Doing Business in Japan: 2011 Country Commercial Guide for U.S. Companies

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- Chapter 1: Doing Business in Japan
- Chapter 2: Political and Economic Environment
- Chapter 3: Selling U.S. Products and Services
- Chapter 4: Leading Sectors for U.S. Export and Investment
- Chapter 5: Trade Regulations, Customs and Standards
- Chapter 6: Investment Climate
- Chapter 7: Trade and Project Financing
- Chapter 8: Business Travel
- Chapter 9: Contacts, Market Research and Trade Events
- Chapter 10: Guide to Our Services

Return to table of contents

Chapter 1: Doing Business in Japan

- Market Overview
- Market Challenges
- Market Opportunities
- Market Entry Strategy

It has never been easier to do business in Japan. Savvy observers agree that an active engagement with the Japanese market remains critical to the success of American business, both big and small alike, as well as to U.S. states seeking trade and investment with Japan. While the reasons U.S. firms engage with Japan are diverse and often complex, most firms recognize that underestimating the strategic and tactical importance of selling to and competing in the Japanese market may disadvantage them not only in Japan, but also in the U.S. and third-country markets as well.

Market Overview

Return to top

- Japan is the world's third largest economy, after the U.S. and China, with a GDP of roughly US$ 5.391 trillion. Japan is the fourth largest export market for U.S. goods, and our fourth largest trading partner overall with over $205 billion in two-way goods trade. In 2010 the U.S. exported $60.5 billion in goods to Japan, up from $51.1 billion in 2009. The United States also has a large services trade with Japan, totaling $72.6 billion in two-way trade.

- Japan is the second largest foreign investor in the U.S., with more than $233 billion invested.

- During 2010 the Japanese yen strengthened significantly against the U.S. dollar, reaching a 15-year high of 81.7 yen to the dollar in October 2010. American goods and services have never been more affordable for Japanese buyers.

- Japan's large government debt, which is approaching 200 percent of GDP, persistent deflation, and an aging and shrinking population are major complications for the economy

- In 2009, the top exporters to Japan were China, US, Australia, Saudi Arabia, UAE, South Korea, and Indonesia. The top importers from Japan were China, US, South Korea, Taiwan, and Hong Kong.

- The U.S.-Japan alliance is a cornerstone of U.S. security interests in Asia and is fundamental to regional stability and prosperity. Despite the changes in the post-Cold War strategic landscape, the United States-Japan alliance continues to be based on shared vital interests and values. These include stability in the Asia-Pacific region, the preservation and promotion of political and economic freedoms, support for human rights and democratic institutions, and securing of prosperity for the people of both countries and the international community as a whole. Japan is one of the world's most prosperous and stable democracies.

Market Challenges

Return to top

The difficulty of penetrating the Japanese market depends to a great extent on the product or service involved. Key variables include the degree of local or third-country competition, the number of regulatory hurdles to be overcome, and cultural factors such as language (both spoken and written), strict service and quality expectations, and business practices.

Generally, tariffs on most imported goods into Japan are low. However, cultural, regulatory, or other non-tariff barriers continue to exist that can impede or delay the importation of foreign products into Japan. For more details, see Chapter 5, Trade Regulations and Standards, of this Guide.

For details on Japanese import license requirements, restricted or prohibited imports, temporary entry of goods, certifications, standards, labeling requirements, etc., please refer to Chapter 5, Trade Regulations and Standards, of this Guide.

Market Opportunities

Return to top

The Japanese market offers numerous opportunities for U.S. companies in a wide variety of sectors. Best prospects for U.S. exporters in the Japanese market include the following sectors:

Aerospace
Agricultural
Biotechnology
Computer Software
Cosmetics & Toiletries
Education & Corporate Training
Electronic Components
Healthcare IT
Medical Equipment
Nanotechnology
Pharmaceuticals
Renewable Energy
Senior Market
Safety & Security
Soil Remediation & Engineering Services
Telecommunications Equipment
Travel & Tourism
For more details, please refer to Chapter 4, Leading Sectors for U.S. Export and Investment, of this Guide.

Market Entry Strategy

Return to top

U.S. companies wishing to enter the Japanese market should consider hiring a reputable, well-connected agent or distributor, and cultivating business contacts through frequent personal visits. Japan's business culture attaches a high degree of importance to personal relationships, and these take time to establish and nurture. Patience and repeated follow-up are typically required to clinch a deal. The customs and pace of deal-making in Japan are quite different from the United States. U.S. business executives are advised to retain a professional interpreter, as many Japanese executives and decision-makers do not speak English, or prefer to speak Japanese. For more details, please refer to Chapter 8, Business Travel, of this Guide.

Please note that throughout this report the following dollar / yen exchange rates were used:

2007	117.76
2008	103.39
2009	93.68
2010	87.78
2011	87.78

The source of the rates above is from:
http://www.federalreserve.gov/releases/g5a/current/

Return to table of contents

Return to table of contents

Chapter 2: Political and Economic Environment

For background information on the political and economic environment of the country, please click on the link below to the U.S. Department of State Background Notes.

http://www.state.gov/r/pa/ei/bgn/4142.htm

Government Role in the Economy

Return to top

Traditionally, the bureaucracy has played a leading role in the Japanese economy. Members of the National Diet, from whose ranks come most of Japan's Cabinet ministers, have small staffs and rely on bureaucrats for policy initiatives and the drafting of legislation. In addition, the ministries have exercised power directly through the issuance of required licenses, permits and approvals that tightly regulate business activity. For much of the post-war period, ministries also issued informal (but in practice, virtually compulsory) directives called "administrative guidance" to the industries they regulated, further controlling business activity. The reach of the bureaucracy also extended through a dense web of close relations with leading business organizations. In addition to the reliance of Japanese elected officials on campaign contributions from business, major industry associations and quasi-governmental regulatory bodies also provided lucrative post-government employment called *amakudari* (literally "descent from heaven") for senior bureaucrats as well as lower-level bureaucrats who regulate their industries. However, in 2007, the Diet approved legislation that established restrictions on the types of post-retirement jobs former senior government officials can accept and centralized authority for finding such employment in the National Personnel Agency. The aim of the legislation is, in part, to weaken the nexus between individual ministries and the industries they regulate, and the central government is continuing efforts to address problems relating to the system of post-government employment.

The role of government institutions in the economy has been changing over the past decade as the central government pursues a long-term program of administrative reform, deregulation, and decentralization. In 2001, the bureaucracy was reorganized from 22 ministries and agencies to 13. A Cabinet Office was also established to coordinate policies and to provide staff support for Japan's leaders separate from the individual ministries. At the same time, the number of Diet members posted to senior positions in the ministries was increased from an average of two or three to five, with the aim of strengthening the control of elected officials over the bureaucracy. Through such measures and other administrative reforms, the bureaucracy's influence over the economy has diminished, but by no means been eliminated completely. Leadership of the government by the Democratic Party of Japan since September 2009, notable for its pledge to make politicians responsible for policymaking, has further eroded the bureaucracy's control.

All foreign exchange transactions to and from Japan — including transfers of profits and dividends, interest, royalties and fees, repatriation of capital, and repayment of principal — are, in principle, freely permitted unless expressly prohibited. Formal controls on the

allocation of foreign exchange and most restrictions on foreign investment have been removed. Nevertheless, the Japanese Government (GOJ) continues to play a significant role in promoting certain favored industries, and GOJ policy and regulatory practices in many cases still favor the interests of domestic producers.

While Japan's economic structure and business culture are somewhat different from that of the United States, U.S. companies can and do successfully adapt. The American Chamber of Commerce in Japan (ACCJ) is one of the largest overseas chambers in the world. Its members come from more than 1,000 companies, and its 60-plus committees and sub-committees are highly visible advocates for U.S. business interests. U.S. Embassy officers liaise with more than 20 of these committees, and work closely with the ACCJ on market access, deregulation, competition, and investment issues. Some knotty regulatory barriers and discrimination still exist, and when a company cannot solve such problems by itself or through its legal advisers in Japan, the U.S. Government stands ready to help.

Infrastructure

Return to top

Japan has a fully developed physical infrastructure of roads, highways, railroads, subways, airports, harbors, warehouses, and telecommunications for distribution of all types of goods and services. Toll roads, however, are expensive. Although the government has recently implemented initiatives to reduce certain tolls, as of January 2011, a large truck will pay over the equivalent of $400 in tolls each way between Tokyo and Osaka (about 370 miles). Tolls for a small passenger car on the same trip amount to about $160. Japan’s airports are also among the most expensive in the world. Japan's port practices are generally inefficient by developed country standards and import processing, while improving, remains relatively slow.

Leading Economic Regions

Return to top

Tokyo

Japan’s capital city, Tokyo (population 13 million), forms the core of an urban area that, along with the suburban prefectures of Kanagawa, Saitama, and Chiba, boasts a total population of over 35 million, roughly equivalent to the New York and Los Angeles metropolitan areas combined. It is Japan's undisputed center of government, business, higher education, information, media, fashion, and culture. The entire geographical region centered on the capital — often referred to as the “Kantō” region — accounts for about one-third of Japan’s total GDP.
Most major Japanese companies, trade associations, and foreign companies have their headquarters or major branches in Tokyo. Consumers in the capital are more likely to come into contact with foreign products, foods, and fashions than elsewhere in Japan, and consumer trends often originate in Tokyo. For U.S. firms, the major advantages of establishing a presence in Tokyo, despite the high cost of residential and office space, are the city's concentration of major companies and high-income consumers, proximity to the powerful central government regulatory agencies, and location at the hub of Japan’s highly centralized transportation networks, including its two busiest airports:

Narita International Airport in Chiba Prefecture (often called "Tokyo Narita") and Tokyo International Airport (commonly known as "Tokyo Haneda"). In addition, major urban renewal schemes completed or underway in metropolitan Tokyo have contributed to lower land and business costs in recent years. Attractive areas for U.S. exporters in the greater Tokyo area are environmental technologies, biotechnology, information and telecommunications technologies, medical equipment and welfare services, and the lifestyle market.

Northern Japan (Hokkaido/Tohoku)

Northern Japan (Hokkaido and the six prefectures of northern Honshu are called Tohoku) — has a combined population of 15.25 million and a Gross Regional Product (GRP) of approximately $490 billion as of 2008. Hokkaido, located roughly 500 miles north of Tokyo, is Japan's northernmost island, with a GRP of $177 billion (2009). The Commercial Service office in Sapporo covers four of the six prefectures in northern Honshu: Aomori, Akita, Iwate, and Miyagi (in addition to Hokkaido).

These prefectures comprise Japan's agricultural heartland, with dairy production and farming in Hokkaido and highly prized rice growing in Akita and Miyagi. Hokkaido produces 100 percent of Japan's sugar beets, 88.1 percent of its red beans, 60 percent of its wheat, 60.5 percent of its onions, and 49 percent of its milk. Despite agriculture's importance only 6.5 percent of Hokkaido's 2.75 million labor force is in the farming sector. Hokkaido's economy depends primarily on services, which account for 76.2 percent of the total workforce. Construction accounts for 7 percent and manufacturing 8 percent of the workforce according to a METI report on Hokkaido industrial structure.

In Tohoku on the other hand, although the services sector predominates, manufacturing accounted for 19.6 percent of the economy in 2007, an increase from 17 percent in 2002, with farming at 0.1 percent and construction at 5.4 percent (source: Tohoku Economy 2010 document issued by Tohoku METI). The leading manufacturing industries in Tohoku are electronic components, devices, circuits, and ICT equipment. With another plant opening in Miyagi during 2010, the automotive parts manufacturing cluster is developing further in Tohoku.

Taking advantage of its agricultural production, Hokkaido has begun producing bio-ethanol using low-grade wheat, sugar beets, and rice. Two large manufacturing plants began operations in April 2009 with 50 percent of construction costs funded by the Ministry of Agriculture, Forestry and Fisheries (MAFF). Challenges remain in building the necessary infrastructure for bio-fuels, but this is also considered an area for potential economic development. A lean harvest in 2010, however, resulted in a shortage of crops for bio-ethanol.

In recent years, Northern Japan is making efforts to develop tourism. The total number of visitors to Hokkaido, domestic and foreign, dropped slightly to 5.97 million in 2009 compared to 6.28 million in 2008 apparently due to the steep appreciation of the yen after the world financial crisis. Official statistics show that the number of foreign visitors to Hokkaido slightly decreased from 689,150 in 2008 to 675,350 in 2009 due, again, to the change in the foreign exchange rate. As recently as 1998 only 170,000 foreign tourists visited Hokkaido. Compared to 2008, Chinese visitors were up 195.6 percent in 2009, Australia 109 percent, and Hong Kong 101.2 percent. Visitors from the US were down 88.5 percent in 2009.

Hokkaido's IT industry reached sales of $4.48 billion in 2009, becoming a major local industry with 20,000 workers. The biotechnology industry has been growing in Hokkaido as a result of collaboration between industry, government, and academia to promote license agreements between Hokkaido bio-ventures and overseas pharmaceutical companies. The sales of bio-products such as 'functional' foods (supplements) and medicine was $491 million in 2009, 4.4 times larger than in 1999. To promote a "low-carbon society," Hokkaido is implementing several model projects such as solar-electric generation systems, vegetable cultivation using bio-mass fuel and geo-thermal energy, and fertilizer manufacturing and energy generation using livestock waste.

Northern Japan's well-developed infrastructure, highly skilled workers, and relatively low real estate costs, combined with municipal and regional government investment incentives, have prompted many foreign companies to view Hokkaido and Tohoku as attractive locations for investment and operations. More firms are showing interest in purchasing properties and forests in northern Japan. As for export opportunities, particularly promising sectors include new energy technologies, biotechnology, remote medical care, home building materials, sporting/outdoor goods and equipment, marine and agricultural products, pharmaceuticals and medical and homecare equipment.

Northern Japan's direct imports from the United States were $2.4 billion in 2009, which is a 38 percent decrease from 2008. However, certain sectors showed a large increase; agricultural machinery was up 129 percent, non-iron products 262 percent, and furniture 1180 percent.
Container traffic from the United States is increasing at the ports of Ishikari and Tomakomai (both convenient to Sapporo) and Hachinohe (in Aomori Prefecture) and Sendai, as a way to reduce domestic trans-shipment costs from Yokohama and other Honshu ports. With the new Chitose International Terminal 2 opened in 2010, Northern Japan's passenger and cargo handling capacities at the two main international airports of Sapporo and Sendai are expected to improve. The last leg of theTohoku Shinkansen bullet train began operation to Aomori City in December 2010. As access to Tohoku becomes more convenient (it will take 3 hours and 20 minutes to travel from Tokyo to Aomori by bullet train), local economic sectors such as tourism and manufacturing are expected to get a boost. Further economic stimulus is expected when the Shinkansen train service reaches Hokkaido in 2015.

Central Japan (Chūbu)

The Chūbu region (lit., Central Japan) is Japan's third most populous region, located midway between the largest (Tokyo/Kantō) to the northeast and the second largest (Osaka/Kansai) to the southwest. The CS Nagoya office, co-located with the U.S. Consulate in Aichi Prefecture's capital city of Nagoya, covers the nine prefectures of Aichi, Fukui, Gifu, Ishikawa, Mie, Nagano, Shizuoka, Toyama and Yamanashi. These prefectures are home to 21.2 million people, with the majority of the population (15.1 million) and industry concentrated in the three-prefecture "Tokai" area (Aichi, Gifu, and Mie) plus Shizuoka.

Central Japan's theme is "monozukuri," or "making things." It is home to the headquarters or main factories of Toyota, Honda, Yamaha, and Suzuki (transportation), Yamazaki Mazak and Okuma (machine tools), Makita (power tools), and Brother (office automation). About half of Japan's 1.3 trillion yen aerospace sector is based in Chūbu.

Mitsubishi Heavy Industries, Kawasaki Heavy Industries, and Fuji Heavy Industries are key partners of U.S. aerospace firms and produce nearly 40 percent of the Boeing 787 Dreamliner, which will see its first customer deliveries in the third quarter of 2011. Approximately a dozen U.S. companies are partnering with Mitsubishi Aircraft Corporation to develop the first Japanese jetliner, the 80-120 passenger Mitsubishi Regional Jet or MRJ. Hundreds of first and second-tier firms such as Denso, Aisin, and Aichi Steel – and thousands of third-tier companies, support the auto and aerospace industries in the region.

Greater Nagoya, which includes portions of Aichi, Gifu and Mie prefectures, is the political, economic, and transportation center of the region. Of all prefectures, Aichi has ranked number one in product shipment value every year since 1977. The region accounts for about 1.4 percent of the world economy, 18 percent of Japan's GDP, and nearly 70 percent of Japan's total trade surplus with the United States. The Central Japan Railway Company (JR Tokai) is constructing a 5.1 trillion yen Tokaido Shinkansen Bypass by means of a superconducting magnetic levitation (Maglev) system, which will connect Nagoya and Tokyo in 40 minutes (rather than current hour and a half) by 2027.

Through its close relationship with Central Japan's public and private sector entities, the Commercial Service in Nagoya actively seeks commercial opportunities for U.S. firms in a variety of sectors. Nearly every industry was negatively affected by the recent recession, and the Toyota recalls in 2010 impacted the region's economy significantly. Nevertheless, the Chūbu region continues its tradition of resilience and focus on the long term. As the global recovery gathers steam, excellent prospects exist for U.S. firms in next-generation (particularly low-emission) auto technology, aerospace development, business aviation, manufacturing equipment and systems, renewable energy and environmental remediation.

Kansai

Kansai is the name given to the nine-prefecture region of Western (central) Japan, consisting of Osaka, Hyogo, Kyoto, Shiga, Nara, Wakayama, Mie, Fukui, and Tokushima prefectures. Located halfway between Tokyo and the southern tip of Honshu, Kansai is Japan's second largest industrial area and its second largest population center. Birthplace to many of Japan's largest trading companies, Kansai is also home to several of the nation's leading corporations, including Sharp, Panasonic, Nintendo and Kyocera.

Kansai occupies an area of approximately 16,006 square miles. While covering only 11 percent of Japan's total land area, Kansai has a population of more than 24 million people (19 percent of Japan's total), concentrated primarily in the cities of Osaka, Kobe and Kyoto. Kansai is an economic giant with a wide range of industries, including pharmaceuticals, chemicals, textiles, apparel, sporting goods, consumer electronics and electronic components, as well as cutting-edge technologies, such as biotechnology, nanotechnology, industrial ceramics, robotics, lithium-ion batteries and photovoltaic power systems. In Japanese FY 2007, Kansai's Gross Regional Product (GRP) was ¥95.5 trillion ($811 billion). In fact, Kansai by itself would rank as the world's 17th largest economy (just slightly smaller than Australia's) if compared to the world's leading economies.

Kansai has an advanced transportation and research infrastructure. An extensive regional train network including subways, commuter trains, and bullet trains runs

throughout Kansai connecting Osaka, Kobe, and Kyoto to Tokyo and other cities in western and eastern Japan. Hanshin Port (Osaka port-Kobe port) ranks among the top 25 busiest container ports in the world. Current investment to develop world-class container facilities on Yumeshima and Sakishima Islands in Osaka Bay will see container traffic at this "super hub port" increase to 5.9 million TEU (twenty-foot container equivalent units) over the next ten years. Kansai's largest airports include Itami Airport (Osaka City), Kobe Airport, and Kansai International Airport – currently Japan's only 24-hour airport. Providing daily domestic and international passenger and cargo flights, these three airports connect the region to numerous destinations throughout Japan and to more than 70 destinations in 27 other countries. Kansai also boasts 262 institutions of higher education: 165 public and private universities; 86 two-year colleges and 11 technical schools. In addition, Kansai hosts more than 1000 national and corporate research centers. Research conducted at these centers is focused on key 21st century technologies, such as robotics, information and communication technologies, nanotech/advanced materials and biotechnology. Kansai is also home to both a large-scale synchrotron radiation facility (Spring 8) and a supercomputer (Riken) slated to fully come online in 2012.

To help companies tap into Kansai's economy, the region hosts hundreds of conventions annually. In 2009, Kansai hosted 430 international conferences. Lower land and rental prices than in Tokyo provide incentives for firms to conduct business in Kansai. As of 2009, 236 foreign-affiliated companies maintained their Japanese headquarters in the region. The Osaka Customs Office reported ¥14.4 trillion ($164.3 billion) in exports from Kansai and ¥11.4 trillion ($130 billion) in imports for 2010, approximately 20 percent of Japan's total international trade volume. Despite its historically strong trade links to other Asian countries, Kansai increased its imports from the United States by 8.5 percent to $9.5 billion in 2010.

The U.S. Commercial Service (CS) Osaka-Kobe provides an extensive array of products and services designed to help U.S. companies capitalize on opportunities in Japan. CS Osaka-Kobe has national responsibility for sporting goods, apparel and textiles and regional responsibility for all other sectors, with a special focus on Kansai's key industries of biotechnology, pharmaceuticals, medical devices, renewable energy, environmental technologies, educational services and tourism. Working closely with the American Chamber of Commerce in Japan (ACCJ) and other local multipliers, CS Osaka-Kobe helps promote American products, services and tourism through the organization of trade promotional events and U.S. Pavilions, targeted market research, business counseling, partnership searches, matchmaking services, networking and advocacy. For more information about the opportunities in Kansai for U.S. firms, visit our CS Japan website at www.buyusa.gov/japan/en

Kyushu/Yamaguchi Region

The Kyushu/Yamaguchi Region of southwestern Japan consists of seven prefectures on Kyushu Island (Fukuoka, Oita, Saga, Nagasaki, Kumamoto, Miyazaki, Kagoshima) and Yamaguchi prefecture on the southern tip of Honshu, with a combined population of over 15 million. The region's $450 billion economy constitutes Japan's fourth largest economic center, representing about 10 percent of national GDP – comparable in size to South Africa. This region is traditionally known as Japan's gateway to Asia and enjoys extensive historical, cultural, and trade ties with continental Asia, particularly South

Korea, Taiwan and mainland China. The United States remains an important trading partner, but trade with Asia is predominant and Kyushu is becoming increasingly integrated into the East Asian regional economy.

Kyushu has a strong agricultural sector, producing about 19 percent of Japan's agricultural output, and ranks first in Japan in livestock output. But its dynamism stems from a diversified economy that includes many high-tech industries.

Dubbed Japan's "Silicon Island", Kyushu accounts for 29 percent (29 percent in terms of value; 21 percent in terms of quantity) of Japan's total production of semiconductors. U.S. companies like Texas Instruments and Teradyne have facilities here. In recent years, the island has also gained a reputation as the "Solar Island" due to its 10 percent share of Japan's solar module production. Northern Kyushu also boasts nearly 10 percent of Japan's automobile output, with Toyota, Nissan, and Daihatsu operating state-of-the-art final assembly facilities, and Honda an advanced motorcycle plant in the region. Kyushu is also home to Japan's leading shipbuilding production (29 percent share), Japan's two space-launch facilities, and Yaskawa Electric, one of the world's leading robotics manufacturers.

With a population of 1.4 million, Fukuoka City is the economic, educational, and cultural center of Kyushu. While manufacturing is prevalent in Fukuoka prefecture's surrounding areas, the city's economy is services-based, with many large retail outlets and regional headquarters offices for banking, insurance, and real estate. The city enjoys excellent transportation infrastructure, including Kyushu's principal international airport, high-speed ferry service to South Korea, and direct access to Japan's bullet train network. The city has over the past year welcomed new American businesses to the Kyushu market, such as JP Morgan Asset Management, Hilton Group, and Abercrombie & Fitch.

The Political/Economic Section of the U.S. Consulate in Fukuoka has been actively assisting U.S. businesses and promoting their interests in the region for over 40 years. The Consulate believes many sectors of the Kyushu/Yamaguchi economy offer promising opportunities. With its long history of openness to foreign influences, the Fukuoka area has an established reputation as a useful test market for new consumer products, services, and retail concepts before they are expanded to wider areas of Japan. Major U.S. companies have established research and production facilities in electronics, computers, and medical devices, and are also active in architecture, design and construction, energy, insurance and finance. A sector of growing interest is environmental products and services. Good export prospects exist in many other sectors, including building materials, medical equipment, and health care products.

Okinawa

Okinawa -- Japan’s only subtropical region and its southernmost prefecture -- is made up of 160 islands that stretch 623 miles from mainland Japan to Taiwan, but its population (1.4 million) and commerce are concentrated on the largest island, which is also called Okinawa. Okinawa’s close proximity to China’s major economic centers, its growing range of investment and trade incentives and its low labor costs are accelerating its integration into the East Asian regional economy. Solidifying Okinawa’s emerging reputation as an Asian hub for transportation, IT services and tourism -- and continuing to develop Okinawa’s infrastructure and human resources -- are key investment priorities for the Japanese government. This sustained economic stimulus,

combined with growth in the tourism sector, create specific opportunities for U.S. exporters of services in soil remediation services, architectural design (including green building), medical tourism and lifestyle services that cater to the retiree market, as well the following goods: building materials, medical equipment and pharmaceuticals, and information communication technology and renewable energy technologies.

