td>US</td>
<td>2.86</td>
</tr>
<tr>
<td>Australia</td>
<td>4.42</td>
</tr>
</tbody>
</table>

Note: “Charges” are calculated per 100kbps transmission in dollars.
Source: International Telecommunications Union (ITU).

⁴ Takita (2003).
Based on this rapid progress of the development of network environments in the East Asian region, it is thought that demand for digital contents\(^5\) utilizing broadband services in the East Asian region hereafter will expand. Against this backdrop, opportunities for the export of new services that utilize contents in the East Asian region are expected to expand for the Japanese contents industry.

(c) Significance of overseas development of the contents industry and intellectual property strategy

The overseas development of the contents industry, in addition to increasing the added value of the Japanese contents industry, could contribute to increasing the competitiveness of Japanese industry as a whole and enhancing Japanese brand value\(^6\) by enhancing understanding of the diversity of Japanese culture. In addition, there is potential for the dissemination of a new culture from Asia to the world through this kind of cultural fusion and collaboration between Japan and the Asian region, by creating richer international contents industries that combine the respective advantages of the two. However, at present, numerous pirated products are being distributed in the contents industry throughout Asia’s countries and regions. This is becoming a great problem for Japanese contents businesses trying to develop their business (Fig. 3.4.8).

Moreover, pirated products are not only a great impediment to the development of contents-related industries in countries and regions where they are distributed. It is also feared that piracy will result in inhibiting development of the contents industry in Asia as a whole and authors’ cultural creative activity. For this reason, tackling the creation, protection and utilization of contents and other intellectual property is a crucial challenge for Asia as a whole.

From this standpoint, Japan established the Content Overseas Distribution Association (CODA) in

\(^{5}\) The term “digital contents” also includes packaged software including DVD, and other media and broadcasting that do not traverse the Internet.

\(^{6}\) An example is the film *Love Letter*, directed by Shunji Iwai. The film was a big hit in the ROK and Taiwan. The cities where the film was set, Otaru and Hakodate, became popular tourist spots that experienced resultant increases in the number of tourists from Asia (Media and Content Industry Division, Commerce and
August 2002, as part of its intellectual property strategy\(^7\). The organization supports the overseas development of Japanese contents businesses and measures for the execution of rights involving copyrights in Asian countries and regions. Through such efforts, it is hoped that creative culture will be promoted throughout all of Asia, including Japan.

(2) **Japanese tourism industry expected to develop toward expansion of service exports**

The previous section focused on the contents industry expected to expand its presence among the business activities of the service industry. This section considers the current state of and ongoing challenges for the tourism industry, which has a substantial excess of payments in Japan’s service trade.

(a) **Status of Japan’s travel balance, etc.**

**<Status of Japan’s travel balance>**

An item-by-item look at the state of Japan’s balance on services in FY2001 reveals that the travel balance deficit accounted for over half the overall deficit in balance on services (52.4 percent) as the highest deficit category (Fig. 3.4.9).

![Figure 3.4.9 Amount and share of travel balance in Japan’s services deficit compared to other categories](image)

Notes: 1. Based on figures confirmed in FY2001.  
2. Overall deficit in services is 5.1348 trillion.  
3. Transport of travelers not included in travel balance.  
4. Figures in parentheses show share of overall amount.  
Source: Balance of Payments (Bank of Japan).

A region-specific breakdown of Japan’s 2001 travel balance deficit reveals that the deficit amounts calculated for Western European and North American regions have decreased greatly compared to 1996, and the overall deficit has improved (from a deficit of 3,588 billion yen in 1996 to a deficit of 2,816.8 billion yen in 2001). However, a look at the relationship with the Asian region shows deficit amount increase along with deficit amount share increase (from 26.6 percent in 1996 to 37.2 percent in 2001 (Fig. 3.4.10)). Moreover, looking at this increase in the deficit amount with the Asian region in terms of amounts received and paid, the amount received decreased from 244 billion yen in 1996 to 222.2 billion yen in 1996, while the amount paid increased from 273 billion yen to 294.2 billion yen.