Due to its unique association with the U.S. military (Okinawa was a U.S.-administered territory from 1945-1972 and continues to host the largest concentration of U.S. military installations in Japan), Okinawa's $35.8 billion economy has long been dominated by public sector spending. The Japanese government is planning to disburse approximately $2.2 billion in public infrastructure in 2011-2012 (including the construction and upgrading of port and sewage and water treatment facilities, expanding Okinawa's new Institute of Science and Technology and constructing a new biotech incubation center and IT training center). In partnership with regional representatives and business leaders, it is also determining Okinawa's additional infrastructure investment requirements for the next ten years, while fast-tracking assistance to local communities starting to develop returned U.S. military base lands. U.S. architectural firms have successfully won municipal and private urban design planning contracts to redevelop closed U.S. military facilities in Okinawa. U.S. soil remediation firms, particularly those employing cost-effective in-situ land purification technologies, would also be competitive in this market. The Government's continued efforts to establish world-class universities and R&D facilities in Okinawa may also offer opportunities to export research and medical equipment .

Government policies are also anticipated to funnel new investment into renewable energy systems. In 2010, the U.S. and Japan, in partnership with the State of Hawaii and Okinawa Prefecture, expanded the "U.S.-Japan Clean energy Technologies Action Plan" to include a new initiative to accelerate the development and deployment of clean energy technologies suitable to island economies. The Japanese Government is currently funding large scale solar power and smart grid demonstration projects in Okinawa, and is also planning to invest an additional $12.1 million in solar and wind power facilities in 2011-2012. It has also designated Okinawa's Miyako Island as one of 13 "eco-cities" eligible for additional assistance. Private sector investment in EV vehicle charging stations and wind power is also increasing. The Okinawa Power and Electric Company is also planning to expand its wind power generation facilities in 2012. While Denmark and Germany are currently key third-country suppliers, exporters of typhoon and salt-water resistant equipment would have an advantage.

Despite Okinawa's increasing diversification (especially in business continuity/disaster recovery and information communication sector investment), tourism remains its major economic activity, and further growth is projected for this $4.2 billion tourist industry. 5.85 million tourists visited Okinawa in 2010, a 3.6 percent increase compared to 2009. The Bank of Japan credits new prefectural government's efforts to attract Chinese, Korean and Taiwanese tourists for mitigating the impact of Japan's economic downturn. The sustained increase in inbound tourists earlier in the decade (peaking at 6.05 million visitors in 2008), prompted a number of domestic and foreign companies to invest in resort and hotel development (currently, 13.3 percent of hotel rooms are U.S.-owned). With efforts to legalize gaming underway, Okinawa may soon experience a second wave of investment. In the meantime, there are prospects for sports and aquatic equipment exporters to cater to sports and fitness themed travel, which is increasingly popular amongst Japanese tourists who continue to make up the majority of inbound visitors.

The U.S. is currently Okinawa's sixth largest trading partner. According to the Okinawa Customs Office, imports of goods and services in 2010 were valued at $2.4 billion (a 13.2 percent increase over 2009), of which roughly 6.8 percent were U.S. exports of foodstuffs, home building materials, machinery, electrical equipment and chemicals. While a small market by Japanese standards, U.S. exporters in the food and lifestyles markets enjoy some advantages. Due to the U.S. military presence, Okinawa pioneered the creation of "fusion" foods and consumers here are more familiar with foreign products and fashion than almost any other part of Japan. Demographic trends are also magnified in Okinawa, creating export potential in health care and other products for seniors; Okinawa has the highest concentration of centenarians in the world and is increasingly attracting "snowbird" retirees from mainland Japan.

Japan is also working to lower transport costs including expanding the Okinawa Free Trade Zone (currently limited to Naha International Airport and Nakagusuku Port) to cover Okinawa's six largest cities, and liberalizing cabotage laws that currently prevent foreign shipping companies from transporting freight between mainland Japan and Okinawa (roughly 9 million tons in 2009). Okinawa already has one of Japan's most comprehensive air transport facilities. Naha International Airport services the third largest number of locations in Japan, is increasing routes to Asia, and is one of only six airports permitted to operate 24 hours/day. It recently expanded its freight facilities to accommodate ANA Cargo and other high speed companies who rely on Naha's extremely low rate of flight cancellations to ship semiconductors and precision machinery to Japan's growing offshore production facilities in mainland Asia.

The U.S. Consulate General in Okinawa and the American Chamber of Commerce in Okinawa, which currently has 64 member companies, welcome contact with American companies seeking to initiate or expand exports into this regional market. Both are well plugged into local business and public sector entities, and are actively working to discover commercial opportunities for U.S. firms in this increasingly dynamic regional market.

Agricultural Products Market

The importance of food in the Japanese culture is reflected by size of its food and agricultural market, recently valued at approximately $700 billion. At 15 percent of disposable income, per capita spending on food in Japan is higher than anywhere else on earth. This high per capita food spending is a function of higher food prices, but it is also a reflection of the fact that Japanese consumers are willing to pay a premium for quality and convenience. Given the wide variety of foods produced in the United States, the internationalization of food in Japan has given the United States an important advantage in the Japanese food market. Until recently Japan had a relatively uniform food market, with rice, vegetables, fish, eggs, and soy products making up the traditional Japanese diet. As Japan became more affluent, and more Japanese were exposed to diverse food products from around the world, there has been a major trend toward diet diversification. Despite this trend, one characteristic of this market that has not changed over time is the Japanese consumers' obsession with quality. Japanese tend to value the taste of food over the quantity of food. They are highly brand-conscious, cognizant of the seasonality of certain foods, and seek out freshness. Japanese are increasingly health-conscious, and given their aging society, are leading the world in demand for functional foods. They also consider a food product's aesthetic appearance, on the shelf, in the

package, and on the table, important, and indicative of quality and healthfulness of the product.

Japan is a major destination for U.S. wheat, rice, corn, soybeans, pork, beef, processed fruits and vegetables, citrus, wine, cherries, and processed snack foods. In fact, in 2010, about 10 percent of all U.S. agricultural, forestry and fishery product exports, valued at $12.5 billion, were destined for Japan. The combination of improved market access, declining domestic production, and investments in cultivating the brand awareness of American agricultural products, have helped to make Japan one of the United States' top overseas export markets. Given competition from third countries, and the changes in consumer spending resulting from nearly 20 years of stagnant economic growth, Japan is a competitive environment for U.S. food companies. However, long-term prospects for American food and agricultural exporters in Japan are excellent for the following reasons: (1) growing consumer demand for value plays to U.S. strengths (U.S. foods typically cost less than local products); (2) Japanese agriculture continues to decline, leading to increased dependence on imports for stable food supplies; and (3) continued Westernization of the Japanese diet away from fish and rice toward meats, dairy products and other American staples; and (4) American agricultural products enjoy a reputation for being safer than foods from competing markets.

Though domestic protection is still strong, market access has improved over the years via persistent negotiations in the WTO by the United States and others, leading Japan to eliminate some of the agricultural market access barriers for which it was once famous. Where earlier quotas and outright bans restricted the market for U.S. beef, citrus, fruit juice, cherries, apples and ice cream, all of these markets have now, to some degree, been opened. However, access issues still hamper greater farm trade due to high tariffs on processed food products, restrictive plant quarantine measures on fruits and vegetables, trade-limiting quotas and complicated labeling practices. In addition, a stringent system for regulation of agrochemical residues including strict inspection of imported foods and a time-consuming approval process for biotechnology products also hinder trade in agricultural products. For additional information about U.S. agricultural, food, forestry, and fishery product exports to Japan, please see the Foreign Agricultural Service Homepage at:

http://www.fas.usda.gov/scriptsw/attacherep/default.asp

Return to table of contents

Return to table of contents

Chapter 3: Selling U.S. Products and Services

- Using an Agent or Distributor
- Establishing an Office
- Franchising
- Direct Marketing
- Joint Ventures/Licensing
- Selling to the Government
- Distribution and Sales Channels
- Selling Factors/Techniques
- Electronic Commerce
- Trade Promotion and Advertising
- Pricing
- Sales Service/Customer Support
- Protecting Your Intellectual Property
- Due Diligence
- Local Professional Services
- Web Resources

Using an Agent or Distributor

Return to top

For some companies, establishing a direct presence in Japan is the best way to enter the Japanese market, but this can be an extremely expensive strategy. The use of agents or distributors is a more realistic first step for most small- or medium-sized U.S. firms, but this approach requires great care in the selection of the representative and the establishment of the terms of agreement.

U.S. firms are cautioned against trying to use contact lists for “cold calls” on prospective Japanese agents. Most Japanese business people prefer to do business with someone only when they have been properly introduced and have met face-to-face, and an introduction by a familiar "go-between" typically helps to dispel reluctance. Appropriate third parties for such introductions include other Japanese firms, U.S. companies that have successfully done business in Japan, banks, trade associations, chambers of commerce, the Japanese External Trade Organization (JETRO), U.S. state representative offices in Japan, the U.S. Department of Commerce and the U.S. Commercial Service in Japan (CS Japan).

Distributors in Japan usually cover a specific territory or industry. Importers are often appointed as sole agents for the entire country. In some cases granting exclusivity may be necessary to ensure a strong commitment by the Japanese agent towards expanding sales. However, under no circumstances should a U.S. company be pressured into granting exclusivity if there is doubt as to the ability or willingness of the Japanese agent to develop the entire market. Even if a U.S. company’s ultimate goal is to offer an exclusive agency arrangement to its Japanese partner, starting with regional exclusivity, a limited term of representation, minimum sales thresholds, or qualitative indicators of sales efforts are good first steps.

While the Japanese Fair Trade Commission has guidelines applicable to exclusive agency contracts, there are no statutory damages required upon termination of an agency but given the close-knit nature of business circles and the traditional wariness towards foreign suppliers in Japan, replacing an agent or distributor could damage a U.S. firm's reputation – and even compromise its entire market strategy – if not handled sensitively. A U.S. company should at all costs avoid being viewed as lacking adequate commitment to its Japanese business relationships. Japanese agents may request "parting compensation" in the event the foreign exporter decides to dissolve a business relationship. Since this is a common practice in this market, U.S. companies should address this eventuality prior to executing a contract.

U.S. companies should be selective in choosing a Japanese business partner. Credit checks, a review of the Japanese company's industry standing and existing relations with Japanese competitors, and trust building are all part of the process. Many problems can be avoided by carrying out comprehensive due diligence.

Part of the difficulty in choosing a Japanese agent is assuring that the agent will devote sufficient attention to expanding the market share of the U.S. product. Distributors that target only limited, high-price niches, that are bound by strong ties to one particular industry group (*keiretsu*), that fail to compete directly with established Japanese products, or that are not prepared to pursue volume sales for the U.S. exporter should be avoided. U.S. firms should also be wary of distributors that handle competing lines or are subject to other potential conflicts of interest.

Another important factor that merits consideration is sales commissions paid to agents and distributors. Under an agency contract, the supplier normally invoices the agent for the same amount that the agent will sell to the customer ("back-to-back"). The supplier then pays a sales commission to the agent at the percentage provided for in the agency contract or agreement. Under a distributorship contract, the supplier sells the product to the distributor, who is then free to add to the purchase price whatever markup it chooses in determining the sales price to the customer. Commission rates vary according to the product and contract terms. Generally speaking, sales commissions range from ten to twenty percent for "spot" (one-time or irregular) transactions, and from five to ten percent for regular, ongoing business transactions. In the case of bulk materials (*e.g.,* iron ore or coal), however, commission rates are much lower, in the neighborhood of one to three percent. In the case of medical, laboratory, and scientific analytical instruments, commission rates typically are much higher, in the neighborhood of twenty percent or above.

Japan's business world is small and relatively concentrated, both politically and economically. Business relationships are formed, conducted, nurtured, and ended with an extraordinary degree of attention to appearances and decorum. Caution and diplomacy are therefore warranted if an overseas company wishes to sever its relationship with its existing Japanese agent or distributor.

Once an agent or distributor agreement is signed and the U.S. company's products gain a foothold in the Japanese market, the U.S. company may want to consider establishing a representative office in Japan (see below) to support the distributor's sales and marketing efforts and to facilitate communications with U.S. company headquarters. For businesses offering goods and/or services of a technical nature, a technical engineer is

often best suited for this role because such a person generally understands product capabilities and end-user requirements. This is, of course, more of a long-term consideration, but one that U.S. companies may wish to consider when putting together their strategic mid- to long-term plan for Japan.

Establishing an Office

Return to top

Before setting up an office in Japan U.S. companies may wish to examine programs of Japan's Ministry of Economy, Trade & Industry (METI) for promoting foreign investment into Japan. Programs include loans available through the Japan Bank for International Cooperation and the Development Bank of Japan. Entry-level business support programs are provided by the Japan External Trade Organization (JETRO) as well as by some municipal and prefectural governments. Current information on investing in Japan, establishing an office, and other JETRO programs for foreign businesses can be found on JETRO's website at http://www.jetro.go.jp. Please also review Chapter 6 of this Country Commercial Guide under the section "Investment Climate." Finding suitable local staff is also an important consideration for U.S. companies seeking to establish an office in Japan. There are a number of executive search firms in Japan that can help address this important issue. For a list of some of these firms, please visit the Business Service Providers section of the CS Japan website at http://www.buyusa.gov/japan/en, or the Membership Directory of the American Chamber of Commerce in Japan website at http://www.accj.or.jp.

Franchising

Return to top

In 2009 the franchising market held steady in yen terms at an aggregate market size of ¥20.8 trillion, the same as in 2008. While the total number of franchise chains declined from 1,231 in 2008 to 1,206 in 2009 the number of stores and outlets increased from 230,822 in 2008 to 231,666 in 2009. Approximately 39.0 percent of total sales at franchised outlets were from convenience stores (CVs) and about 18.9 percent from food service chains.

The overall franchise market is expected to have remained flat, at best, in 2010. Industry experts have called attention to the rise of low-capital requirement franchise models in the food service sector and the growth of service-oriented chains such as senior care businesses. These new franchise chains may have offset a general decline in numbers of chains and stores. The general trend of a deflationary economy has been adversely affecting the revenue and turnover of the franchise business, particularly in the food service sector. This trend is expected to continue in 2011.

U.S. franchising has heavily influenced the development of Japan's franchise industry since in the early 1970s. Although Japanese consumers are generally receptive to U.S. franchise concepts, products and services must be adjusted to local tastes and expectations to ensure success in Japan. U.S. franchising businesses have a number of ways to enter the Japanese market, such as establishing a wholly-owned subsidiary as a master franchisee with a flagship store(s), seeking a joint venture partner to develop the market in Japan, or entering into an agreement with a master franchisee.

Identifying the right business partner in Japan requires time and effort, and it can be difficult to find companies that are willing to invest in master franchise rights or to invest in business concepts that do not have a clear market or strong growth potential in Japan. Therefore, thorough market research and a long-term commitment are necessary for U.S. companies that are considering launching a franchise-based business in Japan.

Direct Marketing

Return to top

The scale of direct marketing in Japan, which includes mail order, telemarketing, direct response television, and Internet sales, is still modest by U.S. standards. However, business-to-consumer (B2C) Internet shopping has grown rapidly. The B2C market size in 2009 was estimated at ¥6.7 trillion ($71 billion) up 10% from the year before. A 2009 survey by the Japan Direct Marketing Association (JADMA), showed that 53.8% of direct sales shoppers used the Internet to place their orders in 2009, followed by 47.2% that used home phones (excluding mobile phones) and 30.9% that used the mail.

Reflecting the popularity of cell phones, consumers, especially young people, have started to shop via their mobile phones. In response, Japanese direct marketers have started to prepare websites for both PC and mobile phones. U.S. exporters wishing to sell products targeting young people on the web may want to revise their webpage structures for mobile access (3G systems). A 2009 JADMA survey of 20-59 year old consumers showed that while 20% now shopped via cell phones and 35.7% by hardcopy catalogs, the most popular medium for getting information for purchases was the Internet via computer (53.3%).

Japanese consumers are more likely than in the past to buy online because ongoing revisions to credit card and e-commerce laws are providing increased protection for consumers, including protection against identity theft. According to the Japan Direct Market Association, C.O.D. (cash on delivery), payments at convenience stores (where Japanese are able to pay various bills), and credit cards were the most used payment methods in 2008. For Internet shopping alone, credit cards have become the most preferred payment method. The most popular credit card with Japanese consumers by far is the JCB card, which had over 64 million cardholders including 6 million cardholders outside of Japan in 2010.

Shopping from foreign catalogs, via hard copies or the Internet, is generally referred to as “personal importing” In Japan. This surged in the mid-1990s due to the novelty of the concept, a very strong yen, and a growing appreciation of foreign consumer goods. Although providing adequate customer service and handling product returns challenged those firms that did not have in-country representation, many U.S. companies enjoyed an enormous expansion of orders from Japan.

Beginning in 1996, the relative strengthening of the dollar and the passing of the “fad” component of the boom caused the market to cool considerably. However, recent appreciation of the yen has made U.S. prices once again very appealing and there may be good opportunities for U.S. companies that can offer Japanese consumers high quality products with unique attributes. Products Japanese consumers currently order from abroad include apparel, accessories, books, magazines, toiletries, and cosmetics.

U.S. companies must overcome a number of challenges such as language, international shipping costs, customs regulations, tariffs on several consumer items, and other issues when marketing directly to Japanese consumers (e.g., sizes in metric). In addition, U.S. companies should be aware of the Personal Information Protection Law, implemented in 2005, which restricts the sharing/trading of personal data. It can be difficult for U.S. catalogers to obtain effective mailing or contact lists.

"Personal imports" are not regulated like commercial imports and must be shipped directly from the United States to the consumer for the consumer's personal use. U.S. companies with local representatives to assist with Japanese consumer personal imports should note that the promotion of certain items (cosmetics, supplements, etc.) by local representatives is subject to the same laws and restrictions as products that are commercially imported.

Joint Ventures/Licensing

Return to top

U.S. companies often consider joint ventures or licensing agreements when considering entering the Japanese market. For the latest information on regulations and procedures for establishing an operation in Japan, please visit the JETRO website at http://www.jetro.go.jp.

Although the vast majority of U.S. commercial exports to Japan do not require export licenses, the export of any form of technical data from the United States can be subject to U.S. export control laws. In such a case, a thorough review of the U.S. Department of Commerce's Export Administration Regulations (EAR) should precede the signing of any licensing agreement. To learn more about the EAR, please visit the following websites:

Bureau of Industry & Security: http://www.bis.doc.gov

Government Printing Office's EAR database:
http://www.access.gpo.gov/bis/ear/ear_data.html

Selling to the Government

Return to top

On January 1, 1996, Japan implemented the WTO Agreement on Government Procurement (GPA) in an effort to expand opportunities for foreign firms and increase international competition in government procurement in Japan. The Agreement extended coverage to include the procurement of services as well as procurement throughout Japan by what are referred to as "sub-central government entities." These entities include all prefectural (regional) governments in Japan, major cities and designated municipalities, and a host of other quasi-governmental agencies, corporations, companies and authorities.

Government procurement contracts covered by the Agreement must have a value not less than the thresholds (denominated in special drawing rights of the International Monetary Fund or "SDRs") specified by the Agreement, and include the procurement of products and services by purchase, lease, or rental by the agencies and organizations subject to the Agreement. Under the GPA, the specified threshold for procurement by

central government entities is 130,000 SDRs (except for construction and architectural, engineering and other technical services). As a voluntary measure, Japan issued SDR thresholds beyond those specified in the Agreement, *e.g.,* 100,000 SDRs for procurement by central government entities. For sub-central government entities, with the same exceptions noted above, Japan's voluntary threshold is 200,000 SDRs.

There are three types of government tendering procedures in Japan covered by the Agreement: 1) open tendering; 2) selective tendering; and 3) limited or single tendering. Under an open tender, the procuring entity publishes an invitation for qualified suppliers to participate in the tendering process. Contracts are awarded to the bidder that offers the greatest advantage in terms of price. Selective tendering is done in cases when the number of potential suppliers is limited (due to the nature of the contract), or when open tendering is otherwise regarded as inappropriate. In this case, the procuring entity designates those companies it considers capable from a list of qualified suppliers and invites them to bid. Again, the contract is awarded to the bidder with the best offer in terms of tendered price and other required criteria. Limited or single tenders are used in a variety of cases where products or services cannot be obtained through open or selective procurement procedures, where there has been an absence of bids in response to a public notice, where it has been determined there is a need for protection of exclusive rights such as patents, or where the procurement is of extreme urgency.

Open tender and selective tender invitations are published in Japan's official (central) government procurement gazette or *Kanpō* — http://kanpou.npb.go.jp (Japanese only) — or in an equivalent regional-level or local publication. The procuring entity publishes the invitation to tender at least 50 days (40 days is required by the GPA) in advance of the closing date for receipt of bids. In order to increase access opportunities for foreign suppliers, as a voluntary measure, many procuring entities publish notices on the use of limited (closed) tenders at least 20 days in advance of the awarding of a contract. When the tender is announced on open bids, the type and quantity of products, time limits set for submission of bids, and names and contact data of the procuring entity are published within the announcement in English. Notices on selective tendering also outline the requirements necessary for firms to be designated for participation in the tender bidding process. Most companies find it useful to contact the procuring entity directly with any specific questions before a tender is submitted for consideration.

Japan's Ministry of Foreign Affairs (MOFA) hosts a Government Procurement Seminar each spring where central government procuring entities explain their procurement plans for the fiscal year. Individual ministries sometimes follow this with their own seminars. Notice of these meetings can also be found in the *Kanpō* gazette.

U.S. suppliers can find information about Japanese government procurement on the Japan External Trade Organization (JETRO) website at (http://www.jetro.go.jp/en/matching/procurement), which includes an online database of government procurement notices and invitations published in the National Printing Bureau's "Official Gazette." Users can search by publication date, product/service category as well as location. For additional information including suggestions for accessing the government procurement market in Japan please visit the MOFA website (http://www.mofa.go.jp/policy/economy/procurement), which maintains a detailed list of contact points for entities covered by the Agreement.

Potential suppliers must first be qualified by the procuring agency and registered on the tendering agency's permanent list of qualified suppliers. Each procuring entity in Japan specifies the qualifications required of any potential supplier participating in open or selective tenders. Procuring entities are allowed to review a company's capacity to implement a contract, including the scale of business and past business performance. In most cases, Japanese subsidiaries, agents, or distributors of a U.S. company can register on behalf of the firm. Documents required for qualification are set out in the public notice, but typically include: an application form, registration certificate, company history, financial statements, and tax payment certificate. The qualification is usually valid for one to two years.

Sealed bids must be submitted to the designated location by the closing date and time specified in the tender notice. Although a five percent guarantee fee is stipulated, payment is usually waived since those participating are normally pre-qualified. If there are tenders made by unqualified suppliers or in violation of the tender requirements, the procuring entity will rule them invalid and notify the unsuccessful bidder. The contract is normally awarded to the lowest qualified bid and bidders are informed of the result in writing by the procuring entity.

Pursuant to the 1996 GPA, Japan has established a mechanism to process complaints about procurements by entities other than sub-central government entities. The Office of Government Procurement Review (OGPR), within the Prime Minister's Office, implements the provisions of the WTO Agreement regarding bid challenge procedures. For procurement by central government entities the Government Procurement Review Board processes and considers complaints in accordance with the specific procedures set out by the OGPR. Prefectural governments and designated cities have established their respective procedures to process complaints regarding procurement subject to the Agreement. Complaints by qualified bidders may be filed with the Secretariat of the Board in the Office for Government Procurement Challenge System (CHANS). For additional information, please visit
http://www5.cao.go.jp/access/english/chans_main_e.html.

Further information on recent developments regarding Japanese government procurement can be found in Japan's most recent submission to the WTO Trade Policy Review Mechanism: http://www.wto.org/english/tratop_e/tpr_e/tp311_e.htm

Defense Procurement

In December 2010, the Japan Ministry of Defense (JMOD) released the National Defense Program Guidelines, which outline Japan's defense policies and goals for the next ten years. At the same time the JMOD also released the five year Mid-Term Defense Program which lists major equipment purchases and envisions a total budget of approximately 23,490 billion yen ($267.6 billion at 87.78 yen/USD) to be spent over the next five years.

The U.S.-Japan Security Alliance, which marked its 50th anniversary in 2010, is a cornerstone in maintaining peace, stability and prosperity in the Asia-Pacific region. Major U.S. defense contractors, as well as other U.S. makers of defense-related technologies and equipment, play important roles in the Japanese defense market, participating through production licensing and direct sales.

Foreign Military Sales (FMS) by U.S. companies to Japan are administered by the Defense Security Cooperation Agency (DSCA), which is part of the U.S. Department of Defense. All transactions are initiated by a request from the Government of Japan for price and availability data for a specific item or service. Direct Commercial Sales (DCS) are handled by Japanese defense trading firms, distributors and agents.

The Equipment Procurement and Construction Office (EPCO) of the JMOD is charged with the central procurement of military equipment and services valued at over 1.5 million yen ($17,071 at 87.78 yen/USD) for such items as firearms, guided weapons, telecommunications instruments, ships, aircraft, vehicles, machinery, ammunitions, foods, fuel, textile, and other necessary materials. EPCO is also charged with overseeing implementation plans for construction work at Self-Defense Force (SDF) bases. Regional Defense Bureaus, also part of the JMOD, handle military items of 1.5 million yen or less and other local supplies.

As with any other government procurement, potential vendors to the JMOD and SDF are required to apply for and register with the EPCO. It is recommended that potential U.S. military equipment makers partner with Japanese trading firms, distributors or agents to conduct business with the Japanese military. A Japanese partner is also helpful with the local language and unique cultural and business practices.

The Japan Ministry of Defense (JMOD) http://www.mod.go.jp/e/index.html

Defense Security Cooperation Agency (DSCA) http://www.dsca.mil/

Equipment Procurement and Construction Office (EPCO) http://www.epco.mod.go.jp/en/

Distribution and Sales Channels

Return to top

Distribution channels in Japan have undergone much consolidation over the past two decades. Many of the traditional channels have been streamlined, yet complexities still exist. Paradoxically, in some sectors, cutting edge technologies have been applied to channels that nevertheless retain significant structural inefficiency and redundancy. Channels vary significantly between consumer goods and industrial products. For detailed information on distribution channels for specific products and sectors, it is best to contact the relevant Commercial Specialist at CS Japan. Contact information can be found on the CS Japan website at http://www.buyusa.gov/japan/en.

International Couriers Services for Food Samples

In 2010, three major international couriers began enforcing a policy of not accepting packages that contain foods requiring phytosanitary certificates. This policy could potentially affect U.S. exporters' ability to ship product samples to Japan. The reason for this policy shift is that these couriers are now refusing to handle any items involving animal or plant quarantine items (including dried fruit and nuts) for express/overnight service since one parcel containing items subject to quarantine regulations can delay a whole container containing hundreds of parcels for about two hours until the package with the phytosanitary certificate is cleared. The carriers have decided that they cannot afford the delay in their express service but it should be noted that the carrier's policies only affect express/overnight

shipments. These couriers will still accept packages that require phytosanitary certificate as regular air freight services that may take an extra few days to be delivered. For more information please see the following report Express Services Food Sample Policy.

Selling Factors/Techniques

Return to top

As in the United States, sustained personal contact with customers is usually essential for successful market entry and expansion in Japan. Having a visiting U.S. company representative accompany the firm's Japanese agent or distributor on visits to existing or potential customers strengthens the potential for sales. Such joint sales calls demonstrate commitment to clients and provide unparalleled opportunities to obtain market feedback.

Learning how to negotiate and maintain relationships with Japanese face-to-face can significantly increase a U.S. company's chances for success in the market. Japanese language skills and familiarity with the nation's culture and etiquette can be invaluable. Be prepared to attend after-hours social events: these informal gatherings go a long way towards establishing mutual trust and understanding between new partners. It has been said that many business deals in Japan are made "after five," though this does not mitigate the important roles that price, quality and after-sales service play in making an export sale.

Initial contact between Japanese firms is usually formal and made at the executive level, with more detailed negotiations often delegated to the working level. Typically, the point of an initial meeting is to allow the parties to become acquainted, to establish the interest of the calling party, and to allow both sides an opportunity to size each other up. Don't expect too much from a first visit — sometimes the actual business subject may be overtaken by more mundane topics. A series of meetings with a large number of Japanese company representatives is common, as part of the "sizing up" process. Business negotiations may proceed slowly, as the Japanese side might prefer to avoid an agreement rather than risk being criticized later for making a mistake.

While many Japanese business executives speak some English, a skilled and well-briefed interpreter is essential to prevent communication problems. A good interpreter is worth the expense. Firms that choose to skimp on or forego this expense not only significantly increase their chances for miscommunication, but also risk sending a message that they lack commitment to their Japanese counterpart and to the Japanese market. Though there are some U.S. firms that do business in Japan without a signed contract, the use of written contracts between U.S. and Japanese firms is an accepted practice. Contracts satisfy tax, customs, and other legal requirements. Japanese companies prefer shorter and more general contracts as opposed to lengthy, detailed documents spelling out every right and obligation in detail. Personal contact and relationships are important in Japan, and a contract should be viewed as just one element of a broader effort to create a mutual understanding of obligations and expectations.

Electronic Commerce

Return to top

According to statistics published in July 2010 by the Ministry of Economy, Trade and Industry (METI), the market size of business-to-business (B2B) electronic commerce in Japan in 2009 was ¥131 trillion ($1.4 trillion), a 17.5 percent decrease from the previous year. On the other hand, the same report noted that the market size of the business-to-consumer (B2C) electronic commerce market in 2009 was ¥6.7 trillion ($71 billion), a 10.0 percent increase from the previous year.
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For U.S. companies needing to setup an e-commerce shop in Japan, there are several trustworthy e-shopping malls including Amazon Japan, Yahoo! Japan, and Japan's largest e-commerce site, Rakuten. EBay is also available for U.S. exporters at: http://www.ebay.co.jp/

U.S. firms might also consider listing on the Japan External Trade Organization's (JETRO) business matchmaking database TTPP (http://www.jetro.go.jp/ttppoas/howto/index.html#). Registration is free and may be done in English.

References:
"Survey on the Current Status and Market Size of Electronic Commerce for 2009", Ministry of Economy, Trade and Industry (METI) with cooperation with the Next Generation Electronic Commerce Promotion Council of Japan (ECOM),7/20/2010: http://www.meti.go.jp/policy/it_policy/statistics/outlook/ie_outlook.htm

Trade Promotion and Advertising

Return to top

Unless a U.S. company is setting up operations directly in Japan, the company's agent or distributor in Japan will likely execute the advertising and marketing effort. It is quite expensive to advertise in Japan. Because of this, local firms often look for some type of cooperation from their overseas suppliers. Willingness to support this effort sends a strong signal of commitment to the Japanese market.

Not all companies can afford to place advertisements in Japan's major national daily newspapers or commercials on Japanese television. Regional and local newspapers and television stations, and daily sports newspapers are less expensive and might make sense for a product with strong potential in a specific region or demographic segment. A more affordable option for small- to medium-size or new-to-market U.S. companies might be advertising in some of Japan's roughly 4,500 weekly or monthly magazines. These publications often represent a cost-effective means to reach a specific target consumer — whether gourmet or gardener, cyclist or camper. For industrial and commercial products, Japan's many industrial daily, weekly or monthly newspapers and trade journals might offer the best advertising options.

Japan's railways, as the primary transportation option for commuters in major cities, carry hundreds of millions of passengers every year. Therefore, transit advertising should not be overlooked. Transit advertisements can be found inside commuter rail cars, buses, and in stations. Advertisements inside trains and buses include hanging flyers, framed posters, stickers, and flat-panel video.

Internet advertising and email newsletters (generally called “mail magazines” or “*merumaga*”) have become popular in Japan. American companies considering using such methods in Japan should be aware of Japan’s Law on Regulation of Transmission of Specified Electronic Mail: unlike the “opt out” system in the United States in which the sender must stop sending to recipients who choose not to receive future emails, Japanese law requires use of an “opt in” system in which email can only be sent to people who have agreed in advance to receive it.

Japan’s media primarily arrange advertising placements by working with advertising agencies, and typically do not deal directly with advertisers themselves. Generally, mood or image advertising achieves the best results. Hard-sell, combative advertising is considered to be in bad taste and is usually counterproductive, but comparative advertising is becoming more accepted in an increasingly competitive and tight economy.

U.S. exporters can benefit from Japan’s extensive trade event circuit: not only in Tokyo and Osaka, but also in the huge regional economies and industrial centers where many of Japan’s international conferences, seminars, and trade shows take place. U.S. Department of Commerce-certified trade shows and trade missions, as well as events sponsored by U.S. states and industrial organizations, are an excellent means of gaining exposure in the Japanese market. For a listing of U.S. Department of Commerce supported events in Japan, please visit our website: http://www.buyusa.gov/japan/en

Pricing

Return to top

Tough economic times have made price an increasingly important consideration for Japanese consumers. Traditionally, many people made their buying decisions based on a product's attributes, quality, and brand name and they were willing to pay more for superior quality, reputation, or reliability. However, Japanese consumers are now more price conscious and notions such as bargains and value have become mainstream. If an imported product can be purchased more inexpensively than a domestic product, consumers will be interested. This has proven to many Japanese that U.S. products can be affordable and offer quality that equals or even exceeds that of Japanese goods.

The strength of the yen, streamlining of distribution channels, and Japanese economic reforms have recently helped open doors for U.S. products by improving their price competitiveness. However, landed cost is only one part of a total pricing scheme and should not be the only consideration for U.S. firms interested in exporting to Japan. Distribution markups often cause imports to price at levels far higher than comparable domestic products. For instance, shipping costs between the port of Osaka and Tokyo have been shown to be much higher than shipping costs from the U.S. West Coast to Osaka. A good example is imported U.S. apparel products, where street prices are often three to four times FOB.

Japanese manufacturers traditionally set prices at each level of the distribution chain and enforce compliance using complicated rebate systems. Such price maintenance has recently come under pressure from consumers who are demanding lower prices, and from manufacturers who themselves find the rebate system burdensome. As distribution practices have undergone reform, costs have come down and distributors have gained additional flexibility in selecting and purchasing items.

Distribution of imported goods has also traditionally followed a multi-layered system, with established lines of product flow and pricing structures that vary according to the types of services provided by the importer or wholesaler (e.g., inventory, advertisement costs, packaging costs, financing, acceptance of unsold/returned goods, etc). As with the distribution of Japanese manufactured goods, increased price sensitivity among Japanese consumers has led to more and more middlemen either being forced to cut their markups or eliminated from the distribution chain altogether.

Some Japanese retailers now import products directly in order to offer lower retail prices. However, U.S. suppliers should understand that retailers usually import smaller quantities, and other importers and wholesalers usually are uninterested in representing products that are imported directly by retailers.

Finally, U.S. exporters should also consider yen/dollar fluctuations in their product pricing and sales strategies. Starting in late 2008 and continuing to early 2011, the yen has risen significantly against the dollar, boosting the price competitiveness of U.S. goods.

Sales Service/Customer Support

Return to top

High-quality, highly-responsive product service and customer support throughout the sales cycle are crucially important in Japan. This begins with establishing a close working relationship with, and long-term commitment to, a U.S. exporter's potential Japanese partners. Every effort should be made to answer technical questions in detail, to ensure that delivery dates are met, and to maintain absolute clarity regarding all issues from initial order through shipment and delivery. Problems most often arise from misunderstandings, lack of communication, language difficulties, and differing business practices.

The arrival times and condition of shipments are critical. Shipments should arrive on time, they should be well packed, and they must not be damaged upon arrival. Customs documentation should be complete and accurate; if it is not, the entry of the merchandise could be delayed or, in certain cases, the merchandise might be returned to the sender. Japanese buyers are highly concerned with the quality of packing and poor packaging may lead to market entry problems. Missed deadlines and the arrival of goods damaged through poor packaging and shipping practices are interpreted as a "message" from, and about, the supplier.

Protecting Your Intellectual Property

Return to top

Japan generally provides strong IPR protection and enforcement. Nevertheless, the U.S. Government continues to encourage Japan to strengthen intellectual property rights protection and enforcement. Any U.S. company doing business in Japan should have an intellectual property plan and register their intellectual property prior to entering the market. The Japanese registration of patents and trademarks is on a first-in-time, first-in-right basis as opposed to the U.S. first-to-invent system which means that U.S. companies need to be especially diligent in protecting their intellectual property. The

U.S. Government works with the Government of Japan to improve the intellectual property environment, however, rights holders should take the basic steps to secure and enforce their intellectual property in a timely manner.

Protecting Your Intellectual Property in Japan:

Several general principles are important for effective management of intellectual property ("IP") rights in Japan. First, it is important to have an overall strategy to protect your IP. Second, IP is protected differently in Japan than in the U.S. Third, rights must be registered and enforced in Japan, under local laws. Your U.S. trademark and patent registrations will not protect you in Japan. There is no such thing as an "international copyright" that will automatically protect an author's writings throughout the entire world. Protection against unauthorized use in a particular country depends, basically, on the national laws of that country. However, most countries do offer copyright protection to foreign works under certain conditions, and these conditions have been greatly simplified by international copyright treaties and conventions.

Registration of patents and trademarks is on a first-in-time, first-in-right basis, so you should consider applying for trademark and patent protection even before selling your products or services in the Japan market. It is vital that companies understand that intellectual property is primarily a private right and that the US government generally cannot enforce rights for private individuals in Japan. Under Japanese law it is the responsibility of the rights' holders to register, protect, and enforce their rights where relevant, retaining their own counsel and advisors. Companies may wish to seek advice from local attorneys or IP consultants who are experts in Japanese law. Please see the following weblinks:
American Chamber of Commerce in Japan (ACCJ):
http://www.accj.or.jp/user/indus.php?id=10
CS Japan Business Service Providers:
http://www.buyusa.gov/japan/en/bsp.html?bsp_cat=80121604
The exceptional listing at Lawyers.com:
http://www.lawyers.com/All-Areas-of-Law/Japan/Tokyo/law-firms.html?ns=y&st=q

While the U.S. Government stands ready to assist, little can be done if the rights holders have not taken these fundamental steps necessary to securing and enforcing their IP in a timely fashion. Rights holders who delay enforcing their rights may find that their rights have been eroded or abrogated due to legal doctrines such as statutes of limitations, laches, estoppel, or unreasonable delay in prosecuting a law suit. In no instance should U.S. Government advice be seen as a substitute for the obligation of a rights holder to promptly pursue its case.

It is always advisable to conduct due diligence on potential partners and to give your partner clear incentives to honor the contract. A good partner is an important ally in protecting IP rights. Consider carefully, however, whether to permit your partner to register your IP rights on your behalf. Doing so may create a risk that your partner will list itself as the IP owner and fail to transfer the rights should the partnership end. Work with legal counsel familiar with Japanese laws to create a solid contract that includes non-compete clauses, and confidentiality/non-disclosure provisions.

It is also recommended that small and medium-size companies understand the importance of working together with trade associations and organizations to support

efforts to protect IP and stop counterfeiting. There are a number of these organizations, both Japan-based or U.S.-based. These include:

- The U.S. Chamber and local American Chambers of Commerce
- National Association of Manufacturers (NAM)
- International Intellectual Property Alliance (IIPA)
- International Trademark Association (INTA)
- The Coalition Against Counterfeiting and Piracy
- International Anti-Counterfeiting Coalition (IACC)
- Pharmaceutical Research and Manufacturers of America (PhRMA)
- Biotechnology Industry Organization (BIO)

IP Resources

A wealth of information on protecting IP is freely available to U.S. rights holders. Some excellent resources for companies regarding intellectual property include the following:

- For information about patent, trademark, or copyright issues -- including enforcement issues in the US and other countries -- call the STOP! Hotline: **1-866-999-HALT** or register at www.StopFakes.gov.

- For more information about registering trademarks and patents (both in the U.S. as well as in foreign countries), contact the US Patent and Trademark Office (USPTO) at: **1-800-786-9199**.

- For more information about registering for copyright protection in the US, contact the US Copyright Office at: **1-202-707-5959**.

- For more information about how to evaluate, protect, and enforce intellectual property rights and how these rights may be important for businesses, a free online training program is available at www.stopfakes.gov.

- For US small and medium-size companies, the Department of Commerce offers a "SME IP Advisory Program" available through the American Bar Association that provides one hour of free IP legal advice for companies with concerns in Brazil, China, Egypt, India and Russia. For details and to register, visit: http://www.abanet.org/intlaw/intlproj/iprprogram_consultation.html

- For information on obtaining and enforcing intellectual property rights and market-specific IP Toolkits visit: www.StopFakes.gov This site is linked to the USPTO website for registering trademarks and patents (both in the U.S. as well as in foreign countries), the U.S. Customs & Border Protection website to record registered trademarks and copyrighted works (to assist customs in blocking imports of IP-infringing products) and allows you to register for Webinars on protecting IP.

IPR Climate in Japan

See *Protection of Property Rights* under Chapter 6: Investment Climate.

Due Diligence

Return to top

A U.S. company resident in Japan is not legally required to use a Japanese attorney for filings, registrations, contracts or other legal documents, which can be prepared by in-house staff, but retaining a competent Japanese attorney *(bengoshi),* patent practitioner *(benrishi),* or other legal professional is a practical necessity. A U.S. company not resident in Japan should also retain competent Japanese counsel. Projects and sales in Japan require constant attention. Work with legal counsel familiar with Japan laws to create a solid contract that includes non-compete clauses and confidentiality/non-disclosure provisions, among others.

Japanese industry continues to affected by downsizing and bankruptcies in the current economic and financial climate. Importers, wholesalers and distributors can find it difficult to obtain trade financing in the present environment. Banks in Japan have become less inclined to provide credit to small- and medium-sized enterprises of all types. Larger companies, especially those with excessive debt, may also experience problems obtaining financing.

The U.S. Embassy in Tokyo encounters trade dispute cases of all kinds. It has become more common for small- and medium-sized Japanese trading companies to run into payment problems. For information about structuring payment options, see *How Do I Get Paid (Methods of Payment)* under Chapter 7: Trade and Project Financing.

As a result of these concerns, U.S. companies are advised to establish due diligence procedures and check the *bona fides* of their Japanese agents, distributors and/or customers. To assist with this need, the U.S. Commercial Service in Japan provides the International Company Profile (ICP) service designed to help U.S. companies evaluate potential business partners. For information on the ICP and other services available from the Commercial Service in Japan, please visit our website: http://www.buyusa.gov/japan/en/partner.html Please note that the ICP is not intended to be a substitute for a comprehensive due diligence review to meet obligations under the Foreign Corrupt Practices Act of 1977.

Local Professional Services

Return to top

CS Japan's website features lists of business service providers in different fields who may be of assistance to U.S. firms doing business with Japan. Although these lists are not comprehensive, and inclusion does not in any sense constitute an endorsement or recommendation by the U.S. Commercial Service or the U.S. Government, they are a useful starting point for firms that need professional services in Japan. Please visit the Business Service Providers section of our website at: http://www.buyusa.gov/japan/en/bsp.html.

Web Resources

Return to top

Information on investing in Japan, establishing an office, and other programs for foreign businesses:

Japan External Trade Organization (JETRO)
http://www.jetro.go.jp/en/invest/setting_up

Information on business service providers in Japan:

U.S. Commercial Service, U.S. Embassy, Tokyo
http://www.buyusa.gov/japan/en/bsp.html

Foreign Agricultural Service (FAS), U.S. Embassy, Tokyo
http://www.usdajapan.org
FAS Trade Lead System

U.S. Embassy, American Citizen Services
http://tokyo.usembassy.gov/e/tacs-main.html

Information on Japanese government procurement:

Japan External Trade Organization (JETRO)
http://www.jetro.go.jp/en/matching/procurement

Office for Government Procurement Challenge System (CHANS)
Cabinet Office
http://www5.cao.go.jp/access/english/chans_about_e.html

Japan's Submission to WTO Trade Policy Review Mechanism
http://www.wto.org/english/tratop_e/tpr_e/tp311_e.htm

B-to- B e-commerce marketplaces:

Trade Tie-up Promotion Program by Japan External Trade Organization
http://www3.jetro.go.jp/ttppoas/index.html

Return to table of contents

Return to table of contents

Chapter 4: Leading Sectors for U.S. Export and Investment

Commercial Sectors

- Electronic Components
- Computer Software
- Safety & Security
- Telecommunications Equipment
- Education and Corporate Training
- Cosmetics / Toiletries Market
- Travel and Tourism
- Medical Equipment
- Pharmaceuticals
- Renewable Energy
- Soil Remediation / Engineering Services

Agricultural Sectors

Commercial Sectors

Despite the current global economic challenges there are a number of sectors that offer significant opportunity for U.S. exports to Japan. The following are specific emerging sectors that Commercial Service Japan has identified as offering particularly good export opportunities for U.S. companies:

Healthcare IT

In 2009 the market size of healthcare IT systems in Japan totaled $4.3 billion, a 12 percent increase over 2008. The adoption of electronic medical records is a major healthcare IT priority in Japan, and according to an industry source, the adoption rate for electronic medical records among hospitals and general clinics in 2009 was 12.5 percent and 24.2 percent respectively. 41.6 percent of the hospitals with more than 400 beds implemented electronic medical records systems and 71.0 percent of them have electronic ordering systems. The Japanese government has formed a medical IT task force under its Information Technology Strategic Headquarters to discuss the promotion of healthcare IT in Japan. Discussion topics include a nationwide medical records database, seamless regional medical cooperation, reimbursement information utilization, and medical information databases for drug safety. The Tokyo Chapter of Health 2.0, a U.S. industry organization originally established to introduce leading online and mobile healthcare technologies, was inaugurated in June 2010. With the inauguration of Health 2.0's Tokyo Chapter, U.S. online and mobile healthcare technologies should enjoy even more success in the Japanese healthcare sector. Promising areas in healthcare IT for U.S. exporters include security, mobile applications, and data integration solutions.

Nanotechnology

Nanoelectronics is expected to dramatically improve Japan's current electronics technology and contribute to expanding energy-saving or 'green' businesses. In April 2010, the Green Nanotechnology Center (GNC)*[1] was opened by Japan's National Institute of Advanced Industrial Science and Technology, Japan's largest public research institution, with a government grant of approximately $52 million. GNC is considering possibilities for technical collaboration with research and development organizations internationally. Japan's green nanoelectronics market is estimated to grow to approximately $ 911 billion by 2030*[2]. In February 2011, Nanotech 2011*[3], one of the world's largest nanotechnology expos will be held in Tokyo.

*[1] GNC Homepage: http://www.yokoyama-gnc.jp/english/index.html
*[2] Source: Council of Competitiveness Nippon (COCN)
*[3] Nanotech 2011: http://www.nanotechexpo.jp/en/index.html

Senior Market

Japan is one of the world's most rapidly aging societies. As of 2010 30.3 percent (38.54 million) of Japanese were 60 years old or older. By 2030 38.9 percent of the population is expected to be 60 or older. At the same time, Japanese life expectancies are among the longest in the world; 88.12 years for women and 82.57 years for men. These demographic trends will likely increase demand for health and medical care products, home remodeling, continuing education, and tourism and leisure services.

Japan's senior citizens have spending power. In 2009, the average two-or-more-person-household savings (after-debt) of those 60-69 years old was $213,595. The consumption expenditure per head of household where householders were aged 60-69 was highest of all the 10-year age brackets except that of the under 29 years olds. As Japan's post-war baby-boomers marched into their 60's, there emerged a big market for those "active seniors" who are willing to spend to enrich their lives. Japanese educational institutions who are suffering from a rapid drop in the number of 18-year-olds are trying to recruit adult students, including the seniors. As the youth population shrinks, Japanese businesses are scrambling to cater to the needs of senior citizens.

Biotechnology

The Japanese biotechnology industry presents good business opportunities for U.S. firms. The Japanese public and private sectors and academia closely cooperate in this sector in Japan. In 2010, the total market size for the Japanese biotechnology industry was expected to be $27.7 billion, a 4.5 percent increase over 2009. Medical biotechnology is currently the leading sub-sector, and antibody drugs have the highest growth potential. Nikkei Bio Nenkan 2011, the leading Japanese biotechnology publication, estimated that the market size for antibody drugs in 2010 was $3.1 billion, about a 48.6 percent increase over 2009. Japanese pharmaceutical companies are seeking opportunities with U.S. biotech companies and research institutes in the areas of new drug candidates and pipelines, strategic partnerships, licensing, and research collaboration. Additionally, biotech research equipment, especially relating to regenerative medicine, is also expected to grow and present good opportunities for U.S. firms. The Japanese government has been allocating significant funding for both

induced pluripotent stem (iPS) cell R&D and the development of commercial applications.

Electronic Components (ELC)

Overview

Return to top

Unit: USD millions

	2008	2009	2010 Estimated	2011 Estimated
Total Market Size	46,482	37,772	55,100	56,202
Total Local Production	93,875	74,320	94,249	96,134
Total Exports	93,455	73,011	92,350	94,197
Total Imports	46,063	36,463	53,201	54,265
Imports from the U.S.	9,213	7,293	10,640	10,853

(Source: JEITA/ Japan Electronics and Information Technology Industries Association)

The Japanese electronic component market is recovering from the sharp decrease in 2009 caused by the economic downturn after the “Lehman shock” of late 2008. The development of nanotechnology is expected to expand in new “green” business areas, such as smart grid, smart houses, and electric vehicles (EV).

Many Japanese firms are setting ‘green’ procurement guidelines and interest in ‘green’ technology is high. According to the Council of Competitiveness Nippon (COCN), Japan’s green nanoelectronics market will grow to approximately $ 911 billion by 2030.

Sub-Sector Best Prospects

Return to top

Green devices (e.g. LED (light emitting diodes), monitoring censors, etc.)