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\(^7\) For details, see Section 3, Chapter III.
yen in 2001, while the amount paid soared from 1,200.1 billion yen in 1996 to 1,271 billion yen in 2001. Thus, it can be seen that two factors mutually contributed to the expansion of the trade deficit with the Asian region: a decrease in receiving travelers from Asia visiting Japan and an increase in payments by Japanese overseas travelers to Asia.

Figure 3.4.10  Japan’s travel balance deficit by region (1996, 2001)

A further look at the trade balance deficit with Asia by country reveals large deficits in the relationships with the ROK, Hong Kong, China, Thailand and Singapore. Among these, the travel balance deficits with the ROK and Thailand have expanded since 1996 (Fig. 3.4.11).

Figure 3.4.11  Japan’s top ten travel balance deficit destinations

<table>
<thead>
<tr>
<th>Country</th>
<th>1996 Travel balance</th>
<th>1996 Amount received</th>
<th>1996 Amount paid</th>
<th>Rank</th>
<th>2001 Travel balance</th>
<th>2001 Amount received</th>
<th>2001 Amount paid</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>-9,520</td>
<td>848</td>
<td>-10,368</td>
<td>1</td>
<td>-7,629</td>
<td>669</td>
<td>-8,298</td>
<td>1</td>
</tr>
<tr>
<td>ROK</td>
<td>-1,224</td>
<td>645</td>
<td>-1,869</td>
<td>11</td>
<td>-2,839</td>
<td>508</td>
<td>-3,347</td>
<td>2</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>-2,414</td>
<td>178</td>
<td>-2,592</td>
<td>3</td>
<td>-1,722</td>
<td>142</td>
<td>-1,864</td>
<td>3</td>
</tr>
<tr>
<td>China</td>
<td>-1,666</td>
<td>298</td>
<td>-1,964</td>
<td>6</td>
<td>-1,522</td>
<td>382</td>
<td>-1,904</td>
<td>4</td>
</tr>
<tr>
<td>Australia</td>
<td>-1,913</td>
<td>93</td>
<td>-2,006</td>
<td>5</td>
<td>-1,145</td>
<td>118</td>
<td>-1,263</td>
<td>5</td>
</tr>
<tr>
<td>Thailand</td>
<td>-942</td>
<td>87</td>
<td>-1,029</td>
<td>13</td>
<td>-1,129</td>
<td>67</td>
<td>-1,196</td>
<td>6</td>
</tr>
<tr>
<td>Italy</td>
<td>-3,595</td>
<td>43</td>
<td>-3,638</td>
<td>2</td>
<td>-967</td>
<td>26</td>
<td>-993</td>
<td>7</td>
</tr>
<tr>
<td>UK</td>
<td>-1,950</td>
<td>266</td>
<td>-2,216</td>
<td>4</td>
<td>-946</td>
<td>236</td>
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<tr>
<td>Singapore</td>
<td>-1,438</td>
<td>70</td>
<td>-1,508</td>
<td>9</td>
<td>-945</td>
<td>61</td>
<td>-1,006</td>
<td>9</td>
</tr>
<tr>
<td>France</td>
<td>-1,657</td>
<td>125</td>
<td>-1,782</td>
<td>7</td>
<td>-824</td>
<td>77</td>
<td>-901</td>
<td>10</td>
</tr>
</tbody>
</table>

Note: Regions were classified differently prior to 1996 making earlier comparisons impossible. Source: Regional Balance of Payments (Bank of Japan).