Opportunities

Return to top

EDSfair
http://www.edsfair.com/e/
Date: January 27- 28, 2011
Venue: Pacifico Yokohama

Embedded Technology 2011
http://www.jasa.or.jp/et/ET2010/english/index.html
Date: November 16- 18, 2011
Venue: Pacifico Yokohama

Semicon Japan 2011
http://www.semiconjapan.org/sj-en/index.htm
Date: December 7 - 9, 2011
Venue: Makuhari Messe

Green Device 2011
http://expo.nikkeibp.co.jp/greend/2010/english/
Date: October 26 - 28, 2011
Venue: Pacifico Yokohama

Web Resources

Return to top

The Japan Electronics and Information Technology Industries Association (JEITA)
http://www.jeita.or.jp/english/index.htm

Japan Electronic Product Importers Association (JEPIA)
http://www.jepia.gr.jp/eindex.html

Distributors Association of Foreign Semiconductors (DAFS)
http://www.dafs.or.jp/index_e.html

Council on Competitiveness Nippon
http://www.cocn.jp/en/index.html

CS Japan Contact: Rika Saito Rika.Saito@trade.gov

Computer Software (CSF)

Overview

Return to top

Unit: USD millions

	2008	2009	2010 (estimate)	2011 (estimate)
Total Market Size	7,239	7,313	7,898	7,016

Source: JEITA, and unofficial CS Japan estimates.)

The growth of Japan's software market has been slowing down due to the economic downturn of late 2008. However the market is expected to recover somewhat in 2010. U.S. software companies (the majority of large U.S. software companies have subsidiaries in Japan) enjoy a major share of growing software business areas in Japan such as cloud computing. Japan is still open for imports but, in this maturing market, competition among foreign and local software vendors to exploit niche opportunities will be fierce.

Software vendors interested in Japan may want to look to the mobile market. The household penetration rate of mobile phones in Japan is more than 92 percent and interest is high for U.S. business applications for smartphones such as the iPhone and Blackberry. The demand for mobile security is continuously high.

Sub-Sector Best Prospects

Return to top

Smartphone applications, Mobile security

Opportunities

Return to top

According to a Ministry of Economy, Trade and Industry (METI) survey announced in August, 2010, the Japanese banking and insurance sector is tops in IT spending, followed by the utility (gas, electricity, water) sector.

There are three key elements to launching software products into the Japanese market; 1) localization, 2) support capability and 3) product quality. Localization includes Japanese translation, testing, and customization. Software suppliers are required to provide translations but should also consider Japanese business customs and culture to meet local client needs. Japanese language support service is mandatory. Quality control is one of the most important buying considerations for Japanese users.

Web Resources

Return to top

Computer Software Association of Japan (CSAJ)

http://www.csaj.jp/english/

Japan Information Technology Services Association (JISA)
http://www.jisa.or.jp/english/index.html

Japan Electronics and Information Technology Industries Association (JEITA)
http://www.jeita.or.jp/english/

CS Japan Contact: Rika Saito (Tokyo)
Rika.Saito@trade.gov

Safety and Security (SEC)

Overview

Return to top

Unit: USD thousands

	2008	2009	2010 (estimated)	2011 (estimated)
Total Market Size	5,922,700	5,365,500	5,492,600	5,602,500
Total Local Production*	6,407,700	5,853,500	6,032,500	6,132,000
Total Exports*	1,077,000	1,025,000	1,089,900	1,090,000
Total Imports*	592,000	537,000	550,000	560,500
Imports from the U.S.	n/a	n/a	n/a	n/a
Exchange Rate: 1 USD	103.39	93.68	87.78	87.78

(Source: Fuji Keizai (Total Market Size), *figures are unofficial CS Japan estimates and import data do not include security services)

According to the Fuji Keizai Research Company, the overall size of Japan's security systems industry, including equipment and services, is projected to show steady growth by an average of two percent per year for the next few years.

The market for IP-based surveillance equipment continues to grow strongly and is projected to increase from $94.8 million in 2008 to $160 million in 2012. There are potential growth opportunities in IP-based surveillance equipment and systems with technologies high in demand during the digital era. IP-based surveillance cameras represent less than 10 percent of the overall surveillance camera market in Japan. Price reductions for surveillance-related products and video analysis products along with technological advancements are expected to sustain industry growth in the coming years.

Investment in overall security equipment and systems slowed due to the overall economic downturn and demand is growing for more cost effective solutions.
In recent years, Information Communication Technology (ICT) has become one of the leading players in the physical security market. Systems Integrators are even more involved in this market. There is growing demand for proactively integrated physical security systems with energy efficient solutions such as air-conditioning and lighting control systems in buildings and factories.

Sub-Sector Best Prospects

Return to top

U.S. homeland security and anti-terrorism products, including those for government procurement, enjoy a favorable position in the Japanese market as U.S. technological leadership in such products is well-recognized. Especially good export opportunities are expected for drug and explosive detection equipment and systems, personal/container screening technologies and systems, and Nuclear/Biological/Chemical preparedness equipment and medicines.

According to an industry source, there is strong potential in the Japanese market for IP-based surveillance solution software and technologies. In coming years, it's expected that many users will switch to IP-based surveillance systems over traditional analog systems. The next generation surveillance technology will boost demand for facial recognition, motion tracking, data analysis solutions and managing surveillance data. By partnering with Japanese manufacturers, U.S. firms with surveillance technologies and solutions can secure significant business both in Japan and in third-country markets.

Opportunities

Return to top

Security Show
Organized by Nikkei Inc.
March 8-11, 2011
http://www.shopbiz.jp/en/ss/

Auto-ID Expo
Organized by Japan Automatic Identification Systems Association
August 31- September 2, 2011
http://www.autoid-expo.com/tokyo

Risk Control in Tokyo (RISCON) - Safety and Security Trade Expo
Organized by Tokyo Big Sight Inc.
October 19-21, 2011
www.kikikanri.biz/english/index.html

Special Equipment Exhibition & Conference for Anti-Terrorism (SEECAT)
Organized by Tokyo Big Sight Inc.
October 19-21, 2011
http://www.seecat.biz/en/index.html

Web Resources

Return to top

CS Japan Contact: Ms. Kazuko Tsurumachi	kazuko.tsurumachi@trade.gov
Cabinet Office Disaster Prevention	www.bousai.go.jp/index.html
National Police Agency	http://www.npa.go.jp/english/index.htm
Fire & Disaster Management Agency	http://www.fdma.go.jp/en/
Japan Fire Equipment Inspection Institute	http://www.jfeii.or.jp/en/index.html
Japan Security Systems Association	www.ssaj.or.jp/
Japan Automatic Identification Systems Assoc.	http://www.jaisa.jp/english/index.html

Telecommunications Equipment (TEL)

Overview

Return to top

Unit: USD millions

	2008	2009	2010 (estimated)	2011 (estimated)
Total Market Size	21,769	20,921	32,648	32,420
Total Local Production	18,546	16,037	21,002	20,541
Total Exports	6,501	5,813	5,422	5,685
Total Imports	9,723	10,698	11,878	11,878
Imports from the U.S.	993	1,093	1,190	1,213

(Source: Communications and Information Network Association of Japan (CIAJ); unofficial CS Japan estimates)

After a market maturity-induced slump in 2009, the emergence of the smartphone in 2010 revitalized the telecommunications equipment market in Japan.

Specifications for mobile phone components and OS have been strictly controlled by local service operators and that has traditionally been an entry barrier for foreign vendors. For smartphones, however, the manufacturing process is becoming borderless and opportunities for foreign vendors are anticipated to grow. Foreign vendor market share in Japan was only 2-3 percent in 2007 but has now increased to 16 percent in 2010 thanks largely to the popularity of a noted U.S. smartphone model.

From 2011, further investment for network equipment is anticipated to cope with data traffic increases due to high demand for new communication devices such as smartphones.

Sub-Sector Best Prospects

Return to top

Smartphones, data communication devices (e.g. PDA WiFi card, Wireless USB adapters)

Opportunities

Return to top

Interop Tokyo
http://www.interop.jp/english/index.html
June 7 - 10, 2011

CEATEC Japan
http://www.ceatec.com/2010/en/index.html
October 4 - 8, 2011

Web Resources

Return to top

Communications and Information Network Association of Japan (CIAJ)
http://www.ciaj.or.jp/en/

CS Japan Contact: Rika Saito (Tokyo)
Rika.Saito@trade.gov

Education and Corporate Training

Overview

Return to top

Higher Education Study Abroad

	2007/08	2008/09	2009/10	2010/11
Total Market Value*	$837 million	$776 million	$720 million	N/A
Int'l Students in US**	623,805	671,616	690,923	N/A
Japanese Students in US**	33,974	29,264	24,842	23,500***

*--Estimated Japanese student expenditures as 3.60 percent of total of int'l students' expenditures
**--Number of international students enrolled in the schools of higher education (Source: IIE OpenDoors)
*** --Unofficial CS Japan estimate

In the 2009/2010 academic year, a total of 690,923 international students studied in institutions of higher learning in the United States. International students contribute approximately $20 billion to the U.S. economy thorough their expenditures on tuition and living expenses. Japanese students accounted for 3.60 percent or 24,842 of the total international students in the U.S. 2009/10. The number dropped by 15.1 percent from the previous year.

The number of college age individuals in Japan has steadily decreased since 1992 due to the declining birth rate and while interest among young people in overseas experiences has also declined, Japan is still the sixth leading country of origin of international students in the United States. The U.S. has been and still is the most popular overseas destination for Japanese students seeking degree programs. The ratio of Japanese undergraduate students to graduates in the U.S. had been about 7:2 until several years ago, but the graduate ratio has been increasing and was 53:22 in 2009/10. In addition to the 24,842 Japanese students noted above, tens of thousands of Japanese go to the United States for short-term language studies annually.

While the interest of young people in going abroad is declining, there are signs that Japanese educators and businesses realize the need for Japanese with global competencies. It was big news in 2010 when several high-profile Japanese companies with large international markets declared English as their official corporate language. Also in 2010 the Ministry of Economy, Trade and Industry (METI) and the Ministry of Education (MEXT) issued "The proposals for Global Human Resource Development", which included a call for systems to encourage young Japanese to go abroad to help develop a globally-competitive workforce. MEXT and Japanese universities are pushing forward with two-semester systems in order to make it easier for students to go on one-semester or one-year abroad programs.

Corporate Training Market

According to a survey by the Ministry of Health, Labor and Welfare in April 2010, 68.5 percent of companies responded that they provided scheduled off-the-job training for their regular payroll employees, a substantial drop from the 77 percent of the previous year. The average expenditure of those companies providing off-the-job training also shrank from 25,000 yen (approx. $294) per employee in 2008 to 13,000 yen ($153) in 2009. Because of the prolonged economic downturn more Japanese companies are opting to use their low-cost, in-house trainers for the minimal training that is offered. The number of employees attending off-the-job training in 2009 also decreased to 38.5 percent from 54.2 percent in 2008. Competition from low-cost domestic programs is strong, but there remains a market for U.S. programs if they are unique, have a strong track record, and have been localized for the Japanese market.

Because the ratio of truly fluent English speakers in the Japanese business environment is rather small, quality localization, whether in presentation style, materials, and/or content, will be necessary for U.S. firms wanting to succeed in Japan. In addition, Japanese firms (especially larger corporations) may be hesitant to purchase products and services directly from overseas suppliers. U.S. companies may wish to consider partnering with local companies, such as consulting companies and placement firms, which often service the training and/or workforce needs of Japanese companies.

Sub-Sector Best Prospects

Return to top

Study Abroad:

- TOEFL scores of Japanese students are low by global standards, and are even lower with iBT testing. Hence, U.S. colleges with flexible TOEFL score requirements for admission attract more attention.
- In contrast to the young of Japan, the interest among senior citizens in overseas experiences is growing. Especially, new retirees will be interested in ESL programs on university campuses. The strength of the Japanese yen in recent years translates into good opportunities for U.S. schools to attract these seniors (who have time and money) to short-term, adult-oriented programs.

Corporate Training: When the economy recovers, training of middle management, mid-career employees, and young employees will be a primary focus area for Japanese companies. Long-term development, improvement of management capabilities, and the improvement of the capabilities of young employees are the main objectives for HR training programs. The United States leads in IT and computer certificate and test training programs in the Japanese market.

Opportunities

Return to top

Event: The Association of Boarding Schools Fair
Date: Fall, exact date TBD
Website: http://www.boardingschools.com/for-schools.aspx

Event: student recruiting fairs by leading study abroad agents in Tokyo and key cities.
Date: Spring (mainly for ESL programs) & fall (heavier focus on degree programs).

Web Resources

Return to top

CS Japan Contact: Ms. Mieko Muto mailto:Mieko.Muto@trade.gov

Cosmetics / Toiletries Market (COS)

Overview

Return to top

Unit: USD millions

	2008	2009	2010 (estimated)	2011 (estimated)
Total Market Size	15,163.5	15,246.3	17,074.2	17,405.5
Total Local Production	14,576.8	14,788.8	16,468.6	16,798.0
Total Exports	1,072.7	1,181.6	1,442.4	1,471.3
Total Imports	1,659.4	1,639.1	2,048.0	2,078.8
Imports from the U.S.	350.1	328.7	359.1	364.5

Source: Japan Cosmetics Industry Association, Cosmetics Importers Association of Japan, Trade Statistics of Japan

Note: 2010 (estimated) presents annualized estimates based on 11-month results computed by CS Japan. 2011(estimated) is CS Japan's projection.

2010 is expected to show some positive growth in the Japanese cosmetics market after a decline for the last two years. For 2010, the total market is expected to grow to 1,498.7 billion yen ($17.1 billion). This recovery can be attributed partly to the recovery of the economy and appreciation of the yen against the US dollar (87.78 yen/dollar in 2010 versus 93.68 yen/dollar in 2009).

Japan's total market for cosmetics in 2009 was1,428.2 billion yen ($15.2 billion). Had the exchange rate remained constant at the 2008 level of 103.39 yen/dollar rate, the total market for 2009 would have been just $13.8 billion.

Cosmetics imports to Japan in 2010 should also show a positive increase to an estimated 179.7 billion yen ($2,048 million) from 153.5 billion yen ($1.6 billion) in 2009. France and the United States remain the top suppliers even though their combined shares have been declining due to the surge of other exporting countries. In 2010 it could be roughly 45 percent of the total, compared to 51.1 percent in 2009 and 54.2 percent in 2008. China ranked a distant third (7.7 percent in 2010, compared to 8.1 percent in 2009) after the United States (17.5 percent in 2010 and 20.1 percent in 2009).

Skincare products continued to be the largest import category in 2010, up by 6.4 percent to 67.6 billion yen ($770.4 million) from 63.5 billion yen ($678.6 million) from the previous year. Imports from the U.S. are expected account for about 27 percent of skincare imports, second only to France's 38 percent share ($298.3 million).

Fragrances, traditionally the second largest import category, are expected to drop to third position in 2010, surpassed by hair care products. , Fragrance imports in 2010 are expected to be about 21.5 billion yen ($245.4 million) up from 20.7 billion yen ($221.8 million) in 2009. The top three exporting countries were: France ($144.8 million), Italy ($51.6 million), and the U.S. ($23.3 million).

Make-up imports continued to decline in yen terms to 21.5 billion yen in 2010 from 22.1 billion yen a year earlier but because of the appreciation of the yen actually increased in dollar terms ($236.6 million in 2009 to $245.4 million in 2010). France remained the leading supplier ($94.0 million), followed by the U.S. ($43.9 million) which showed a gain from $39.2 million in 2009. China was a close third ($40.3 million in 2010, up 9.3 percent).

Hair care product imports, such as shampoos and rinses, showed remarkable growth in 2010, growing to $601.1 million from $321.4 million in 2009. The U.S. maintained its position as the top supplier in this category at $38.6 million in 2010, compared to $29.7 million in 2009. China, which has been rapidly gaining, ranked second with $25.6 million, up 29.4 percent from $18.4 million), followed by France ($21.9 million, down 13.6 percent from $22.6 million). Increased exports from a number of countries contributed to the overall growth of this category, making it clear that the production of hair care products is spreading on a global basis.

Sub-Sector Best Prospects

Return to top

Industry sources report that Japanese consumer interest in beauty and health continues to be high. Japanese consumers are traditionally more interested in skincare than make-up and fragrances. The skincare segment accounts for the largest share of the market, a striking contrast to Western countries where make-up preparations have the largest share. Japanese cosmetics consumers are known to be highly brand and quality conscious.

Best prospects include:
Skincare cosmetics with specific appeals such as anti-aging, skin whitening (lightening), and skin moisturizing as well as high performance and quick-acting spot skincare products.

Natural and/or organic products for sensitive skin and troubled skin are also becoming more popular in the marketplace.

Men's skincare and personal care products, such as cleansing foam, toning lotion, moisturizing emulsion, skin revitalizer, anti-shine refresher, deep cleansing scrub, hydrating lotion, eye soother, tanning lotion, fragrance, and deodorant products.

Fragrances, especially new product launches with a light-feel scent.

Make-up preparations particularly mascara with moisturizing, thickening, curling, or other special features. Mineral make up products are gaining popularity.

Opportunities

Return to top

Event:	The 71st Tokyo International Gift Show
Date:	February 1 – 4, 2011
Venue:	Tokyo Big Sight
URL:	http://www.giftshow.co.jp/english/71tigs/index.htm

Event: Japan Drugstore Show 2011
Dates: March 11 – 13, 2011
Venue: Makuhari Messe (Nippon Convention Center) International Hall
URL: http://www.drugstoreshow2011.jp/english/index.html

Event: Beautyworld Japan 2011
Dates: May 16 -18, 2011
Venue: Tokyo Big Sight
URL: http://www.beautyworldjapan.com/english/tokyo/index.php

Event: 2nd Cosmetics Japan
Dates: June 29 – July 1, 2011
Venue: Tokyo Big Sight
URL: http://www.cosmetics-japan.jp/en/Home/

Event: Diet and Beauty Fair 2011
Dates: September 26 - 28, 2011
Venue: Tokyo Big Sight
URL: http://www.dietandbeauty.jp/en/

Web Resources

Return to top

CS Japan Contacts: Chris Yoshiyuki Ono (Tokyo)	mailto:chris.ono@trade.gov
Japan Cosmetics Industry Association	www.jcia.org
Cosmetics Importers Association of Japan	www.ciaj.gr.jp
Japan Nailist Association	www.nail.or.jp
Japan Cosmetic Suppliers Association	http://jcsa.ne.jp/en/index.html
Personal Care Products Council (f/k/a Cosmetics, Toiletry and Fragrance Association or CTFA)	www.personalcarecouncil.org

Travel and Tourism

Overview

Return to top

Unit: USD millions

	2008	2009	2010 (estimated)	2011 (estimated)
Total Market Size [(1)]	227,875	236,261	259,706	264,900
Total Outbound Market	36,754	35,013	39,982	41,981
U.S. Share of Outbound Market	14,554	13,049	14,354	15,072
Exchange Rate: 1 USD	103.39	93.68	87.78	87.78

Unit: millions of people

	2008	2009	2010 (estimated)	2011 (estimated)
Number of Outbound Travelers	15.99	15.45	16.64	17.10
Number of Outbound Travelers to the U.S.	3.25	2.92	3.30	3.43

Data Sources:

Total Market Size: GOJ Ministry of Land, Infrastructure, Transport and Tourism (MLIT), Japan Tourism Agency (JTA)
Total Outbound Market: MLIT, JTA
U.S. Share of Outbound Market: U.S. Department of Commerce, Office of Travel and Tourism Industries (USDOC/OTTI)
Number of Outbound Travelers: GOJ Ministry of Justice
Number of Outbound Travelers to the U.S.: USDOC/OTTI

Note:
Total market size includes spending on day/overnight trips, travel guidebooks, travel insurance, passport fees and photo costs.

In 2009, Japan was the fourth largest source of inbound travelers to the U.S., attracting 2.92 million visitors. The total number of Japanese outbound travelers in 2009 was 15.45 million. The U.S. continues to be one of the most popular destinations for Japanese visitors with an 18.9 percent market share in Japan. In 2009, over 74 percent of repeat Japanese travelers visited the U.S. mainland, 69.6 percent went to Hawaii and 55.8 percent visited Guam (including Saipan). Despite the worldwide downturn in the tourism industry, 2009 Japanese spending in the U.S. was strong, at $13.05 billion, and represented the second largest source of international tourism spending in the U.S.

There are three peak holiday periods in Japan: Golden Week, Obon, and the year end/New Year. Golden Week, generally a popular time to travel abroad, occurs at the end of April/early May, during which the four Japanese public holidays can be extended into a five to nine day vacation. The summer Obon holiday occurs around August 15. Since the longest school holiday of the year also occurs at this time, August is the peak month for all Japanese travel. Many Japanese companies and organizations close

during the last week in December until just after the New Year for the year end/New Year holiday, making it a preferred time to travel abroad. All of these holidays present excellent opportunities for travel to the U.S.

In 2011, the Golden Week holiday period will be an especially good time for Japanese outbound travelers to visit long haul destinations such as the U.S. If a traveler takes two extra days' vacation in conjunction with the Golden Week holidays, this creates a consecutive ten day holiday.

Due to the outbreak of the H1N1 flu, many Japanese travelers decided not to travel abroad in 2009. These travelers started traveling again in 2010 due to pent up demand. With the strong yen and the proposed increase in the number of flights to the U.S., due to the completion of the new international runway at Haneda Airport, now is an excellent time for the U.S. travel industry to actively promote their destinations and services in the Japanese market.

Sub-Sector Best Prospects

Return to top

While a majority of overseas Japanese travelers still enjoy nature and scenery, shopping, gourmet food, history and culture, some travelers have a more specific purpose in mind for their travel. Themed travel is popular among Special Interest Tour (SIT) travelers and Free Independent Travelers (FIT). Themed travel that appeals to Japanese visitors includes:

- Spectator sports such as professional baseball, basketball, soccer, golf and car racing
- Participation in amateur marathons
- Sports activities such as golfing, hiking, fishing, diving, skiing, driving, cycling and other outdoor sports
- Music-oriented travel such as attending concerts, music festivals, etc.
- Spa/relaxation/healing experiences
- Hobby tours such as quilting, photo taking, drawing, dancing, etc.
- Cruising
- Overseas weddings

Opportunities

Return to top

Event:	JATA Tourism Forum & Travel Showcase 2011 - Discover America Pavilion
Date:	September 29-October 2, 2011
Venue:	Tokyo Big Sight
Web:	http://www.jata-jts.jp/contents/index/en/

Web Resources

Return to top

CS Japan Contact: Ms. Tamami Honda	tamami.honda@trade.gov
U.S. Travel Association Japan Office	http://www.discoveramerica.com/jp
Japan Tourism Agency	http://www.mlit.go.jp/kankocho/en/
Japan Association of Travel Agents (JATA)	http://www.jata-net.or.jp/english

Medical Equipment (MED)

Overview

Return to top

Unit: USD millions

	2008	2009 (*estimated)	2010 (estimated)	2011 (estimated)
Total Market Size	21,510	22,364*	27,648	27,959
Total Local Production	16,368	16,493	17,732	17,909
Total Exports	5,408	5,277*	5,674	5,696
Total Imports	10,549	11,148	15,590	15,746
Imports from the U.S.	6,126	6,689*	9,354	9,445
Exchange Rate: 1 USD	103.39	93.68	87.78	87.78

Data Sources:

Total Local Production: GOJ Ministry of Health, Labour and Welfare (MHLW)
Total Exports: MHLW
Total Imports: MHLW
Imports from U.S.: MHLW

Japan's market for medical devices and materials continues to be one of the world's largest. According to the latest official figures from the Ministry of Health, Labour and Welfare's (MHLW) Annual Pharmaceutical Production Statistics, the Japanese market for medical devices and materials in 2008 was approximately $21.5 billion, up 4.3 percent over 2007. Imports of U.S. medical devices accounted for approximately 30 percent of the total market in 2008. Based on preliminary reports from MHLW, in 2009, the Japanese market for medical devices and materials was estimated to have slightly declined, in yen terms, but to have increased to $22.3 billion in dollar terms. The market is expected to grow in 2010 due to an increase in imports.

While the market remains heavily dependent on imports, especially sophisticated medical technologies, many globally available advanced medical technologies have not yet been introduced into the Japanese market. The Government of Japan (GOJ) has recognized that Japan suffers from a medical device "lag" and medical device "gap" which prevents timely patient access to innovative and life-saving products. The GOJ intends to make the pharmaceutical and medical device industries key drivers of Japan's future industrial growth and to attract foreign direct investment in these sectors. The June 2010 GOJ New Growth Strategy report identified the drug and device lags as urgent issues and stressed the need to improve the clinical trials environment and to accelerate review times in Japan. The development of a medical tourism industry in Japan was also included in the strategy. Although the New Growth Strategy and other policy programs aim to enhance the international competitiveness of Japanese industries, these programs will also benefit U.S. medical equipment companies that can offer innovative products to Japanese patients. The demand for advanced medical technologies is expected to increase and in recent years, the number of products that have recognized new functions, as listed in the National Health Insurance (NHI) reimbursement price scheme (known as C1 or C2 products), almost doubled to 29 in 2010.

While the market for U.S. medical equipment in Japan remains strong, U.S. firms have been facing challenges with pricing and reimbursement due to the GOJ's efforts to contain overall healthcare costs. In 2009, national health expenditures reached a record $376.8 billion, up 3.5 percent over the previous year. This marks the seventh consecutive annual increase driven by Japan's aging population. Nearly 44 percent of all medical expenditures were for elderly patients over the age of 70. With a declining population, currently at 127.6 million, Japan faces serious economic consequences as a quarter of its citizens are projected to be over the age of 65 by 2015. As a result, national health expenditures are expected to further increase in the coming years.

Sub-Sector Best Prospects

Return to top

Given Japan's aging population and the increasing number of patients with chronic and life-style diseases, medical devices that alleviate pain, complement lost functions, and improve the quality of life should show steady growth in demand. Also, the market for in-home care devices, technologies, and health IT related products is expected to grow as the number of people in out-patient care increases. Due to stronger consumer health concerns, other promising growth areas include self care and preventive care medical devices and products.

The "New Vision for Medical Device and Medical Technology Industry" report issued by the Ministry of Health, Labour and Welfare (MHLW) in August 2008, cited the following fields and technologies as focus areas: navigation medical devices (operation robotics); implantable devices (e.g., customized artificial joints, artificial hearts, artificial heart valves, intraocular lenses, and artificial dental roots); regenerative medicine (e.g., tissue sheets, iPS (induced pluripotent stem cells), and periodontal membrane sheets); tailor made medical diagnostics (DNA chips and protein chips); etc.

Opportunities

Return to top

Event: MEDTECH Japan 2011
Date: April 20-21, 2011
Venue: Pacifico Yokohama
Web: www.devicelink.com/expo/japan10/index_en.html

Event: The International Modern Hospital Show 2011 (IMHS2011)
Date: July 13-15, 2011
Venue: Tokyo Big Sight
Web: www.noma.or.jp/hs/index-e.html

Event: HOSPEX Japan 2011
Date: November 9-11, 2011
Venue: Tokyo Big Sight
Web: www.jma.or.jp/hospex/en/top-e/index-e.htm

Web Resources

Return to top

CS Japan Contact: Mr. Hiroyuki Hanawa (Tokyo)	Hiroyuki.Hanawa@trade.gov
Ministry of Health, Labor and Welfare (MHLW)	www.mhlw.go.jp
Pharmaceutical and Medical Device Agency (PMDA)	www.pmda.go.jp
Advanced Medical Technology Association (AdvaMed)	www.advamed.org
The American Medical Devices and Diagnostics Manufacturers' Association (AMDD)	http://amdd.jp/en/index.html
Japan Federation of Medical Device Associations (JFMDA)	www.jfmda.gr.jp

Pharmaceuticals (DRG)

Overview

Return to top

Unit: USD millions

	2008	2009 (*estimated)	2010 (estimated)	2011 (estimated)
Total Market Size	80,442	93,097*	101,342	103,369
Total Local Production	64,030	72,402	78,814	80,391
Total Exports	1,572	1,810*	1,970	2,009
Total Imports	17,984	22,504	24,497	24,987
Imports from the U.S.	2,759	4,050*	4,899	4,997
Exchange Rate: 1 USD	103.39	93.68	87.78	87.78

Data Sources:

Total Local Production: GOJ Ministry of Health, Labour and Welfare (MHLW)
Total Exports: MHLW
Total Imports: MHLW
Imports from U.S.: MHLW

Japan continues to be the second largest pharmaceuticals market in the world after the U.S. According to the latest official figures from the Ministry of Health, Labour and Welfare's (MHLW) Annual Pharmaceutical Production Statistics, the Japanese market for prescription and non prescription pharmaceuticals totaled $80.4 billion, up 3.8 percent over 2007. More than 90 percent of the total market consists of prescription pharmaceuticals. Imports of foreign pharmaceuticals accounted for approximately 22 percent of the total Japanese market in 2008, yet the actual size of the total foreign market share was closer to approximately 40 percent if local production by foreign firms and compounds licensed to Japanese manufacturers are included. When including local production and licensing, U.S. firms have actually achieved a market share approaching 20 percent according to a Japan-based representative of the U.S. pharmaceutical industry.

According to IMS Japan, a Japanese market research firm, Japan market sales of pharmaceuticals was approximately $91.6 billion in 2009. The firm estimated that the sales will grow to $102.5 billion in 2010, an increase of 1.8 percent over 2009. IMS Japan also projected that the average annual growth rate for the Japanese market would be three to six percent between 2010-2014 partly due to the "premium for the development of new drugs and elimination of off-label drug use", a new pilot premium system that would minimize downward pressure on prices for new drugs (without a generic equivalent) that was introduced in April 2010.

The implementation of the new pilot premium system was a major positive development for pharmaceutical firms in 2010 and it is critical that the new pilot premium system be made permanent, a development that is anticipated to occur in April 2012. Additionally, IMS Japan predicted that Japan would remain the second largest pharmaceutical market in the world between 2010 and 2014.

The GOJ has been making strong efforts to contain overall healthcare costs, due to soaring healthcare expenditures resulting from an aging society and other facets of Japan's reimbursement pricing system. This policy will continue to create a challenging environment for U.S. pharmaceutical firms. In 2009, national health expenditures reached a record $376.8 billion, up 3.5 percent over the previous year. This marks the seventh consecutive annual increase driven by Japan's aging society. Nearly 44 percent of all medical expenditures were for elderly patients over the age of 70. With a declining population, currently at 127.6 million, Japan faces serious economic consequences as a quarter of its citizens are projected to be over the age of 65 by 2015. As a result, national health expenditures are expected to further increase in the coming years.

Sub-Sector Best Prospects

Return to top

According to IMS Japan, therapeutic category renin-angiotensin system (RAS) agents posted the largest pharmaceutical sales in 2009. Among the top ten items in the therapeutic category, anti-tumor agents had the second largest sales and exhibited the highest growth over the previous year due to increased sales of molecular targeted drugs in anti-tumor agents. Other top selling therapeutic pharmaceuticals included acid-reducing/anti-flatulence/anti-ulcer agents; lipid-regulation/arteriosclerosis agents; systemic antibacterial agents; calcium antagonist agents; diabetic agents; antithrombogenic agents; and psychotropic agents.

Generic drugs will also have good potential in the Japanese market as the GOJ regards the promotion of generics as a key solution to reducing soaring healthcare costs. Additionally, the vaccine market is expected to grow as the GOJ recognizes the "vaccine lag". There is an enormous disparity between the number of vaccines available in the U.S. and other industrialized countries and vaccines available in Japan.

Opportunities

Return to top

Event: CPhI Japan 2011
Date: April 18 - 20, 2011
Venue: Tokyo Big Sight
Web: www.cphijapan.com

Event: INTERPHEX JAPAN
Date: June 29 – July 1, 2011
Venue: Tokyo Big Sight
Web: www.interphex.jp/en/Home/

Web Resources

Return to top

CS Japan Contact: Mr. Hiroyuki Hanawa (Tokyo) Hiroyuki.Hanawa@trade.gov

Ministry of Health, Labor and Welfare (MHLW) www.mhlw.go.jp
Pharmaceutical and Medical Device Agency (PMDA) www.pmda.go.jp
Pharmaceutical Research and Manufacturers of America (PhRMA) www.phrma-jp.org

The Japan Pharmaceutical Manufacturers Association (JPMA) www.jpma.or.jp

Renewable Energy

Overview

Return to top

Photovoltaic Power Generation (Generation Capacity)

Unit: Kilowatts

	2008	2009	2010*	2011 (estimated)
Total Market Size	236,787	623,127	935,882	1,150,000
Total Local Production	1,120.371	1,598,131	2,320,638	2,668,734
Total Exports	883,734	1,045,404	1,520,212	1,748,244
Total Imports	150	70,400	135,456	229.510
Imports from the U.S.	N/A	N/A	N/A	N/A
Exchange Rate: 1 USD	-	-	-	-

Data Sources: Japan Photovoltaic Energy Association (JPEA)
* Figures represent first-half actuals plus second-half estimates

Renewable energy technologies, particularly photovoltaic solar power generation, are expected to be a high growth industry in Japan over the next several years. Japan's Ministry of Economy, Trade and Industry (METI) has set a target to attain 28,000,000 kW of solar power generation by 2020 (a 20-fold increase over 2005 levels) and 53,000,000 kW by 2030.

METI's 2010 Energy White Paper estimates that the market volume of the photovoltaic solar power industry was approximately $4.8 billion in FY 2008 but would grow to $17.1 billion by 2020. Japan's demand for equipment such as solar cells, modules and related products such inverters, as well as services such as installation, will grow significantly.

According to the Japan Photovoltaic Energy Association (JPEA), domestic solar cell shipments in the first half of 2010 had reached more than 75 percent of total shipments for all of 2009, which were themselves three times those of 2008. JPEA forecasts that 2011 domestic shipments will grow to 1.15 GW (non-residential 0.25GW, residential 0.9GW).

The Government of Japan (GOJ) continues to provide subsidies to homeowners who install solar panels, and it is now commonplace to see advertisements promoting PV systems on television, and on train station and road-side billboards in Japan. Furthermore, in November 2009 the GOJ introduced a Feed-in Tariff (FiT) at the rate of 48 Yen ($0.55)/kWh. Unlike European FiTs, only surplus power generated receives the FiT. So far, solar power is the only electric source to which the GOJ grants FiT. The buy-back period is set at 10 years. Given all of the developments noted above, the PV market in Japan is expected to grow.

Sub-Sector Best Prospects

Return to top

Until very recently the solar market in Japan was dominated by small-sized solar panels (typical output of 3.3 kW) installed on rooftops of residential homes. However, since 2010, Japan has entered into an era of large-scale photovoltaic power generation

facilities (mega solar). For example, Japanese electric utility companies alone have plans for solar power plants of approximately 140,000 kW of mega solar power in 30 locations across the country by 2020. Also, the GOJ is planning to introduce a FiT system for all solar-generated electricity from facilities of power generation businesses such as mega solar and from factories and offices. These developments create opportunities for U.S. firms offering high-quality products or technologies for the PV market.

As Japanese power companies promote smart grid technology, demand is expected to grow for technologies that can stabilize the distribution network when a large amount of solar electricity is introduced into the grid. For example, the GOJ and Japanese industry are studying how to install storage batteries in order to store excess electricity, or to limit power output from solar panels when the supply from solar power generation is in excess of demand. These developments, too, will create opportunities for U.S. firms offering innovative and problem-solving technologies.

Opportunities

Return to top

The Japanese solar power industry encompasses a vast array of sectors under which a number of businesses are engaged, including manufacturers and suppliers of: silicon and other materials; raw materials for cells and modules; motherboards; machines that make solar cells; solar cell manufacturers (branded and OEM) themselves; related appliances such as junction boxes, inverters, power conditioning subsystems, utility interactive protection units, batteries, etc.; related electrical appliances and parts for servicing all of the aforementioned machines; building product manufacturers that make PV modules and frames that are integrated into building products; homebuilders, general contractors, and engineering companies that integrate all of the parts to sell as systems; heavy electric machinery manufacturers; and power supply manufacturers. The industry also includes system installers who put solar panels onto homes, offices, public and commercial facilities. End users include individual consumers, companies, local and central governments, Independent Power Producers (IPP), and electric power utilities.

All of these elements of Japan's solar power industry represent opportunity for American firms offering innovative, high-quality products and services.

Event: PV Japan 2011
Date: July 27-29, 2011
Venue: Makuhari Messe, Chiba Prefecture
Organizer: SEMI, JPEA
URL: http://www.pvjapan.org/en/index.htm

Event: PV Expo 2011 (4th International Photovoltaic Power Generation Expo)
Date: March 2-4, 2011
Venue: Tokyo Big Sight, Tokyo
Organizer: Reed Exhibition Japan Ltd.
URL: http://www.pvexpo.jp/en/Home/

Web Resources

Return to top

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Japan Photovoltaic Energy Association (Japanese website only)
Web: http://www.jpea.gr.jp/

Japan Electrical Safety & Environment Technology Laboratories
Web: http://www.jet.or.jp/en/

Ministry of Economy, Trade and Industry, Government of Japan
Web: http://www.meti.go.jp/english/index.html

Aerospace

Overview

Return to top

Unit: USD millions

	2008	2009	2010 (up to October)	2011 (estimated)
Total Market Size	14,954	13,834	10,242	11,300
Total Local Production	10,949	11,326	9,376	10,300
Total Exports	7,012	7,056	3,532	3,900
Total Imports	11,017	9,564	4,379	4,800
Imports from the U.S.	9,352	7,782	3,600	4,000
Exchange Rate: 1 USD	103.39	93.68	87.78	87.78

Data Sources:

Total Local Production: Ministry of Economy, Trade and Industry
Total Exports: Ministry of Finance
Total Imports: Ministry of Finance
Imports from U.S.: Ministry of Finance

Notes:

Japan Machinery Federation (JMF) announced in November 2010 that the estimated local production will increase in 2010 by 5.7 percent compared to the previous year.
CS Japan 2011 estimates are based on projections provided by the JMF and Society of Japanese Aerospace Companies (SJAC).

Japan continues to offer a lucrative market for imported aircraft and aircraft parts, including aircraft engines. Long-term relationships between U.S. aircraft and aircraft parts makers and Japanese manufacturers and trading firms - some spanning over fifty years - have given the United States a significant presence in Japan's market. Japan's aerospace industry is shifting its focus from defense-demand to civil-demand with defense accounting for 56 percent, and civil demand 44 percent, of the market in 2009. Japan's space industry is also hoping to achieve commercial success in coming years. Though Japan's economy has been heavily impacted by the global economic slowdown, aerospace demand is projected to increase over the long run.

In the civil aircraft market, Japanese manufacturers such as Mitsubishi Heavy Industries (MHI), Kawasaki Heavy Industries (KHI), and Fuji Heavy Industries (FHI), will supply about 35 percent of the 787 content to Boeing. The 787 completed a successful first flight in December 2009 and the first delivery to launch customer All Nippon Airways is expected third quarter of 2011.

MHI established Mitsubishi Aircraft Corporation (MJET) in April 2008 to undertake the design, type certification, procurement, sales and marketing and customer support of Mitsubishi Regional Jet (MRJ). Two versions of MRJ are being developed: the MJ-70 (70 - 80 seats) and the MJ-90 (86 - 96 seats). MJET announced in October 2007 that it selected Pratt & Whitney to supply Geared Turbofan engines for both versions. This next-generation engine will make the planes 20-30 percent more efficient and about 15

percent cheaper to operate than conventional regional jets. Other U.S. manufactures such as Parker Aerospace (hydraulic systems), Hamilton Sundstrand Corporation (electrical power system), and Rockwell Collins (flight control system) are also suppliers of MRJ.

Mitsubishi signed a deal with Boeing in September 2008 to receive assistance with aircraft development, sales and customer support for the MRJ. All Nippon Airways (ANA) placed orders for 25 aircraft (15 firm, 10 options) in March 2008. In October 2009, Trans States Holding (an airline holding company based in St. Louis, Missouri) placed an order for 100 (50 firm, 50 options) aircraft. The first flight of the MRJ is scheduled to take place in the second quarter of 2012, and the first delivery in the first quarter of 2014.

In the defense sector, a test flight for XC-2 (formally C-X) transport aircraft took place successfully in January 2010 and was delivered to the Ministry of Defense in March 2010. The government is seeking ways to commercialize XC-2. The on-going program, XP-1 (formally P-X) next maritime patrol aircraft, is steadily progressing and it is planned to move to production phase. In December 2010 the GOJ announced the National Defense Program Outlines, which sets forth Japan's basic defense policy and goals for the next 10 years, as well as the Mid-Term Defense Program, which covers the coming five-year period. Details on plans and procurements under these plans have yet to be announced.

In the space industry sector, the Basic Plan for Space Policy, based on the Basic Space Law, was issued in 2009. This plan coordinates Japan's space commitment and policies, including international contributions, for the next five years. The H-IIA launch vehicle business was privatized in 2007 to MHI. The HII-A, Japan's primary launch vehicle, has been launched successfully twelve consecutive times between February 2005 and September 2010. In January 2009 the Korea Aerospace Research Institute (KARI) placed an order with MHI to launch the Korea Multipurpose Satellite-3 (KOMPSAT-3). The launch is scheduled to take place by March 2012.

In December 2009 the GOJ cancelled the GX project, a design for an expendable launch system. However, the development of an LNG propulsion system will continue for other projects.The satellite business is aiming to grow its production by receiving orders from domestic and overseas customers. Mitsubishi Electric Corporation (MELCO) won the contract for the Japanese meteorological satellite "Himawari-8" and "Himawari-9". The launch for Himawari-8 is envisioned for Japanese fiscal year 2014, and Himarawi-9 for Japanese fiscal year 2016. In addition, MELCO won the contract to provide the "ST-2" communication satellite to Singapore and Taiwan in a joint procurement, with the launch scheduled for the second quarter of 2011. This was the first time a Japanese firm received an order for a commercial communications satellite from abroad using a satellite platform made in Japan. Japanese companies seeking to expand their space industry business need imports to complement their own technologies. However, the Society of Japanese Aerospace Companies (SJAC) notes that imports for the Japanese space industry decreased in 2009. North America and Europe are the only players in the import market. North American firms have a strengthening presence in the import market with imports from North America increasing from 64 percent to 77 percent of the total import market in 2009 compared to the previous year.

In international collaboration projects, construction of the International Space Station (ISS) continues, with equipment and materials transported by the National Aeronautics and Space Administration (NASA) Space Shuttle and the Russian Soyuz. Japan has also successfully used the Japanese transporter referred to as the H-II Transfer Vehicle (HTV), to transport materials to the ISS for the assembly of the Japanese Experiment Module (JEM), also known by the nickname Kibo (Hope). Assembly was completed in 2009. H-IIB Vehicle No.2 with the Kounotori 2 (HTV2, nicknamed Kounotori or "stork") onboard was successfully launched in January 2011. Japan wishes to increase its role in the ISS to fill spaceflight gaps linked to the retirement of the National Aeronautics and Space Administration's (NASA) Space Shuttle. U.S. manufacturers that can supply parts for satellites and the HTV should consider entering this market.

On June 13, 2010 the space probe nicknamed Hayabusa (Falcon) completed its seven-year voyage to and from the asteroid Itokawa, becoming the first space probe to return to Earth from a celestial body farther away than the moon. The success of the mission is likely to lead to opportunities in the global space industry for the Japanese companies that made the journey possible. For example, NEC Corporation developed the space probe's ion thrusters, and wishes to transform its aerospace business into a major source of earnings. Japan hopes that the global attention generated by Hayabusa will create further opportunity to market the nation's space satellite technologies.

Sub-Sector Best Prospects

Return to top

Commercial aircraft and aircraft engines, helicopters, aircraft parts and supplies, and avionics.

Opportunities

Return to top

Event: Aerospace Industry Exhibition Tokyo (ASET)
Date: October 26 - 28, 2011
Venue: Tokyo Big Sight
Organizer: Tokyo Metropolitan Government and Tokyo Big Sight Inc.
URL: http://www.tokyoaerospace.com/en/

Event: Japan International Aerospace Exhibition 2012 (Japan Aerospace 2012/JA2012)
Date: Autumn 2012
Venue: Port Messe Nagoya and surrounding aerospace facilities
Organizer: The Society of Japanese Aerospace Companies (SJAC)
URL: http://www.japanaerospace.jp/english/index.html

Web Resources

Return to top

Japan Civil Aviation Bureau (Ministry of Land, Infrastructure, Transport and Tourism)
Web: http://www.mlit.go.jp/koku/english/index.html

Society of Japanese Aerospace Companies (SJAC)
Web: http://www.sjac.or.jp/en_index.html

Japan Business Aviation Association (JBAA)
Web: http://www.jbaa.org/english/index_e.html

Soil Remediation/Engineering Services

Overview

Return to top

Unit: USD million

	2008	2009	2010 (estimated)	2011 (estimated)
Total Market Size	1,687	1,575	1,765	1,818
Total Local Production	1,650	1,540	1,726	1,778
Total Exports	0	0	0	0
Total Imports	37	35	39	40
Imports from the U.S.	22	21	24	24
Exchange Rate: 1 USD	103.39	93.68	87.78	87.78

Note: Official information on total imports and imports from U.S. firms is unavailable.

For the Government of Japan (GOJ) and for industries engaged in the soil and groundwater remediation business, 2010 was an important year. In April 2010 the GOJ enacted the Amended Soil Contamination Countermeasures Act (SCCA), with the aim of expanding the system for discovering soil contamination, clarifying the different types of land classifications and the required/acceptable measures for treatment for each, and establishing regulations for ensuring the appropriate treatment of contaminated soil. The revision is expected to encourage on-site soil and groundwater purification technology.

The Geo-Environmental Protection Center (GEPC), Japan's largest soil remediation-related industry association reported that total sales and orders in the soil remediation business decreased in 2009 compared to the previous year. The decrease was primarily due to the stagnation of land-transfer transactions, which remain the primary catalyst for remediation in Japan.

However, due to the April 2010 enactment of the Amended SCCA the soil remediation market recovered in the second half of 2010 both in terms of the number of projects and total sales. As Japan's GDP is expected to grow 1 to 3 percent in 2011, the industry expects that this growth will also reactivate land-transfer transactions, especially in the private sector, thus further spurring the soil remediation business. The industry is also watching closely for opportunities related to the GOJ's pledge to create $540 billion in "green innovation" business, which may also spur growth in on-site remediation as well as land-transfer business.

Sub-Sector Best Prospects

Return to top

In November 2010, a consortium of U.S. firms offering products and services of soil and groundwater remediation technology conducted a series of promotional events at the U.S. Embassy and Consulates across Japan. A wide variety of technologies such as chemical oxidation, bioremediation, activated persulfate for site remediation, monitoring, etc. were introduced. More than 100 Japanese firms from various sectors such as

general contractors, environmental firms, consultants, local governments, etc. attended the seminars and many of them were eager to listen to what U.S. firms could offer, and expressed their wish to continue dialogue with the U.S. firms.

As U.S. firms excel at in-situ or ex-situ land purification technology, the wider usage of which will be encouraged by the Amended SCCA, firms with unique, cost-effective products and services may stand a good chance in the Japanese market, where traditional and expensive methodologies of transporting contaminated soil to another location, or covering the contaminated land are expected to soon be obsolete.

Opportunities

Return to top

CS Japan believes that business opportunities exist for U.S. firms in the field of on-site soil remediation technologies. Under the Amended SCCA, the merits of on-site purification technologies can be summarized as follows:

1. Risk Avoidance: On-site technology can avoid risks of contaminated soil being dispersed by transportation, and/or of illegal dumping of contaminated soil.
2. Cost: On-site purification is considerably less expensive than land excavation.
3. Accounting: Companies do not need to post Asset Retirement Obligations in their balance sheets if land purification is completed during the period of running the business.
4. Reduction of Greenhouse Gas: With on-site technology, GHG (CO2) can be reduced considerably, compared to removal of contaminated soil by excavation.

Given the above-mentioned trends and the fact that the MOE estimates that the soil remediation market will grow to be $7.7 billion by 2020, U.S. firms with high-quality products or technologies and a long-term approach to the Japanese market should have strong prospects for success.

Event:	2011 Soil and Groundwater Remediation Technology Expo
Date:	August 31 – September 2, 2011
Venue:	Tokyo Big Sight
Organizer:	Geo-Environmental Protection Center, the Japan Society of Industrial Machinery Manufacturers, Japan Industrial Conference on Cleaning, Fuji Sankei Business I
URL:	http://www.sgrte.jp

Web Resources

Return to top

CS Japan Contact: Takahiko Suzuki	takahiko.suzuki@trade.gov
Geo-Environmental Protection Center	http://www.gepc.or.jp/english/eindex.html
Ministry of the Environment, Government of Japan	http://www.env.go.jp/en/

Agricultural Sectors

Return to top

The United States remained Japan's top supplier of farm products, with a 25 percent market share in 2009. However, China, Australia, Thailand, Chile, and Brazil have grown as strong competitors for the United States. U.S. farm exports to Japan decreased by 16.2 percent in CY 2009 to $12.3 billion. The normalization of international prices for coarse grains, soybeans, and wheat accounted for most of this decline. In CY2008, the Japanese food self-sufficiency rate (calorie-base) increased slightly to 41 percent, but remains the lowest of all industrialized countries including the U.S. rate at 124 percent. The Japanese also spend a very high percentage of their income on food (almost 26 percent compared to 13 percent in the United States). In 2009, the value of Japan's consumer food and beverage market-- food retail and food service sector combined-- was valued at around $700 billion. For complete agricultural statistics, please visit the web site of the U.S. Department of Agriculture's Foreign Agricultural Service at www.fas.usda.gov/ustrade.

Opportunities exist for a range of agricultural products, in particular, processed and consumer ready food products. For U.S. companies to tap into this dynamic market, they should be aware of several key factors affecting food purchase trends. These factors are a rapidly aging population, diversification of eating habits, emphasis on high quality, increasing demand for convenience, and food safety concerns. Exporters interested in the Japanese market should make note that three of the biggest annual food related trade shows in Japan and all of Asia are: Foodex Japan, International Food Ingredients & Additives Exhibition and Conference (IFIA) Japan, and Health Ingredients (HI) Japan.