<Background of the trade balance deficit>

Behind this deficit in Japan’s trade balance is the fact that compared to other countries, Japan’s travel revenues are extremely low. Specifically, a comparison of travel revenue rankings in Japan and other countries reveals that Japan is the world’s fourth largest spender on travel, while its income from travel is 31st, an overwhelmingly unbalanced situation (Figs. 3.4.12, 3.4.13).
Behind this imbalance is Japan’s policy thus far of putting emphasis on securing a trade surplus through robust exports centering on the manufacturing industry, while not stressing the importance of securing comprehensive finances in the overall international balance of payments by improving the balance on services through strengthening international competitiveness in the service sector, including the tourism industry. Another factor that has been pointed out is that since tourism has an entertainment-type image in Japan, it has been considered as mere amusement, and therefore, in comparison with production activities, the development of an environment in terms of policies, systems and awareness for tourism promotion has been taken particularly lightly.

(b) China’s service-related consumption expanding in Asia

<Expansion of service-related consumption and rise of the overseas tourism boom in China’s urban areas>

Looking at a breakdown of the expansion of consumption in China’s urban areas reveals particularly marked growth in service-related consumption. Specifically, trends in the amount of household expenditure by item in China’s urban areas show that all expenditures increased in 2000 compared to 1996, with particular high rates of expansion in expenditures for services (up 107.8 percent) and housing (up 82.1 percent) (Fig. 3.4.14).

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One factor in this expansion of service consumption in China is an overseas travel boom in China that is rapidly growing in scale, expanding at a year-on-year rate of 10 percent from 2000 onward (Fig. 3.4.15).

Figure 3.4.15 Trends in the number of Chinese tourists travelling abroad

Chinese tourists to countries of the Association of South-East Asian Nations (ASEAN) have also increased. As a result, huge amounts of tourism revenue have been generated in the ASEAN countries. It has been pointed out that this method is one of the ways to enjoy the benefits of China’s economic development. Until recently, Chinese people were limited to domestic travel, and overseas travel by the Chinese general public was not permitted for a long time. However, along with promotion of reform and an open-door policy, the China National Tourism Administration gradually expanded travel destinations. In September 2000, Japan was added to the seven countries of Thailand, Singapore, Malaysia, the Philippines, the ROK, Australia and New Zealand as an approved destination for Chinese mass

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tourism\textsuperscript{10}. Therefore, from now on, potential expansion is expected in Chinese demand for travel to Japan\textsuperscript{11}.

(c) The importance of strengthening competitiveness in the tourism industry and the rest of the service sector

<Importance of the tourism industry>

Is it possible to say that the Japanese service sector, centered on the tourism industry, is sufficiently enjoying the merits of the current state of expanding service-related consumption in China? The tourism industry, which has a huge array of supporting industries, is a comprehensive industry that is conceptually related to all industries. It includes not only the travel, lodging and transportation industries, but also the retail (including restaurant and souvenir sales businesses), amusement and advertising industries, as well as the agriculture, forestry and fisheries, manufacturing and construction industries. In addition, a look at international tourism as an “export product” reveals that it outstrips all other products, including such major items as automobiles, chemical products, foods and computer/office equipment, in export amount (Fig. 3.4.16). Thus, tourism has been called the world’s greatest export product\textsuperscript{12}.

Many countries have considered the importance of the tourism industry, positioned it as a key industry in order to promote it, and have implemented various measures with significant results. Specifically, viewing international tourism revenue as a portion of GDP in the major countries in 2000 reveals that Singapore (6.9 percent) and other countries that effected policies emphasizing promotion of the tourism industry had high levels as a result (Fig. 3.4.17). In contrast, Japan had an extremely low level (0.1 percent) compared to these other countries.

\textsuperscript{10} This approval is limited to residents of Beijing, Shanghai and Guangdong.

\textsuperscript{11} The high cost of tour expenses and other issues remain problematic points.
<Efforts by various countries toward tourism industry promotion>

- **Singapore**

  Singapore is a city-state with territory roughly equivalent to the 23 wards of Tokyo, and at first was poor in natural and historic tourist resources. However, Singapore positioned the tourism industry as a strategic industry that should be cultivated nationally. It selected its island of Sentosa and other areas for individual tourism development, and has carried out event planning and town development considering the entire country as a tourism resource. In addition, from the standpoint of tourism infrastructure development, it utilized private sector vitality including foreign capital to construct hotels and develop facilities such as restaurants and shopping centers. As a result, Singapore is now a city-tourism-state known for its shopping and good food and enjoys the success of welcoming almost twice its population in tourists\(^1\).