Japan's population is aging faster than any other country in the world. According to Japan's National Institute of Population and Social Security Research, by 2020, 29.2 percent of the population will be over 65 years of age. Coupled with the fact that Japanese life expectancy is the highest in the world, there is a strong demand for "healthy foods." Such concepts as "functional foods" are well understood, and many products certified by the Ministry of Health, Labor and Welfare as FOSHU (Food for Specific Health Use) are commonly consumed. Food products that offer health benefits, such as lowering cholesterol or containing a high level of antioxidants, have a marketing advantage in Japan. Local supermarkets already carry an assortment of functional foods such as energy drinks, bars, and snacks containing dried fruit and nuts, offering to provide nutritional health benefits. In addition, consumers are able to purchase boxed meals supporting specific dietetic programs. Catering to the elderly and institutional markets--cafeterias, schools, and hospitals-- food preparers are increasingly serving ready to-to-eat meals while trying to preserve the appearance of traditional dishes. For example, when serving deboned fish dishes, the meat is reshaped and presented in the form of a fish.

Since the 1960's, the Japanese diet has become dramatically westernized. Rice and tofu-based products have been replaced by meat and dairy as the main source of protein. For example, per capita protein consumption of rice fell from 32 percent in 1960 to 12 percent in 2009 while per capita protein consumption of meat went from five percent in 1960 to 18 percent in 2009. Per capita protein consumption for dairy products also increased from 2.5 percent in 1960 to 9.4 percent in 2009. In addition to the popularity of western food, food trends have recently become more complex. Various ethnic foods are also becoming popular and are often combined with Japanese cuisine

creating "fusion" foods. In addition, to “fusion” foods restaurants, there are also more authentic ethnic food restaurants that cater to the broadening Japanese palate. Hence, to satisfy demand for non-traditional foods, restaurants are seeking a wider variety of international food ingredients. Another aspect of diversification is the trend of "individual eating", or convenience foods. Because of the busy, fast paced lifestyle of modern Japanese, it has become less common for all family members to eat together. "Individualization" of eating makes convenience an essential factor. Microwave (or semi-prepared) food and Home Meal Replacement (HMR) cuisine has become an indispensable part of life and are sold in supermarkets, restaurants and convenience stores such as 7-Eleven and Lawson’s that are now found all over Japanese cities.

In response to rising household demand for home delivery and increasing activity of on-line food sales, the food delivery system in Japan is also expanding. Over the last three years, home delivery has become very popular. Today, local supermarkets have staff specifically dedicated to handle deliveries. Similarly, hotels offer weekly and monthly menus that consumers can order via telephone or internet; food service companies are now offering delivering services as well.

While economic stagnation and declining income have made people more price-conscious than in the past, however quality continues to be a crucial factor in food purchasing decisions. Food safety continues to be an important consideration for most Japanese consumers, who are more sensitive to perceived risk than the average American consumer. Following global trends, Japanese consumers have a renewed interest in maintaining health and wellbeing, including healthier diets consisting of fresh fruits and vegetables. Yet another developing trend is the growing number of males cooking at home. As more women have joined the labor market and delayed marriage; and the rate of divorce among male-retirees increases, more males are forced to prepare meals for themselves. As a result, there has been a surge in cooking classes catering to male audiences who then need ingredients to prepare their meals. Men joining the ranks of women visiting supermarkets in search for new food items will likely widen the target audience and opportunities for market development.

The retail sector remains the focus of U.S. investment in Japan’s food industry. In 2008, Seiyu became a wholly-owned subsidiary of Wal-Mart. Prior to that Seiyu, was the third largest Japanese supermarket in terms of food sales. Currently, Seiyu’s sales ranking cannot be confirmed as the company is no longer listed. Similarly, Costco appears to be doing very well in Japan. Since opening its first location in this market in 1999, Costco has expanded its operations to nine warehouses located throughout Japan. U.S. investment in Japan’s agricultural sector is limited to a few large-scale ventures in the livestock and grain sectors. Flex work hours have become popular at some large companies. Interestingly, the overwhelming majority of Japanese take their lunch break promptly at 12:00 noon and return to the office at 1:00 p.m. sharp. These hours are popular as restaurants offer a special lunch menu, significantly cheaper than the ones offered at dinner, giving consumers a chance to try new restaurants without the usual expense.

Despite the decline in vegetable and fruit consumption in Japan, particularly among the younger generations, recent research conducted by the Agricultural Trade Offices (ATO) in Japan concluded that there is market potential for U.S. exports of broccoli, celery, lettuce, asparagus and tomatoes. Hence, the ATO Japan has sponsored a campaign known as the “V5 Campaign” seeking to re-introduce these vegetables to parents and

their children as an exciting part of a meal. Incorporating recipes and stories that spotlight the health and nutritional benefits of eating vegetables, the V5 campaign is able to expose Japanese consumer to many U.S. agricultural products (for more information please refer to V5 Campaign, Food Education Osaka, and V5 Tokyo).

Agricultural Trade Office – Food Trade Shows

Food Trade shows in Japan provide a great deal of opportunities to introduce a range of agricultural products to Japanese consumers; particularly, processed and consumer ready food products. U.S. companies interested in entering this dynamic market should aware of several key factors affecting food purchase trends. These factors include a rapidly aging population, diversification of eating habits, emphasis on high quality, increasing demand for convenience, and high concern for food safety. Four of the largest annual food related trade shows in Asia take place in Japan: the Supermarket Trade Show (February 8-10, 2011), FOODEX Japan (March 1-4, 2011), International Food Ingredients & Additives Exhibition and Conference (IFIA) Japan (May 18-20, 2011), and Health Ingredients (HI) Japan (October 5-7, 2011). The Agricultural Trade Offices in Osaka and Tokyo participate in the following shows:

Event: The 9th Gourmet & Dining Style Show
Partner Event: The 71st Tokyo International Gift show
Date: February 1-4, 2011
Venue: Tokyo Big Sight
Web: http://www.gourmetdiningstyleshow.com

Event: The 45th Supermarket Trade Show
Date: February 8-10, 2010
Venue: Tokyo Big Sight
Web: http://www.smts.jp/english/

Event: The 36th International Food and Beverage Exhibition FOODEX JAPAN 2011
Date: March 1-4, 2011
Venue: Makuhari Messe
Web: http://www.imexmanagement.com/content/shows/resources/pdf/32.pdf

Event: Wine & Gourmet Japan 2011
Partner Events:
FABEX 2011
Dessert, Sweet and Drink Festival 2011
2011 Japan Meat Industry Fair
Date: April 6-8, 2011
Venue: Tokyo Big Sight
Web: http://www.wineandgourmetjapan.com

Event: The 16th International Food Ingredients & Additives Exhibition and Conference 2011 (ifia JAPAN)
Date: May 18-20, 2011
Venue: Tokyo Big Sight
Web: http://www.ifiajapan.com

Event: Health Ingredients Japan 2011
Partner Event: Safety and Technology Japan 2011 (S-tec)
Date: October 5-7, 2011
Web: http://www.hijapan.info

Event: The 11th BioFach Japan Organic Expo 2011
Date: November 1-3, 2011
Venue: Tokyo Big Sight
Web: http://www.biofach.jp

Return to table of contents

Return to table of contents

Chapter 5: Trade Regulations, Customs and Standards

- Import Tariffs
- Trade Barriers
- Import Requirements and Documentation
- U.S. Export Controls
- Temporary Entry
- Labeling and Marking Requirements
- Prohibited and Restricted Imports
- Customs Regulations and Contact Information
- Standards
- Trade Agreements
- Web Resources

Import Tariffs

Return to top

On average, the applied tariff rate in Japan is one of the lowest in the world. In fiscal year (April-March) 2010, the simple average applied MFN (most favored nation) tariff rate was 5.8 percent, down from 6.5 percent in FY2008. In addition, import duties on many agricultural items continue to decrease, and tariffs in many major sectors, such as autos and auto parts, aircraft, marine vessels, software, computers, industrial machinery and works of fine art are zero. However, certain products including leather, rubber, footwear and travel goods, textiles and clothing, certain processed foods and some manufactured goods have relatively high tariff rates. While Japan's import tariffs are generally low overall, the nation's average agricultural import tariff of 15.7 percent (2010) is among the world's highest for industrialized countries. By comparison, the average agricultural import tariff is 8.75 percent (2009) in the U.S. and 9.3 percent (2008) in the European Community.

The Customs and Tariff Bureau of Japan's Ministry of Finance administers tariffs. As a member of the Harmonized System Convention, Japan shares the same trade classification system as the United States (limited to six-digit code). Japan's tariff schedule has five columns of applicable rates: general, WTO, preferential (GSP), Economic Partnership Agreement (EPA) and temporary. Goods from the United States are charged WTO rates unless a lesser "temporary" rate exists. Japan assesses tariff duties on the CIF value at *ad valorem* or specific rates, and in a few cases, charges a combination of both. Japan's preferential system of tariffs grants lower or duty-free rates to products imported from developing countries. Japan's harmonized tariff schedule is available through the website of Japan Customs: http://www.customs.go.jp/english.

A simplified tariff system for low-value imported freight valued at less than ¥100,000, such as small packages for personal imports, simplifies determination of tariff rates. This system also eliminates the extra time necessary to classify the product and its precise value, and thereby minimizes customs brokers' handling charges. Importers can choose either the normal rate or the simple tariff, which could be higher or lower depending on the product.

Japan grants preferential treatment to products from certain developing and least developed countries under its Generalized System of Preference (GSP) scheme. Under the GSP, preferential tariff treatment is offered to 141 developing countries and 14 territories, including 49 least developed countries (LDCs). The simple average GSP tariff rate is 4.9 percent whereas the rate for LDCs is 0.5 percent. The main beneficiaries of Japan's GSP scheme are China, Thailand, Indonesia, the Philippines and Viet Nam. The GSP scheme excludes many agricultural products and some industrial products. Japan also grants preferential access to imports from Singapore, Mexico, Malaysia, Chile, Thailand, Indonesia, Brunei and the Philippines under bilateral free-trade agreements.

Japan Customs can provide advance rulings on tariff classification and duty rates. A summary of Japan's customs procedures, including the customs valuation system, import procedures, temporary admission procedures, refunds and duty drawback payments, as well as relevant customs forms can be found on the Japan Customs website noted above. (See also *Customs Regulations and Contact Information*.)

Trade Barriers

Return to top

While tariffs are generally low, Japan does have non-tariff barriers that impede or delay the importation of foreign products into Japan. Although competition, U.S. and other foreign government pressure, as well as other factors have lessened the impact of these impediments, U.S. companies may still encounter non-tariff barriers such as the following:

- standards unique to Japan (formal, informal, *de facto,* or otherwise);
- a requirement in some sectors or projects for companies to demonstrate prior experience in Japan, effectively shutting out new entrants in the market;
- official regulations that favor domestically-produced products and discriminate against foreign products;
- licensing powers in the hands of industry associations with limited membership, strong market influence, and the ability to control information and operate without oversight:
- cross stock holding and interconnection of business interests among Japanese companies that disadvantage suppliers outside the traditional business group;
- cartels (both formal and informal) and,
- the cultural importance of personal relationships in Japan and the reluctance to break or modify business relationships.

The tools available to overcome these non-tariff barriers depend on the industry, the product or service's competitiveness, and the creativity and determination of the firm's management. The U.S. Department of Commerce's Trade Compliance Center (TCC) helps U.S. exporters and investors overcome foreign trade barriers and works to ensure

that foreign countries comply with their trade agreement obligations to the United States. U.S. exporters experiencing non-tariff barriers or other unfair trade practices in foreign markets can report such problems online at http://tcc.export.gov.

For additional information on Japan-specific trade barriers see the National Trade Estimates Report available on the United States Trade Representative Website: http://www.ustr.gov/about-us/press-office/reports-and-publications.

Import Requirements and Documentation

Return to top

Any person wishing to import goods must declare them to the Director-General of Customs and obtain an import permit after necessary examination of the goods concerned. The formalities start with the lodging of an import declaration and end with issuance of an import permit after the necessary examination and payment of Customs duty and excise tax. For additional information see the section below on *Customs Regulations and Contact Information*.

Certain items may require a Japanese import license. These include hazardous materials, animals, plants, perishables, and in some cases articles of high value. Import quota items also require an import license, usually valid for four months from the date of issuance. Other necessary documents for U.S. Exporters may include an Import Declaration Form (Customs Form C-5020) and a certificate of origin if the goods are entitled to favorable duty treatment determined by preferential or WTO rates. In practice, shipments from the United States are routinely assessed using WTO or “temporary” rates without a certificate of origin. Any additional documents necessary as proof of compliance with relevant Japanese laws, standards, and regulations at the time of import may also apply.

Correct packing, marking, and labeling are critical to smooth customs clearance in Japan. Straw packing materials are prohibited. Documents required for customs clearance in Japan include standard shipping documents such as a commercial invoice, packing list, and an original and signed bill of lading, or, if shipped by air, an air waybill. Air shipments of values greater than ¥100,000 must also include a commercial invoice. The commercial invoice should be as descriptive as possible for each item in the shipment. The packing list should include the exact contents and measurement of each container, including the gross and net weights of each package. The Japanese Measurement Law requires that all weights and measures on packing list be reflected in Metric System values.

Japan's Ministry of Finance maintains a website at http://www.customs.go.jp/english/ that describes import and customs clearance procedures, and provides contact information and other detailed information in English.

Japan prohibits the importation of certain items including narcotics, firearms, explosives, counterfeit currency, pornography, and products that violate intellectual property laws. For additional information see the section below on *Prohibited and Restricted Imports.*

When planning to import goods into Japan, you may wish to consult with your international shipper for specific details regarding your shipment since your international shipper should be up-to-date on Japanese import requirements.

U.S. Export Controls

Return to top

As an active member of the Wassenaar Arrangement as well as all international export control regimes, Japan has the benefit of the least restrictive treatment under U.S. export control law. In response to the threat from global terrorism, the Japanese government administers it own export control legislation (Foreign Exchange and Foreign Trade Act, Export Trade Control Order, and Foreign Exchange Order) and implements "catch-all" controls to prevent Japanese firms from exporting goods and technologies that could be related to the development of weapons of mass destruction. Japan has been conducting outreach activities in Asian countries including Japan to maintain a strict export control system. At the same time, however, Japanese firms are engaged in business activities with countries against which the United States currently has embargoes. As such, U.S. exporters are encouraged to conduct thorough research and background checks pertaining to any potential sale of controlled or sensitive items, in particular for transactions that may involve possible transshipment or re-export through Japan.

For the latest in U.S. export and re-export control regulations, contact the Department of Commerce Bureau of Industry and Security (BIS) at http://www.bis.doc.gov.

For the latest in defense trade controls information, contact the Department of State Directorate of Defense Trade Controls at http://www.pmddtc.state.gov.

For current U.S. embargo information, contact the Department of Treasury Office of Foreign Assets Control at http://www.treasury.gov/resource-center/sanctions/Pages/default.aspx.

Temporary Entry

Return to top

Japan is a member of the International Convention to Facilitate the Importation of Commercial Samples and Advertising Materials under the ATA Carnet System. Use of a c*arnet* allows goods such as commercial and exhibition samples, professional equipment, musical instruments, and television cameras to be carried or sent temporarily into a foreign country without paying duties or posting bonds. A *carnet* should be arranged in advance by contacting a local office of the United States Council for International Business (http://www.uscib.org) or its New York office by phone (212-354-4480) or by e-mail (info@uscib.org).

Advertising materials, including brochures, films, and photographs, may enter Japan duty free. Articles intended for display - but not for sale - at trade fairs and similar events are also permitted to enter duty free but only when the fair or event is held at a bonded exhibition site. After the event, these bonded articles must be re-exported or stored at a bonded facility. A commercial invoice for these goods should be marked "no commercial value, customs purposes only" and "these goods are for exhibition and are to be returned after conclusion of the exhibition." It is also important to identify the trade show or exhibition site, including exhibition booth number (if known), on shipping documents.

Labeling and Marking Requirements

Return to top

Japanese law requires labels for products in several categories. Generally, labeling for most imported products is not required at the customs clearance stage, but at the point of sale. Consequently, it is common for a Japanese importer to affix a label to an imported product after it has cleared customs. While importers do not have to affix a label to products that are not packaged such as grapefruit or roasted coffee, the retailer is required to display country of origin near the product. To ensure that a given product meets all applicable requirements and is properly labeled, it is important for the U.S. exporter to work with a Japanese agent or importer.

For most products there is no requirement for country of origin labeling. However, all imported food and beverages are required to bear country of origin labeling. If labels indicating origin are later determined to be false or misleading, the labels must be removed or corrected. False or misleading labels which display the names of countries, regions or flags other than the country of origin, and/or names of manufacturers or designers outside the country of origin are not permissible.

Food and agricultural products are subject to a number of complex labeling regulations in Japan. Previously, the Ministry of Agriculture, Forestry and Fisheries (MAFF) administered quality labeling standards and the Ministry of Health, Labor and Welfare (MHLW) administered separate voluntary and mandatory standards such as nutritional labeling and food additive/allergen labeling for processed foods and beverages. However, in September 2009, responsibility for all labeling issues, including food labeling, was officially transferred from MAFF, MHLW, and other ministries, and then consolidated under the new Consumer Affair Agency.

For more information on labeling and marking requirements, please see the following web-based resources:

Consumer Affairs Agency: http://www.caa.go.jp/en/index.html

Japan External Trade Organization (JETRO) Guide to Japanese Household Goods Quality Labeling Law: http://www.jetro.go.jp/en/reports/regulations

U.S. Foreign Agriculture Service GAIN Report on Consumer Affairs Agency: http://tinyurl.com/ydwqsch

U.S. Foreign Agriculture Service GAIN Report on Food and Agriculture Import Regulations and Standards (FAIRS) Country Report – Japan: http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Food%20and%20Agricultural%20Import%20Regulations%20and%20Standards%20-%20Narrative_Tokyo_Japan_12-17-2010.pdf

Prohibited and Restricted Imports

Return to top

Japan strictly prohibits entry of narcotics and related utensils, firearms, firearm parts and ammunition, explosives and gunpowder, counterfeit goods or imitation coins or currency, obscene materials, or goods that violate intellectual property rights. Other restricted

items include but are not limited to certain agricultural and meat products, endangered species and products such as ivory, animal parts and fur where trade is banned by international treaty. For more information on prohibited goods, see Japan Customs: http://www.customs.go.jp/english/summary/prohibit.htm.

In addition, Japan imposes restrictions on the sale or use of certain products including those related to health such as medical products, pharmaceuticals, agricultural products and chemicals. For these products, Japanese Customs reviews and evaluates the product for import suitability before shipment to Japan. The use of certain chemicals and other additives in foods and cosmetics is severely regulated and follows a “positive list” approach.

Regarding importation of products for personal use, Japan restricts entry of:

- more than one months’ supply of medicines that are toxicants, dangerous or prescription drugs;
- more than two months’ supply of medicines that are non-prescription drugs or quasi-drugs; or
- more than 24 units (normal size) of similar cosmetic products.

Please note that body (hand) soaps, shampoos, toothpastes, hair dye and other toiletries fall under the category of quasi-drugs or cosmetics.

Veterinary drugs are subject to import restrictions in accordance with Japan’s Pharmaceutical Affairs Law.

For more information on prohibited and restricted imports visit the FAQ section on the Japan Customs web site: http://www.customs.go.jp/english.

Customs Regulations and Contact Information

Return to top

Any person wishing to import goods must declare them to the Director-General of Customs and obtain an import permit after necessary examination of the goods concerned. The formalities start with the lodging of an import declaration and end with issuance of an import permit after the necessary examination and payment of Customs duty and excise tax.

Nearly all customs difficulties result from first time applications. Japanese customs officials are generally helpful when it comes to explaining procedures and regulations, and once these are understood and followed, difficulties are usually minimal. It may be necessary to employ an import agent or customs broker to help facilitate customs entry. See Chapter 3 for *Using an Agent or Distributor* for more information.

The latest available data indicate that, in 2009, the average time between arrival of goods and the granting of import permission was 62.4 hours (2.6 days) for sea cargo and 16 hours (0.7 days) for air cargo (including time required under the "immediate import permission system upon arrival"). Under the "immediate import permission system upon arrival", import permission may be granted as soon as cargo entry is confirmed. To be eligible for this system, importers must file a preliminary declaration online (through the Nippon Automated Cargo Clearance System (NACCS). Customs

examines the documents and materials submitted before cargo entry, and provides the results of the examination. For more information on the NACCS see: http://www.naccs.jp/e/index.html

All importers must file a declaration with Japan Customs. For most goods, the declaration must be made after the goods have been taken into a bonded customs (*hozei*) area or other designated place; items requiring approval by the Director-General of Customs can be declared before they are taken to the *hozei* area. The declaration must include details of the quantity and value of the goods to be imported as well as an invoice, a packing list, freight account, insurance certificate, and certificate of origin (for, inter alia, preferential tariff rates), where applicable. Additional documentation may be required, for example, for goods requiring an import license or health certificate. Once the documentation is verified by Customs, an import permit is issued.

In October 2007, Japan's Authorized Economic Operator (AEO) program was extended to *hozei* warehouse operators and in April 2008 to customs brokers and logistics operators. Imports are valued according to their c.i.f. (cost, insurance + freight) value, which is taken to be the transaction value of the imports. Customs duty can be paid through a multi-payment network system, which connects teller institutions (government authorities) with financial institutions. No fee is charged by the government for the use of this system, however, the financial institutions involved may collect variable fees. The system is managed by the Japan Multi-payment Network Management Organization (JAMMO), a non-profit organization established by major financial institutions in Japan. Only institutions that participate in the organization may use the system. Written advance rulings are issued at the written request of importers and other parties concerned. These rulings can be published on the Customs website with the applicants' consent. For more information on Japan's AEO program see: http://www.customs.go.jp/english/aeo/index.htm

Complaints against Japan Customs' decisions may be made to the Director-General of Customs within two months of the decision. Further appeals may be lodged with the Minister of Finance within one month of the decision by the Director-General of Customs.

Contact Information

Japan Customs
http://www.customs.go.jp/english

Japans Customs' procedures
http://www.customs.go.jp/english/procedures/index_pf.htm

Customs Counselors System in Japan, Tokyo Headquarters
http://www.customs.go.jp/zeikan/seido/telephone_e.htm

Japan Tariff Association
http://www.kanzei.or.jp/english

Standards

Return to top

- Overview
- Standards Organizations
- Conformity Assessment
- Product Certification
- Accreditation
- Publication of Technical Regulations
- Labeling and Marking
- Contacts

Overview

Return to top

Many domestic and imported products alike are subject to product testing and cannot be sold in Japan without certification of compliance with prescribed standards. Knowledge of, and adherence to, these standards and their testing procedures can be the key to making or breaking a sale.

Product requirements in Japan fall into two categories: technical regulations (or mandatory standards) and non-mandatory voluntary standards. Compliance with regulations and standards is also governed by a certification system in which inspection results determine whether or not approval (certification/quality mark) is granted.

Approval is generally required before a product can be sold in the market or even displayed at a trade show; unapproved medical equipment may be displayed at a trade show if accompanied by a sign indicating that the product is not yet approved for sale. To affix a mandatory quality mark or a voluntary quality mark requires prior product type approval and possibly factory inspections for quality control assessment. Regulated products must bear the appropriate mandatory mark when shipped to Japan in order to clear Japanese Customs. Regulations may apply not only to the product itself, but also to packaging, marking or labeling requirements, testing, transportation and storage, and installation. Compliance with "voluntary" standards and obtaining "voluntary" marks of approval can greatly enhance a product's sales potential and help win Japanese consumer acceptance.

There are two ongoing trends in Japan regarding standards. One is a move toward standards reform and the other towards harmonizing Japanese standards with prevailing international standards. While reform is underway, there are numerous laws containing Japan-specific mandatory standards most of which have not been translated into English. Therefore, it is important that a Japanese agent or partner be fully aware of the wide variety of standards in effect that could impact the sale of the imported product.

The Japan External Trade Organization website contains numerous documents on Japan's standards and regulations, including import procedures, quarantine periods, technical requirements, etc. The website also details relevant laws,

ordinances and amendments concerning import standards and regulations. For more information see: http://www.jetro.go.jp/en/reports/regulations/

Product Liability Insurance

Japanese business entities are subject to various laws and product safety standards, which vary depending upon the industry or product segment. Japanese importers and distributers of foreign products, in general, cover product liability risk through the product liability clause in their own liability insurance. The covered items and exemptions may vary from underwriter to underwriter and among industry segments. Whether the U.S. exporter will be required to buy product liability insurance to cover worldwide or specific overseas markets for their exports will be subject to negotiation with the firm's Japanese business partner and the advice of legal counsel.

Standards Organizations

Return to top

The Japan Industrial Standards Committee (JISC) plays a central role in standards activities in Japan (http://www.jisc.go.jp/eng). Its mission consists of four elements: 1) establishment and maintenance of Japan Industrial Standards (JIS); 2) administration of accreditation and certification; 3) participation in international standards activities; and 4) development of measurement standards and technical infrastructure for standardization. JISC publishes plans each month for the preparation of new and revised JIS drafts on its website at http://www.jisc.go.jp/eng/jis-act/drafts-preparation.html.

Existing JIS standards are reviewed and revised every five years. Once a new or revised draft JIS standard has been prepared, JISC posts these draft standards for a sixty-day public comment period. The JISC website also provides information regarding how foreign entities may participate in the JIS drafting process. A list of newly published JIS standards can be found on the website of the Japan Standards Association: http://www.jsa.or.jp/default_english.asp.

NIST Notify U.S. Service
Member countries of the World Trade Organization (WTO) are required under the Agreement on Technical Barriers to Trade (TBT Agreement) to report to the WTO all proposed technical regulations that could affect trade with other Member countries. **Notify U.S.** is a free, web-based e-mail subscription service that offers an opportunity to review and comment on proposed foreign technical regulations that can affect your access to international markets. Register online at Internet URL: http://www.nist.gov/notifyus/

Conformity Assessment

Return to top

Please see the *Product Certification* section below.

Product Certification

Return to top

With the revision of the Industrial Standardization Law in October 2005, the Japanese Industrial Standards (JIS) was renewed and a new scheme was implemented in September 2008. Under the new JIS mark scheme, product certification bodies accredited by the Ministry of Economy, Trade and Industry (METI) conduct a series of tests to verify compliance of products with JIS and audit the quality management system of facilities at which the products are manufactured. Any products manufactured at a factory that successfully passes such an audit will be authorized to affix the JIS mark. Additional information on this process can be found on the JISC website: http://www.jisc.go.jp/eng/jis-mark/newjis-eng.html.

Accreditation

Return to top

The Japan Accreditation System for Product Certification Bodies of JIS Mark (JASC) is an accreditation program defined by the Japanese Industrial Standards (JIS) Law, and operated by the JASC office in the Ministry of Economy, Trade and Industry (METI). JASC accredits product certification bodies in the private sector and allows these bodies to certify companies so that the companies may place the JIS Mark on their products. A list of Japanese and foreign organizations accredited by JASC as "JIS mark" certification bodies is available on the JISC website at http://www.jisc.go.jp/eng/jis-mark/acc-insp-body.html. This list provides contact information as well as the JIS fields of certification for these testing organizations.

The two major non-governmental accreditation bodies in Japan are the Incorporated Administrative Agency (IAJapan—within the quasi-governmental National Institute of Technology and Evaluation) and the Japan Accreditation Board for Conformity Assessment (JAB). IAJapan operates several accreditation programs including the Japan National Laboratory Accreditation System (JNLA) and the Japan Calibration Service System (JCSS). IAJapan's website (http://www.nite.go.jp/asse/iajapan/en/index.html) provides lists of laboratories accredited under its programs and laboratories accredited by JAB can be found at http://www.jab.or.jp/english/index.html.

A limited number of testing laboratories in the U.S., not listed on the websites noted above, have also been designated by various Japanese government agencies to test and approve U.S. products for compliance with Japanese mandatory certification standards and laws. Products not covered by these arrangements must be tested and approved by Japanese testing labs before these products can be sold in Japan.

For conformity assessment bodies recognized by Japan for electrical appliances see: http://www.meti.go.jp/english/policy/denan/procedure/07.htm

For other information on third-party conformity assessment for electrical products see: http://www.meti.go.jp/english/policy/denan/procedure/index.htm

Publication of Technical Regulations

Return to top

Each Japanese ministry posts draft regulations for public comment on their respective websites. These draft regulations can also be found in a consolidated list, available in Japanese, on the e-Gov web portal: http://search.e-gov.go.jp/servlet/Public. The website was designed to help facilitate public participation in Japan's regulatory process by improving the public's ability to find, view, and comment on regulatory actions.

It should be noted that although U.S. entities may submit comments on draft regulations, the amount of time given for submissions varies widely and all comments must be submitted in Japanese. To assist U.S. entities that wish to participate in the Japanese regulatory process, Commercial Service staff at the U.S. Embassy in Tokyo prepare a weekly summary translation in English of public comment announcements by Japanese government agencies. For information on how to obtain this summary translation please contact the Commercial Section by email at: mailto:Tokyo.Office.Box@trade.gov

Finalized technical regulations and standards are published in Japan's national gazette known as the *Kanpō* (http://kanpou.npb.go.jp, Japanese only).

Labeling and Marking

Return to top

The "voluntary" Japan Industrial Standards (JIS) mark, administered by the Ministry of Economy, Trade and Industry (METI), applies to nearly 600 different industrial products and consists of over 10,064 standards (as of 2008). Adherence to JIS is also an important determinant for companies competing on bids in the Japanese government procurement process. Products that comply with these standards will be given preferential treatment in procurement decisions under Japan's Industrial Standardization Law. JIS covers industrial and mineral products with the exception of: 1) medicines; 2) agricultural chemicals; 3) chemical fertilizers; 4) silk yarn; and 5) foodstuffs, agricultural and forest products designated under the Law Concerning Standardization and Proper Labeling of Agricultural and Forestry Products.

The Japan Agricultural Standards (JAS) is another "voluntary" but widely used product standard system administered by the Ministry of Agriculture, Forestry and Fisheries (MAFF). As of August 22, 2009, there were 216 JAS standards covering 66 products. JAS is comprised of five different category standards including general and specific, which are product-based standards. The other three categories are based on the manufacturing or distribution process, one example being organic production standards. The general category applies to beverages, processed foods, forest products, agricultural commodities, livestock products, oils and fats, products of the fishing industry, and processed goods made from agricultural, forestry, and fishing industry raw materials. Specific JAS apply to aged ham, aged sausage and aged bacon.

JAS certification is a complicated process requiring approval by a Registered (Overseas) Certified Body (R(O)CB). At this time there are only three approved ROCB for forest products and two for organic products located in the U.S. More

information on the JAS labeling system can be found at the following Ministry of Agriculture, Forestry and Fisheries (MAFF) website: http://www.maff.go.jp/e/jas/index.html.

In September 2009, responsibility for all labeling issues in Japan, including food labeling, was officially transferred to the new Consumer Affair Agency. More information on product labeling can be found on Japan's Consumer Affairs Agency website: http://www.caa.go.jp/en/index.html.

There are 56 quality labeling standards under JAS law. Standards for fresh foods, processed foods and genetically modified foods are available in English at:
http://www.maff.go.jp/e/jas/labeling/index.html
Other quality labeling standards are available (in Japanese only) at:
http://www.maff.go.jp/j/jas/hyoji/kijun_itiran.html

As noted above, Japanese laws requiring product certification and labeling are numerous. A good reference for additional information on these requirements is JETRO's *Handbooks for Industrial and Consumer Product Import Regulations* available at: http://www.jetro.go.jp/en/reports/regulations.This website also includes specifications, standards and testing methods for foodstuffs, implements, containers and packaging, toys and detergents.

For additional information see the section above on *Labeling and Marking Requirements.*

Contacts

Return to top

Japan Industrial Standards Committee:
Contact: Secretariat Office
Tel: (81-3) 3501-9473
E-mail: jisc@meti.go.jp
Website: http://www.jisc.go.jp/eng/index.html

Japan Standards Association:
Contact: Secretariat Office
Tel: (81-3) 3583-0462 [Publishing Services Division 1, for purchasing and viewing the JIS in English, etc.]
E-mail: please use the enquiry form at http://www.jsa.or.hp/aboutus/query.asp
Website: http://www.jsa.or.jp/default_english.asp

Japan External Trade Organization (JETRO) on Standards and Regulations:
http://www.jetro.go.jp/en/reports/regulations

National Metrology Institute of Japan:
http://www.nmij.jp/english/

Building Center of Japan:
http://www.bcj.or.jp/en

Telecommunication Technology Committee:
http://www.ttc.or.jp/e/index.html

Japan Cable Television Engineering Association:
http://www.catv.or.jp/jctea/english/index.html

Association of Radio Industries and Businesses:
http://www.arib.or.jp/english/index.html

Conformity Assessment Bodies:

Japan Accreditation Board for Conformity Assessment (JAB):
Contact: Customer Service, General Affairs Dept.
Fax: (81-3) 5475-2780
E-mail: please use the enquiry form at http://www.jsa.or.jp/aboutus/query.asp
Website: http://www.jab.or.jp/english/index.html

International Accreditation Japan:
Contact: Quality Manager
Tel: (81-3) 3481-1946
Fax: (81-3) 3481-1937
E-mail: iajapan-qm@nite.go.jp
Website: http://www.iajapan.nite.go.jp/iajapan/en/index.html

Foreign Registered Conformity Assessment Bodies in Japan:
http://www.meti.go.jp/english/policy/denan/procedure/07.htm

Japan Accreditation System for Product Certification Bodies:
http://www.jisc.go.jp/eng/index.html

Japan National Institute of Technology and Evaluation:
http://www.nite.go.jp/index-e.html

Specified Measurement Laboratory Accreditation Scheme:
http://www.iajapan.nite.go.jp/mlap/en/top.html

Japan National Laboratory Accreditation System:
http://www.iajapan.nite.go.jp/jnla/en/index.html

Japan Calibration Service System:
http://www.iajapan.nite.go.jp/jcss/en/index.html

Accreditation System of National Institute of Technology and Evaluation:
http://www.iajapan.nite.go.jp/asnite/en/index.html

Third-party Conformity Assessment for Electrical Products in Japan:
http://www.meti.go.jp/english/policy/denan/procedure/index.htm

Japanese Draft Standards, Regulations and Public Comment:
http://search.e-gov.go.jp/servlet/Public

Japan's National Gazette (*Kanpō):*
http://kanpou.npb.go.jp (Japanese only)

For Japanese technical regulations notified to the WTO, sign up for the U.S. National Institute of Standards and Technology (NIST) "Notify U.S." service at: http://www.nist.gov/notifyus

Questions on standards related issues specific to Japan can be addressed to:

Helen Peterson
Commercial Attaché
Commercial Section, U.S. Embassy Tokyo
Phone: + 81-3-3224-5058
Email: Helen.Peterson@trade.gov

Trade Agreements

Return to top

As of October 2009, Japan had entered into economic partnership agreements (EPAs) with 10 countries: Brunei, Chile, Indonesia, Malaysia, Mexico, Singapore, Switzerland, Thailand, the Philippines and Vietnam. In addition to bilateral agreements, Japan and the Association of Southeast Asian Nations (ASEAN) have also entered into an agreement (April 2008) on a Comprehensive Economic Partnership. EPAs are currently being negotiated with the Republic of Korea, India, Australia and Peru. Additionally, Japan is negotiating an FTA with the Cooperation Council for the Arab States of the Gulf. The Cabinet's "Basic Policy on Comprehensive Economic Partnerships" announced November 9, 2010, calls on the Japanese government to achieve the earliest possible conclusion of its FTA negotiations with Australia, the European Union, and the Republic of Korea. Under the Basic Policy, Japan has also initiated consultations with the nine member economies of the Trans-Pacific Partnership about possibly joining this multilateral free trade agreement. Additional information on Japan's trade agreements can be found on the Ministry of Foreign Affairs website at:
http://www.mofa.go.jp/policy/economy/fta/index.html

For information on sector-specific agreements between the United States and Japan visit the Department of Commerce Market Access and Compliance Japan website:
http://www.mac.doc.gov/japan/sector-specific/sector-specific.htm

Japan is a full member of the World Trade Organization (WTO). For more information on Japan and the WTO visit: http://www.wto.org/english/thewto_e/countries_e/japan_e.htm

Web Resources

Return to top

Japanese import clearance and customs procedures:

Japanese Customs:

Japanese Ministry of Finance
http://www.mof.go.jp/english/tariff/tariff.htm

Customs Counselors System in Japan
http://www.customs.go.jp/zeikan/seido/telephone_e.htm

Japan Tariff Association
http://www.kanzei.or.jp/english

U.S. export control procedures:

U.S. Department of Commerce
Bureau of Industry and Security (BIS)
http://www.bis.doc.gov

(for defense-related articles)
U.S. Department of State
Office of Defense Trade Controls
http://www.pmddtc.state.gov

(for current U.S. embargo information)
U.S. Department of the Treasury
Office of Foreign Assets Control
http://www.treas.gov/offices/enforcement/ofac

Obtaining a temporary-entry *carnet:*

United States Council for International Business
Local Offices — http://www.uscib.org
http://www.atacarnet.com

Standards (key organizations; see also “Standards Contacts” above):

Japan Industrial Standards Committee (JISC)
http://www.jisc.go.jp/eng/index.html

International Accreditation Japan (IAJapan)
http://www.nite.go.jp/asse/iajapan/en/index.html

Japan Accreditation Board for Conformity Assessment (JAB)
http://www.jab.or.jp/english/index.html

Public comment on Japanese government regulations:

U.S. Commercial Service
American Embassy Tokyo
http://www.buyusa.gov/japan/en/mac.html

(for finalized technical regulations and standards)
Japan National Gazette (*Kanpō*)
http://kanpou.npb.go.jp (Japanese only)

Labeling and marking requirements:

Japan External Trade Organization (JETRO)
http://www.jetro.go.jp/en/market/regulations/index.html

Return to table of contents

Return to table of contents

Chapter 6: Investment Climate

- Openness to Foreign Investment
- Conversion and Transfer Policies
- Expropriation and Compensation
- Dispute Settlement
- Performance Requirements and Incentives
- Right to Private Ownership and Establishment
- Protection of Property Rights
- Transparency of Regulatory System
- Efficient Capital Markets and Portfolio Investment
- Competition from State Owned Enterprises
- Corporate Social Responsibility
- Political Violence
- Corruption
- Bilateral Investment Agreements
- OPIC and Other Investment Insurance Programs
- Labor
- Foreign-Trade Zones/Free Ports
- Foreign Direct Investment Statistics
- Web Resources

Openness to Foreign Investment

Return to top

Japan is the world's third largest economy, the United States' fourth largest trading partner, and an important destination for U.S. foreign direct investment (FDI). The Government of Japan explicitly promotes inward FDI and has established formal programs to attract it. Since 2001, Japan's stock of FDI, as a percentage of gross domestic product (GDP), grew from less than one percent to more than 3.8 percent at the end of 2010. Japan continued to attract positive FDI inflows in 2010, albeit at a slower pace than before the economic downturn that began in 2008 and caused Japan's economy to contract at a double-digit rate in early 2009. The recovery that began later in 2009 continued, with Japan's economy registering positive rates of growth and unemployment easing in 2010 as global demand expanded during the year.

The economy featured prominently in the upper house election held in July 2010, in which the Democratic Party of Japan (DPJ) –led coalition, in power since September 2009, failed to win the majority they sought. While the DPJ's outright majority in the lower house of the National Diet ensures that it can continue to lead the government, the absence of a majority in the upper house complicates the task of policymaking for the governing coalition. Of the government's policy initiatives advanced in 2010, one of the most significant for foreign firms considering investing in Japan is the New Growth Strategy, which, seeks to position Japan as base for international firms' Asian operations and their research and development (R&D) functions. Specific policies were still being formulated as of the end of 2010; initial descriptions highlighted areas such as environment, health care, and tourism as focus sectors. While the New Growth Strategy

aims to attract investment from abroad, it does not list specific numerical targets, such as amount of FDI as a percentage of GDP, in the manner as the government did before September 2009, when the Liberal Democratic Party (LDP) held power.

The Ministry of Economy Trade and Industry (METI) and the quasi-governmental Japan External Trade Organization (JETRO) are the lead agencies responsible for assisting foreign firms wishing to invest in Japan. Many prefectural and city governments also have active programs to attract foreign investors, but they lack many of the financial tools U.S. states use to attract investment.

Risks associated with investment in many other countries, such as expropriation and nationalization, are not of concern in Japan. The Japanese Government does not impose export balancing requirements or other trade-related FDI measures on firms seeking to invest in Japan.

Japan ranked 17 on Transparency International's Corruption Perceptions Index in 2009, with a score of 7.8 based on eight surveys. The World Bank ranked Japan number 18 on its Ease of Doing Business 2011 report, covering the period to June 2010. The 2010 Index of Economic Freedom compiled by the Heritage Foundation ranked Japan number 19, with a score of 72.9 or mostly free.

Measure	**Year**	**Index/Ranking**
TI Corruption Index	17	2009
Heritage Economic Freedom	19	2010
World Bank Doing Business	18	2011

In addition to business considerations relevant to investing in a mature economy with an aging population, foreign investors seeking a presence in the Japanese market, or to acquire a Japanese firm through corporate takeover, face a number of unique challenges, many of which relate more to prevailing practices comprising the business environment rather than government regulations. The most notable are:

- A highly insular and consensual business culture that is resistant to hostile mergers and acquisitions (M&A) and prefers to do business, especially M&A transactions, with familiar corporate partners;
- A lack of independent directors on most company boards;
- Cross-shareholding networks among listed corporations in which shares are held for non-economic reasons resulting in a minimal float of available common stock relative to total capital;
- Exclusive supplier networks and alliances between business groups that can restrict competition from foreign firms and domestic newcomers,
- Cultural and linguistic challenges; and
- Labor practices that inhibit labor mobility, suppress productivity, and negatively affect skill development.

Until 2009, the U.S. and Japanese governments had discussed all these issues in working groups under the Regulatory Reform and Competition Policy Initiative, and the Investment Initiative, as part of the U.S.-Japan Economic Partnership for Growth. While recognizing the progress made in some areas under this structure, the two governments

decided in 2010 to recalibrate bilateral economic engagement to best address these issues and take into account new needs arising from the macroeconomic environment and bilateral cooperation in addressing global issues such as climate change, against the backdrop of Japan hosting the Asia-Pacific Economic Cooperation (APEC) forum in 2010 and the United States doing so in 2011. On November 13, 2010, the two governments announced several new bilateral initiatives. Of these, three economic policy dialogues are expected to serve as the principal fora for discussing issues relating to the investment environment: the U.S.-Japan Economic Harmonization Initiative, the U.S.-Japan Dialogue to Promote Innovation, Entrepreneurship and Job Creation; and the U.S.-Japan Policy Cooperation Dialogue on the Internet Economy.

Future bilateral engagement will occur against a changed political environment in Japan. Whereas the LDP was closely affiliated with the Japanese business community, the DPJ and its coalition partner – the People's New Party – draw support from other constituencies, including trade unions. While investment issues were not at the center of policy debates within Japan in 2010, the transfer of power from the LDP to the DPJ-led coalition has brought changes to the policy-making process. DPJ leaders have pledged to exercise greater political leadership over policy and reduce the influence of the bureaucracy in policy-making. Moreover, Prime Minister Naoto Kan, who took office in June 2010 following the resignation of Yukio Hatoyama, stepped up attention to economic policy. Following a reshuffle of the Cabinet in September 2010, the government announced economic partnership agreements with India and Peru. Japan and the United States also signed an Open Skies Agreement in October 2010. As Japan prepared to host the APEC Leaders Meeting in Yokohama, the Prime Minister also announced that Japan should consider joining the Trans-Pacific Partnership (TPP) free trade agreement and carry out the reform of the agricultural sector necessary to do so. As of the end of December 2010, the Kan Administration had not decided to seek to participate in the negotiations with the United States and eight other countries (Singapore, New Zealand, Brunei, Chile, Australia, Peru, Vietnam, and Malaysia) on this new plurilateral free trade agreement.

Structural reforms, revisions to Japan's legal code, and pro-active Japanese government policies to promote FDI and corporate restructuring led to a boom in merger and acquisition (M&A) activity after 2001. The annual number of M&A transactions in Japan increased dramatically during the following years, from approximately 800 in 1998 to almost 2,700 in 2007, according to RECOF, a Tokyo-based M&A consultancy. Although down from the peak reached during the 2006-2007 period, M&A activity continued through 2010, numbering about 1,543 transactions between January and November, a 12.5 percent decline from the same period the previous year, according to RECOF estimates. The majority of these mergers were domestic transactions, but transactions involving foreign counterparts also increased. The number of takeover bids (TOB) in Japan exceeded 100 for the first time in 2007. TOBs amounted to 51 between January and November 2010 according to RECOF. The total value of M&A deals involving Japanese companies in January-November 2010 was ¥6.16 trillion, down 13.3 percent from the same period the previous year. Japanese M&A directed at foreign companies amounted to 3.43 trillion yen during the same period, accounting for 55.7 percent of the total and up 39 percent from the same period in 2009, according to RECOF. Although change is slow, many Japanese corporate leaders now appreciate the contribution M&A can make to increasing corporate value.

While inflows from the United States and Asia declined during 2009, inflows from Europe increased during the same period (Table 2). Despite the increase in FDI since the mid-1990s, Japan continues to have the lowest foreign direct investment as a proportion of GDP ratio of any major OECD member. On a yen basis, FDI stock in Japan as of December 2009 was ¥18.43 trillion, (3.9 percent of GDP), according to Bank of Japan (BOJ) statistics.

Meanwhile, Japan continues to run a significant imbalance between inward and outward FDI (see Table 1b). Japanese companies' large cash holdings combined with low global equity values and the strengthening of the yen supported increased outbound FDI activity. Notwithstanding this imbalance between inward and outward FDI, and the increase in outbound M&A activity, outward FDI as a percentage of GDP remains lower for Japan than for other major OECD members.

Legal Reform Facilitates M&A Activity

In recent years, reforms in the financial, communications, and distribution sectors have encouraged foreign investment in these industries. The 2005 Companies Act, an amended bankruptcy law, and the 2007 Financial Instruments and Exchange Law helped increase the attractiveness of Japan as a destination for FDI.

The most significant legislative change was the substantial revision of Japan's corporate-related law. The changes enacted in 2005 significantly expanded the types of corporate structures available in Japan as well as the variety of M&A transactions available for corporate consolidation and restructuring. A foreign firm, for the first time, may now use its stock as consideration in a cross-border M&A transaction by means of a procedure known as a triangular merger, as long as the foreign acquirer has an existing Japanese subsidiary with which to merge the target company.

Unfortunately, the tax regulations that govern triangular mergers contain strict conditions regarding business viability and business relevance between the acquiring subsidiary and the target Japanese firm for the transaction to be granted tax deferral of capital gains. As a result, the procedure has not attracted significant new investment flows. As of December 2010, only one major foreign investor has used the triangular merger provisions of the Companies Act to complete the purchase of a Japanese firm and, in that case, the foreign acquirer already had a significant existing Japanese operation into which it could merge its new Japanese acquisition. The Japanese Government has acknowledged the issue requires further study and resolution.

The 2007 Financial Instruments and Exchange Law (amended in 2008) established a flexible regulatory system for financial markets and applies a uniform set of rules for similar financial instruments. At the same time, the law allows brokers and financial advisors to treat investors differently, depending on whether they are deemed "professional" investors (assumed to be capable of more sophisticated investment strategies and requiring less protection and disclosure) or "general", i.e., retail investors. Brokerage firms must provide the latter with detailed disclosure of risks related to different types of financial products at the time of offering.

Limited Sector-specific Investment Restrictions Remain

Japan has gradually eliminated most formal restrictions governing FDI. One important restriction remaining in law limits foreign ownership in Japan's former land-line monopoly telephone operator, Nippon Telegraph and Telephone (NTT), to 33 percent. Japan's Radio and Broadcasting Law also limits foreign investment in broadcasters to 20 percent, or 33 percent for broadcasters categorized as facility-supplying. Foreign ownership of Japanese companies invested in terrestrial broadcasters will be counted against these limits. These limits do not apply to communication satellite facility owners, program suppliers or cable television operators. In 2009, the Experts Advisory Council on Airport Infrastructure proposed a bill that would limit non-governmental investment at Narita International Airport to 20 percent, but the bill was eventually removed from the docket. The Ministry of Land, Infrastructure, Transport and Tourism (MLIT) is expected to begin new discussions in 2011 on the possibility of further privatization of Narita Airport. In 2011, the newly created MLIT Airport Administration Study Group may discuss whether to privatize airports that are currently government-owned.

The Foreign Exchange and Foreign Trade Act governs investment in sectors deemed to have national sovereignty or national security implications. In most cases, foreign investors need only report transactions to the Bank of Japan within 15 days of acquiring more than 10 percent of the shares in a publicly listed company or any shares of a closely held company. However, if a foreign investor wants to acquire over 10 percent of the shares of a listed company in certain designated sectors, it must provide prior notification (and thus obtain specific approval) of the intended transaction to the Ministry of Finance and the ministry that regulates the specific industry. Designated sectors include agriculture, aerospace, forestry, petroleum, electric/gas/water utilities, telecommunications, and leather manufacturing. Amendments to the prior notification and reporting requirements under the law, effective in 2009, reduced the administrative burden on foreign investors so as to facilitate inward investment.

Several sections of the Japanese Anti-Monopoly Act (AMA) are relevant to FDI. Chapter Four of the AMA includes extensive anti-trust provisions pertaining to international contract notification (section 6), shareholdings (sections 10 and 14), interlocking corporate directorates (section 13), mergers (section 15), and acquisitions (section 16). The stated purpose of these provisions is to restrict shareholding, management, joint venture, and M&A activities that may constitute unreasonable restraints on competition or involve unfair trade practices. The Japanese Government has emphasized these provisions are not intended to discriminate against foreign companies or discourage FDI.