- **US**

  In 1991, then-president George Bush himself appeared on television commercials for a tourism campaign aimed at Germany and Japan. In 1995, then-president Bill Clinton positioned tourism as an important industry of the 21\(^{st} \) century and convened the White House Conference on Travel and Tourism. In these ways, the US stance on tourism policy was made clear\(^1\). As a result of such efforts, the US tourism industry grew from US$26 billion in 1986 to US$90 billion in 1996, accounting for one-third of the US service trade surplus and becoming the driving force behind the shift to a surplus\(^1\).

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\(^{12}\) Japan National Tourist Organization (2002), p. 27.
\(^{14}\) Japan Tourism Advisory Council (a council of experts advising the prime minister), first meeting (January 2003) material, p. 8.
\(^{15}\) Statement by Leslie R. Doggett, Deputy Assistant Secretary for Tourism Industries, United States
• ROK

In December 1999, the ROK formulated the Rainbow Plan and declared a policy of cultivating tourism alongside high-tech industries as one of the pillars of the country’s industry. The plan included the development of an area covering about 300km of the country’s southern coast, which is abundant in natural, historical and cultural resources, as a site of international tourism. An increase of 1.8 million foreign tourists, along with its production-inducing effect of 2.7 trillion won as a result of tourism consumption, in addition to 140,000 new jobs is expected in the period from 2000 to 2010. In addition, then-president Kim Dae Jung himself appeared in a television commercial aimed at Japan, and the ROK is actively working to attract large conferences and develop diverse tourism products.

In these ways, various countries are treating the tourism industry as a “cultural exports industry,” considering it an important strategic industry and making efforts to promote it.

<Diverse significance of tourism industry promotion and measures to promote Japan’s tourism industry>

With these efforts aimed at tourism industry promotion in other countries, Japan is also focusing its attention on the diverse significance of the tourism industry, including its direct effect of improving the balance on service, the strong economic ripple effect and the promotion of international mutual understanding, and is establishing a position aimed at actively working to promote its tourism industry. This work includes The Inbound Tourism Initiative of Japan by the Tourism Department, Policy Bureau, Ministry of Land, Infrastructure and Transport, announced in December 2002.

According to the strategy, the Japanese tourism industry’s gains on the international tourism market will have a strong ripple effect on the domestic economy. The strategy also states that international mutual understanding will be promoted through the expansion of international tourism exchange, as a proper understanding of Japan expands among foreign travelers, and Japanese people also increase their understanding of diverse overseas cultures and national identities through exchange with foreign travelers visiting Japan. It goes on to point out that rediscovering and burnishing the unique nature, traditions and culture rooted in each region of Japan as global tourism resources to attract foreign travelers will contribute to building people’s confidence and pride in their regions.

Two important challenges for Japan in promoting the tourism industry, which possesses such diverse significance, and in continuing to vitalize the Japanese economy as a whole, including its regions, are the establishment of a new image adapted to the tourism resources the country possesses, and the...
development of travel products adapted to the needs of visitors to Japan. In addition to Japan’s characteristic nature, history and culture, it possesses abundant “theme tourism” resources, including hot springs, the beauty of its traditional styles and festivals. Among these tourism resources, visitors from Europe and the US have high interest in mainly old temples, traditional festivals and other aspects that make Japanese culture distinct.

On the other hand, it is said that tourists from Asia tend to place importance on shopping at the famous department stores in big cities like Tokyo and visiting theme parks\(^19\). Industrial tourism needs have been growing regarding visitors to Japan from Asia in recent years, and there have been moves to utilize industrial tourism as a regional tourism resource in each region based on these needs\(^20\). Visitors from Asia continually account for over 60 percent of all visitors to Japan (Fig. 3.4.18). Securing and expanding their needs is an important challenge.

Figure 3.4.18  Share of tourists from Asia to Japan and of the top three countries

It will be necessary for Japan’s tourism industry to strengthen its competitiveness by promoting the utilization and development of its tourism resources\(^21\) and actively publicizing its inherent attractiveness based on these needs.

(3) Need to strengthen the competitiveness of the tourism industry and the rest of the service sector

\(<\text{Need to strengthen the competitiveness of the service sector}>\)

What kind of significance does the improvement of the service balance deficit through expanding exports in Japan’s service sector centering on the contents and tourism industries as we have seen thus far, have for the structure of Japan’s international balance of payments?

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\(^{19}\) Japan Federation of Economic Organizations (2000), p. 5.

\(^{20}\) The Tokyo Metropolitan Government formulated the Tokyo Metropolitan Government Tourism Promotion Plan in November 2001. One of its tourism industry promotion measures that are being tackled is the development of areas such as the district where basic manufacturing industry agglomerates in Ota City, Tokyo as new tourism routes.
If we take the targeting of China and other optimum global sites by Japanese manufacturing companies as a prerequisite for beating the global competition, then presumably there will be structural change in Japan whereby the trade balance surplus through goods exports by Japanese companies from Japan will shrink on the surface, and the proportion of the balance on income, including disbursements from overseas assets and business activities of Japanese companies will increase more than ever. (The ratio of the trade balance to the balance on income (taking the balance on income as 1.0) shrunk from 3.69 in 1991 to 1.42 in 2002 (Fig. 3.4.19).)

Figure 3.4.19 Trends in Japan's current account by category

![Figure 3.4.19 Trends in Japan's current account by category](chart.png)

Until relatively recently, Japan stressed the importance of expanding the trade balance surplus through industrial and trade activities. However, if one realizes that amidst the advance of globalization of corporate activities, overseas business activity has become a necessary condition for strengthening the competitiveness of Japanese manufacturers, then it is even more important to widen the perspective to include the cultural, tourism and other service sectors that have been taken lightly until now. In particular, even among economic activities in the service sector, those related to culture and tourism are highly popular at all levels of society in Japan. Expanding these kinds of economic activities will contribute to the realization of “a society that evokes feelings of comfort and affluence.” Moreover, although there is an ingrained image of Japan as an industrial and economic big power focused on manufacturing, if various ways of understanding Japan are spread internationally through the expansion of these kinds of economic activities, then there will be great potential for the creation of a national image and brand that can be proudly presented to the world.

From such a standpoint, starting with relationships with the countries and regions of Asia, including the market in China which is expected from now on to expand, and against the backdrop of a clear strategy rooted in the perspective of building a national brand, there is great significance in expanding

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21 However, it is essential to fully ensure sustainability through environmental conservation and other means.
export of services by working to strengthen the competitiveness of the service sector from a broad viewpoint that includes the contents and tourism industries.

At the same time, there is a need to assist domestic economic structural reform, by creating high value-added sectors that have competitive power, such as Japan’s contents industry.

**<Efforts to expand other service exports by other countries>**

There are successful instances where countries other than those of Europe and the US, such as Australia, Singapore and Thailand, also improved the balance on services in sectors including education and medical services by attracting students or patients from overseas.

(1) **Australian education industry**

The Australian government sees the active acceptance of private-expense international students from overseas as “exporting educational services,” aggressively using this as a means of obtaining foreign currency. It runs an informational and advertising campaign to attract private-expense international students from Asia. As a result, the top ten countries or regions of origin of private-expense international foreign students in Australia in 2000 were all Asian: Singapore, Hong Kong, Malaysia, Indonesia, China, the ROK, India, Japan, Thailand and Taiwan. The effect of such educational services exports is worth an estimated US$3,696 million to the Australian economy (Fig. 3.4.20).

![Figure 3.4.20 Economic benefit to Australia from private-expense international students (2000)](https://example.com/figure3.4.20)

<table>
<thead>
<tr>
<th></th>
<th>Higher education</th>
<th>Vocational education</th>
<th>Elementary and secondary education</th>
<th>Language schools</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Course fees</td>
<td>978</td>
<td>337</td>
<td>130</td>
<td>395</td>
<td>1,840</td>
</tr>
<tr>
<td>Goods and services</td>
<td>1,009</td>
<td>376</td>
<td>148</td>
<td>323</td>
<td>1,856</td>
</tr>
<tr>
<td>Total</td>
<td>1,987</td>
<td>713</td>
<td>278</td>
<td>718</td>
<td>3,696</td>
</tr>
</tbody>
</table>

Source: Japan Chamber of Commerce and Industry, Sydney (2002).

Reasons why Asian students prefer Australia for their overseas study included (i) its status as an English-speaking country, (ii) the relatively low tuition fees and living expenses, (iii) the geographical factor that Australia neighbors the Asian region, and (iv) provision of high-quality educational services. Other likely factors include the aggressive public relations involving newspaper advertising and other means, the large number of universities whose degrees will be recognized by the government, widespread sister university links, the presence of an overseas Chinese community and the ease with which doctorates may be earned compared to the US.

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22 As for strengthening its industrial competitiveness by creating a national brand, it has been pointed out that it is essential for Japan to strengthen its competitiveness in the world market through a variety of ways in addition to the service sector such as the contents and tourism industries, which has been explained in this section. For example, Japan should utilize its excellent environment-related technologies to establish, on an international level, environmentally conscious products and services as an environmentally friendly brand (Cabinet Secretariat, *New Industry Development Strategy-Technological Innovation: Strategies Concerning Four Sectors* (December 2002)).

(2) Medical services industries of Singapore and Thailand

(a) Singapore

According to the report of the Economic Review Committee (ERC) Sub-committee on Services Industries, around 150,000 foreign patients traveled (by air, land and sea) to Singapore for medical treatment in 2000 spending S$345 million in a year on healthcare and related services.

The breakdown of the nationalities of foreign patients was as follows: 45 percent Indonesian, 23.7 percent Malaysian, 4.1 percent US citizens and Canadians, 3.2 percent Indians, Pakistanis and Sri Lankans, 1.7 percent Bruneians and 22.3 percent were other nationalities. Furthermore, Singapore has set the annual targets for foreign patient numbers of 500,000 in 2007, and one million in 2012 (Fig. 3.4.21).

(b) Thailand

A report by the Thai Farmers Research Center published in February 2003, entitled Private Hospitals on a Roll in 2003, Income from Patients Reaches Bt 19 Billion, indicated that the medical industry could become a major sector in Thailand. According to the report, 630,000 foreign patients checked into Thai private hospitals in 2002, contributing a total of 12 billion baht. A large number of patients are from the Middle East, Japan, the US and Taiwan, and it is likely that supportive government measures and other factors will lift the number of patients to 730,000 and increase revenue to 19 billion baht in 2003. In addition, as a government goal, patients are expected to number one million in 2005, bringing in a total of 23 billion baht in revenue24.

There are some cases where individual hospitals are aggressively accepting foreign patients. Bangkok General Hospital, Thailand’s largest private hospital, for example, is planning business expansion of at least one billion baht. Around 30,000 foreign patients underwent medical treatment at the hospital in 2002, with over 30 percent of its patient profile consisting of foreigners who came from Japan, the US, the UK, Bangladesh and China. An International Medical Center has recently been established at the hospital, which has medical partnerships with international medical institutions in Siem Riep and Phnom Penh in Cambodia, Ho Chi Minh, London, Dubai and Bangladesh25. Bumrungrad Hospital, for its part, is planning a services partnership with hospitals in the Middle East and Bangladesh. It sealed a services partnership contract with a hospital in Myanmar. Over 30 percent of its 800,000 patients in 2002 hailed from overseas, registering 20,000 patients from the Middle East, a rise of 80 percent26.

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24 The Daily NNA (February 11, 2003).
26 The Daily NNA (January 20, 2003).