Amendments to the AMA, effective January 1, 2010, improved the climate for M&A by clarifying the pre-merger review process and significantly raising the thresholds for pre-merger reporting to antitrust authorities. The amendments make share acquisitions subject to the same pre-merger notification rules as mergers and asset acquisitions. The thresholds for notification rose from ¥10 billion to ¥20 billion for the acquiring corporation and from ¥1 billion to ¥5 billion for the acquired corporation. They also expanded the scope of exemptions from notification.

Limitations on Facility Development and Availability of Investment Real Estate

Aiming to increase the liquidity of Japanese real estate markets, the government in recent years has progressively lowered capital gains, registration, and license taxes on

real estate. It also reduced inheritance and gift taxes to promote intergenerational transfer of land and other real assets.

Japan continues restricting development of retail and commercial facilities in some areas to prevent excessive concentration of development in the environs of Tokyo, Osaka, and Nagoya, and to preserve agricultural land. Conversely, many prefectural governments outside the largest urban areas make available property for development in public industrial parks. Japan's zoning laws give local officials and residents considerable discretion to screen almost all aspects of a proposed building. In some areas, these factors have hindered real estate development projects and led to construction delays and higher building costs in particular, in cases where proposed new retail development would affect existing businesses.

Japanese law permits marketing of real estate investment trusts (REITs) and mutual funds that invest in property rights. As of November 2010, there are 35 REITs listed on the Tokyo Stock Exchange (TSE), two fewer than a year earlier.

Japan's real estate sector experienced painful contraction as a result of the credit crunch beginning in 2008 and the deterioration of the economy overall in the first half of 2009. Several developers went bankrupt and others were forced into emergency restructuring as regular short-term financing evaporated. As of December 2010, the sector continued to face adverse market trends. The office real estate market in Tokyo remained in a slump, with rents falling for more than two years straight by the end of 2010. The Tokyo Stock Exchange's index tracking real estate investment trusts (REITs) surged 27 percent in 2010, however. Demand for REITs rose sharply after the Bank of Japan's October 2010 announcement of an asset-purchasing program whose targets include REITs.

Corporate Tax Treatment

Local branches of foreign firms are generally taxed only on corporate income derived within Japan, whereas domestic Japanese corporations are taxed on their worldwide income. Calculations of taxable income and allowable deductions, and payments of the consumption tax (sales tax) for foreign investors are otherwise the same as those for domestic companies. Corporate tax rules classify corporations as either foreign or domestic depending on the location of their "registered office," which may be the same as -- or a proxy for -- the place of incorporation. The ruling Democratic Party of Japan proposed lowering Japan's effective corporate tax rate by 5 percentage points to 35 percent, but Diet approval was still pending at the end of 2010.

The current U.S.-Japan bilateral tax treaty allows Japan to tax the business profits of a U.S. resident only to the extent those profits are attributable to a "permanent establishment" in Japan. It also provides measures to mitigate double taxation. This "permanent establishment" provision combined with Japan's currently high 40 percent corporate tax rate serves to encourage foreign and investment funds to keep their trading and investment operations off-shore.

Cross-border dividends on listed stock are not subject to source country withholding tax if the parent company owns 50 percent or more of the foreign subsidiary. Interest on financial transactions payable to a nonresident and royalties paid to a foreign licensor are no longer subject to source country withholding tax. A special tax measure allows

designated inward investors to carry over certain losses for tax purposes for ten years rather than for the normal five years. The government implemented an exemption for foreign investors from paying taxes on interest income (previously 15 percent) on corporate bonds, fiscal loan and investment program bonds and those issued by the Japan Finance Organization for Municipalities in June 2010.

The option of consolidated taxation is available to corporations. The purpose of these rules is to facilitate investment and corporate restructuring, because losses usually expected from a new venture or recently acquired subsidiary can be charged against the profits of the parent firm or holding company.

Investment Incentives

Since 2001, the Japanese Government has sought to revitalize the country's economy, in part, by increasing inward FDI. Recognizing the benefits for Japan of increased foreign investment, the LDP-led government sought to double Japan's stock of FDI, which it did by 2006. In June that year, the government accepted the Japan Investment Council recommendation to establish a national goal of increasing Japan's stock of FDI to the equivalent of five percent of the country's GDP by FY2010 (March 2011.) While the economic downturn that began in 2008 also slowed investment activity, and the DPJ-led government has not continued this policy of setting FDI targets, the Government of Japan continues to seek increased inward foreign direct investment. In December 2009 the government released a preliminary outline of its New Growth Strategy, and on June 18, 2010, the Cabinet approved a longer document setting forth wide-ranging policy recommendations to revitalize the economy. As of December 2010, decisions on implementation of investment-related provisions were still pending.

JETRO operates six Invest Japan Business Support Centers in major urban areas to provide investment-related information and "one-stop" support services to foreign companies interested in investing in Japan. (More detailed information is available at http://www.jetro.go.jp/en/invest.) Most national level ministries also have information desks to help guide potential investors in navigating Japanese Government administrative procedures.

Many city or regional governments work to attract foreign capital through outreach to prospective foreign investors, business start-up support services, and limited financial incentives. JETRO supports local government investment promotion efforts. Detailed information on local and regional FDI promotion programs is available in English on the JETRO website.

Conversion and Transfer Policies

Return to top

Generally**,** all foreign exchange transactions to and from Japan -- including transfers of profits and dividends, interest, royalties and fees, repatriation of capital, and repayment of principal -- are freely permitted. Japan maintains an ex-post facto notification system for foreign exchange transactions that prohibits specified transactions, including certain foreign direct investments (e.g., from countries under international sanctions) or others that are listed in the appendix of the Foreign Exchange and Foreign Trade Control Law.

Japan is an active partner in combating terrorist financing. In coordination with other OECD members, Japan has strengthened due-diligence requirements for financial institutions, and has had a "Know Your Customer" law since 2002. Customers wishing to make cash transfers exceeding ¥100,000 (about $1,150) must do so through bank clerks, not ATMs, and must present photo identification. However, Japan is still working to rectify deficiencies noted in the 2008 FATF evaluation of Japan's anti-money-laundering and terrorist finance regime, particularly on customer due diligence, international cooperation, freezing terrorist assets, and criminalizing terrorist finance.

Expropriation and Compensation

Return to top

In the post-war period, the Japanese Government has not expropriated or nationalized any enterprises, with the exception of the 1998 nationalization of two large Japanese capital-deficient banks and the 2002 nationalization of two failed Japanese regional banks as part of the government's efforts to clean up the banking system after its near collapse in 1998. Expropriation or nationalization of foreign investments is extremely unlikely.

Dispute Settlement

Return to top

There have been no major bilateral investment disputes since 1990. Nor are there any outstanding expropriation or nationalization cases in Japan. There have been no cases of international binding arbitration of investment disputes between foreign investors and Japan's Government since 1952. Japan is a member of the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitration Awards. Nevertheless, Japan is considered an inhospitable forum for international commercial arbitration.

There are no legal restrictions on foreign investors' access to Japanese lawyers and reforms in the legal services sector and the judicial system have increased the ability of foreign investors to obtain international legal advice related to their investments in Japan. Japan does, however, retain certain restrictions on the ability of foreign lawyers to provide international legal services in Japan in an efficient manner. Only individuals who have passed the Japanese Bar Examination and qualified as Japanese lawyers (*bengoshi*) may practice Japanese law. However, under Japan's Foreign Legal Practitioner system foreign qualified lawyers may establish Japanese/foreign joint legal enterprises (*gaikokuho kyodo jigyo)* and provide legal advice and integrated legal services on matters within the competence of its members. Foreign lawyers qualified under Japanese law (*gaiben*), may provide advice on international legal matters. *Gaiben* and *bengoshi* in joint enterprises can adopt a single law firm name of their choice and may determine the profit allocation among them freely and without restriction. However, foreign lawyers are unable to form professional corporations in the same manner as Japanese lawyers and are prohibited from opening branch offices in Japan. *Gaiben* may hire Japanese lawyers to work directly with them or in a joint legal enterprise or in a Foreign Japanese Joint Legal Office (*gaikokuho-jimu-bengoshi jimusho)* composed of multiple *gaiben*. The Japanese government has adopted a long term goal of increasing the number of legal professionals who pass the Bar Examination to 3,000 per year by 2010. The Ministry of Justice Foreign Lawyers Study Group considered possible amendments to the law and released its final report in December 2009.

Japan’s civil courts enforce property and contractual rights and do not discriminate against foreign investors. Japanese courts, like those in other countries, operate rather slowly and experience has shown them sometimes ill-suited for litigation of investment and business disputes. Japanese courts lack powers to compel witnesses to testify or a party to comply with an injunction. Timely temporary restraining orders and preliminary injunctions are difficult to obtain. Filing fees are based on the amount of the claim, rather than a flat fee. Lawyers usually require large up-front payments from their clients before filing a lawsuit, with a modest contingency fee, if any, at the conclusion of litigation. Contingency fees familiar in the U.S. are relatively uncommon. A losing party can delay execution of a judgment by appealing. In appeals to higher level courts, additional witnesses and other evidence may be allowed.

Japan's Alternative Dispute Resolution (ADR) law provides a legal framework for arbitration, including international commercial arbitration. Foreign lawyers qualified under Japanese law can represent parties in ADR proceedings taking place in Japan in which one of the parties is foreign or foreign law is applicable, at least to the extent such representation is not inconsistent with Japanese law. The United States continues to urge Japan to promote alternative dispute resolution mechanisms by ensuring that *gaiben* and non-lawyer experts can act as neutrals in international arbitration or other international ADR proceedings in Japan, in whole or in part, regardless of the governing law or matter in dispute.

Courts have the power to encourage mediated settlements and there is a supervised mediation system. However, this process is often time-consuming and judges transfer frequently, so continuity is often lost. As a result, it is common for companies to settle cases out of court.

Performance Requirements and Incentives

Return to top

Japan does not maintain performance requirements or requirements for local management participation or local control in joint ventures.

Right to Private Ownership and Establishment

Return to top

Foreign and domestic private enterprises have the right to establish and own business enterprises and engage in all forms of remunerative activity.

However, the 2005 Companies Act includes a provision -- Article 821 -- which creates uncertainty among foreign corporations that conduct their primary business in the Japanese market through a branch company. As written, Article 821 appears to prohibit branches of foreign corporations from engaging in transactions in Japan "on a continuous basis." The Japanese Diet subsequently issued a clarification of the legislative intent of Article 821 that makes clear the provision should not apply to the activities of legitimate entities. However, some legal uncertainty remains, particularly with respect to possible private litigation against directors and officers of affected firms. The U.S. Government has urged that Japan revoke Article 821 or more formally clarify

its meaning. The Japanese government has undertaken to ensure Article 821 will not adversely affect the operations of foreign companies duly registered in Japan and conducting business in a lawful manner.

Protection of Property Rights

Return to top

In general, Japan maintains a strong intellectual property rights (IPR) regime, but there are costs and procedures of which prospective investors should be aware. Companies doing business in Japan are encouraged to be clear about all rights and obligations with respect to IPR in any trading or licensing agreements. Explicit arrangements and clear understanding between parties will help to avert problems resulting from differences in culture, markets conditions, legal procedures, or business practices.

Registering Patents, Trademarks, Utility Models and Designs: The IPR rights holder must register patents and trademarks in order to ensure protection in Japan. Filing the necessary applications requires hiring a Japanese lawyer or patent practitioner *(benrishi)* registered in Japan to pursue the patent or trademark application. A U.S. patent or trademark attorney may provide informal advice, but is not able to perform some required functions.

Patent and trademark procedures in Japan have historically been costly and time-consuming. There have also been complaints about the weaknesses of Japanese enforcement and legal redress, for example, that judges are not adequately trained or that court procedures do not adequately protect business-confidential information required to file a case. Japan's government has revised the law and continues to take steps to address these concerns and it is becoming easier and cheaper to obtain patent and trademark protection. Procedures have been simplified, fees cut, and judges are receiving more training and are being assigned to specialized IPR courts. Courts have strengthened rules to protect sensitive information and the government has established criminal penalties for inappropriate use of sensitive information used in court or administrative proceedings.

Prompt filing of patent applications is very important. Printed publication of a description of the invention anywhere in the world, or knowledge or use of the invention in Japan, prior to the filing date of the Japanese application, could preclude the granting of a patent. Japan grants patents on a first-to-file basis. It accepts initial filings in English (to be followed by a Japanese translation), but companies should be careful as translation errors can have significant negative consequences. Unlike the United States, where examination of an application is automatic, in Japan an applicant must request examination of a patent application within three years of filing.

The Japanese Patent Office (JPO) publishes patent applications 18 months after filing, and if it finds no impediment to granting a patent, publishes the revised application a second time before the patent is granted. The patent is valid for 20 years from the date of filing. Currently, the law allows parties to contest the terms of a patent after issuance (for up to six months), rather than prior to registration as was the previous practice.

Patent Prosecution Highway: The Patent Prosecution Highway (PPH) is a noteworthy development for U.S. firms seeking patent protection in Japan. Becoming operational January 4, 2008, after an 18-month pilot program, the PPH allows filing of streamlined

applications for inventions determined to be patentable in other participating countries and is expected to reduce the average processing time. The program, which is based on information sharing between national patent offices and standardized application and examination procedures, should reduce costs and encourage greater utilization of the patent system.

Trademarks, Utility Models, and Designs: Japan's Trademark Law protects trademarks and service marks and, like patent protection, requires registration by means of an application filed by a resident agent (lawyer or patent agent). As the process takes time, firms planning on doing business in Japan should file for trademark registration as early as practicable. Japan is a signatory of the Madrid Protocol. Trademarks registered at the WIPO Secretariat are protected among all member countries.

Japan's Utility Model Law allows registration of utility models (a form of minor patent) and provides a 10-year term of protection. Under a separate design law, effective April 2007, protection is available for designs for a 20-year term from the date of registration.

Semiconductor chip design layouts are protected for 10 years under a special law, if registered with the Japanese "Industrial Property Cooperation Center" -- a government-established public corporation.

Unfair Competition and Trade Secrets: The Unfair Competition Prevention Law provides for protecting trademarks prior to registration. The owner of the mark must demonstrate that the mark is well known in Japan and that consumers will be confused by the use of an identical or similar mark by an unauthorized user. The law also provides some protection for trade secrets, such as know-how, customer lists, sales manuals, and experimental data. Recent amendments to the law provide for injunctions against wrongful use, acquisition or disclosure of a trade secret by any person who knew, or should have known, the information in question was misappropriated. Criminal penalties were also strengthened. However, Japanese judicial processes make it difficult to file claims without losing the trade secrets.

Copyrights: In conformity with international agreement, Japan maintains a non-formality principle for copyright registration -- i.e., registration is not a pre-condition to the establishment of copyright protection. However, the Cultural Affairs Agency maintains a registry for such matters as date of first publication, date of creation of program works, and assignment of copyright. United States copyrights are recognized in Japan by international treaty.

Transparency of Regulatory System

Return to top

The Japanese economy continues to suffer from over-regulation, which can restrain potential economic growth, raise the cost of doing business, restrict competition, and impede investment. It also increases the costs for Japanese businesses and consumers. Over-regulation underlies many market access and competitive problems faced by U.S. companies in Japan.

The United States has for several years called on Japan to make improvements in its regulatory system to support domestic reform efforts and ensure universal access to government information and the policymaking process.

The Japanese government has taken steps to improve its public comment procedures, but these improvements are not uniform throughout the government. The United States continues to urge Japan to apply consistently high transparency standards, including by issuing new rules to ensure transparency and access for stakeholders in the rulemaking process; by allowing effective public input into the regulatory process; and by giving due consideration to comments received. The United States also has asked Japan to lengthen its public comment period and to require ministries and agencies to issue all new regulations or statements of policy in writing or provide applicable interpretations to interested stakeholders in plain language.

In the financial sector, the Financial Services Agency (FSA) has made efforts to expand the body of published written interpretations of Japan's financial laws, including improvements to the "no-action letter" system, and improved outreach to the private sector regarding these changes.

The United States has engaged in bilateral working-level discussions since 2002 in an effort to encourage the Japanese Government to promote deregulation, improve competition policy, and administrative reforms that could contribute to sustainable economic growth, increase imports and foreign direct investment into Japan. The National Trade Estimate Report on Foreign Trade Barriers, issued by the Office of the U.S. Trade Representative (USTR), contains a description of Japan's regulatory regime as it affects foreign exporters and investors.

Efficient Capital Markets and Portfolio Investment

Return to top

Japan maintains no formal restrictions on inward portfolio investment and foreign capital plays an important role in Japan's financial markets. However, many company managers and directors resist the actions of activist shareholders, especially foreign private equity funds, potentially limiting the attractiveness of Japan's equity market to large-scale foreign portfolio investment. Nevertheless, some firms have taken steps to facilitate the exercise of shareholder rights by foreign investors, including the use of electronic proxy voting. The Tokyo Stock Exchange (TSE) maintains an Electronic Voting Platform for Foreign and Institutional Investors in which more than 372 listed companies participate as of December 2010. All holdings of TSE-listed stocks are required to transfer paper stock certificates into electronic form.

The TSE has stepped up efforts to attract investors. Following receipt of a license from the FSA on May 29, 2009, the TSE launched Tokyo AIM, a new equity market for venture firms, in cooperation with the London Stock Exchange. It also prepared to introduce a faster trading system in January 2010. Japan's stock exchanges face competitive pressures, however. 68 firms delisted from the TSE in 2010, according to the TSE. Other major stock exchanges in Asia -- including Taiwan, Hong Kong, Seoul, and Singapore -- are stepping up efforts to attract stock listings by Japanese companies, and media reports indicate that some Japanese firms chose to conduct initial public offerings of shares offshore.

Environment for Mergers and Acquisitions: Japan's aversion to M&A is receding gradually, accelerated by the unwinding of previously extensive corporate cross-shareholding networks between banks and corporations in the same business family,

improved accounting standards, and government mandates that began in the late 1990s that require banks divest cross-holdings above a set threshold. The majority of M&A over the past decade has been driven by the need to consolidate and restructure mature industries or in response to severe financial difficulties.

Friendly transfer of wholly-owned or majority-owned subsidiaries remains by far the more common form of M&A in Japan. Similarly, unlisted owner-operated firms -- which traditionally would only sell out as a last resort before bankruptcy -- are becoming more amenable to acquisition, including by foreign investors. Nevertheless, there remains a strong preference among Japanese managers and directors for M&A that preserves the independence of the target company. If companies are forced to seek an acquirer, they are often most comfortable merging with a firm with which they have a pre-existing business relationship.

Since the Companies Act, which took effect in 2006, expanded the types of M&A structure available in the Japanese market, many companies have adopted defensive measures against hostile takeovers. The most common of these are "advance warning systems" or "poison pill"-type rights distribution plans. In response to the rapid adoption of such plans and the concerns of many foreign investors, including investment funds, that companies were using takeover defenses to entrench existing management, METI in early 2008 convened the Corporate Value Study Group (CVSG) to clarify the purpose of takeover defense measures and principles governing their use. The CVSG's final report issued July 2008 explicitly recognizes the "positive effects" of hostile takeovers and emphasizes defensive measures should not be used to protect managements' own interests at the expense of shareholders, nor should they deprive shareholders of the right to make their own determination whether to accept a takeover bid.

The number of "poison pill" and related measures slightly decreased in 2010, down to about 540 from 560 in 2009, with 76 companies abandoned their measures in 2010, according to RECOF. While the financial crisis reduced the threat of hostile takeovers by reducing capital available, this decline also flowed from intensified criticism of such measures from investors and growing recognition by management that takeover defense plans are not in the interests of either the firm or its shareholders. Nevertheless, a number of technical factors continue to limit greater entry into the Japanese market through M&A. These factors include tax policy, a lack of independent directors, uncertainty regarding tax treatment of certain M&A structures, weak disclosure practices, and a relative shortage of M&A infrastructure in the form of specialists skilled in making matches and structuring M&A deals.

Company Law Revisions: The extensive revision of Japan's Company Law (Commercial Code) in 2005-06 significantly expanded the flexibility of corporate capital structures and increased the types of governance structures available to Japanese firms. The new law, which came fully into force in May 2007, revised and combined Part II of the previous Commercial Code with existing laws governing limited liability companies (*yugen gaisha*) and audits. The law also introduced changes to facilitate start-ups and make corporate structures more flexible, including elimination of minimum capital requirements for joint-stock companies (*kabushiki kaisha*). It merged a number of different corporate structures and created a new structure (*godo kaisha*) modeled on the U.S.-style limited liability company.

The Companies Act also permits formation of corporate holding companies in Japan for the first time since World War II. This step has facilitated use of domestic stock swaps in corporate restructuring, through which one party becomes a wholly-owned subsidiary of the other. Japan's tax law now provides special tax treatment and deferral of taxes on such stock-swap transactions at the time of exchange and transfer. As of May 2007, foreign equities can be used as consideration in triangular merger transactions targeting Japanese firms. However, to take advantage of the new rules, the foreign acquirer must legally establish a Japanese subsidiary firm to act as the counterpart to the stock exchange/transfer.

Changes in Corporate Governance: Under the new Companies Act and the Industrial Revitalization Law, publicly traded companies have the option of adopting a U.S.-style corporate governance system instead of the traditional Japanese statutory auditor (*kansayaku*) system of corporate governance. This new system requires the appointment of executive officers and the establishment of a board committee system in which at least the audit, nomination, and compensation committees are composed of a majority of outside directors. Initially available only under the Industrial Revitalization Law and effectively limited to distressed companies, the new Companies Act makes these options available to all listed companies. Companies also can use the Internet or other electronic means to provide notices of annual general meetings or similar communication with shareholders. Where available, shareholders may exercise voting rights electronically and companies are permitted to make required disclosures of balance sheet and other financial information in an electronic format.

Reflecting growing concern within Japan that weaknesses in existing systems of corporate governance are a disincentive for foreign investors, several government agencies and non-government organizations have studied the matter and issued recommendations. METI inaugurated a Corporate Governance Study Group (CGSG), with business-community representation, which issued "The Corporate Governance Study Group Report" on June 17, 2009. Significantly, the CGSG was the first government-linked body to set out a formal definition of "independent" director or statutory auditors. Japan's Companies Act only requires boards to have "outside" directors, defined as an individual who is not an executive or employee of the company itself, or of the company's subsidiaries. The FSA also convened the Financial System Council's Study Group, which issued its report, "Toward Stronger Corporate Governance of Publicly Listed Companies," the same month.

On the central question of appointing independent members on corporate boards, the CGSG convened by METI stopped short of calling for changing the existing "outsider" requirements of board composition with "independence" requirements. The CGSG confirmed the need for some independent board representation but also noted that non-independent board members can still make valuable contributions to a firm. Positing a potential tradeoff between increased independence and the efficacy of management, the report recommended that each firm should be allowed to adopt the most effective structure in terms of its business. It urged the stock exchange to make rules calling for firms to name one independent director or statutory auditor on each board. It also put forward a model of governance where the firm would appoint at least one "outside" director and disclose its corporate governance system or explain how its model of corporate governance will be effective where no outside director is appointed.

Highlighting the critical role of shareholders in ensuring effective corporate governance, the Financial System Council's report echoed the CGSG recommendations on independent directors. It urged the government to consider ways to require listed companies to disclose the details of any existing relationship between individual directors and the company, and to provide the company's views on the level of independence of individual directors. It also called for efforts to strengthen the functions of statutory auditors within companies, and to provide better training and resources so that auditors can more effectively carry out their oversight functions. The government did not take further measures to increase the level of independent monitoring and strategic oversight provided by the boards of listed companies. While the Ministry of Justice convened a Legislative Advisory Council having the authority to consider amendments to the Companies Act in 2010, its Company Act Sub-Committee did not specify a clear scope for its deliberations or signal a commitment to increasing the number of independent members on company boards.

The TSE implemented new restrictions on private placements to protect the interests of shareholders on August 24, 2009, and published its Listing System Improvement Action Plan on September 29, 2009. The plan sets out steps to enhance corporate governance, improve disclosure, and improve the governance of group companies. On December 24, 2009 the TSE released its revised Principles of Corporate Governance for Listed Companies, the first revision since their formulation in 2004. Points newly added address issues of enhancing corporate governance through enterprise groups, strengthening of statutory auditors' functions, and suitable models of corporate governance. As of December 2010, the Advisory Group on Improvements to TSE Listing System was continuing to consider rules regarding corporate governance.

Cross-shareholdings and M&A: Potential foreign investors in Japan frequently point out that cross-shareholding between Japanese listed companies greatly complicates market-based M&A activity and reduces the potential impact of shareholder-based corporate governance. Such cross-shareholding practices allow senior management to put a priority on internal loyalties over shareholder returns and can lead to premature rejection of M&A bids. Traditionally, a company maintained a close relationship with a large-scale commercial bank, known as a "main bank", usually part of the same loose corporate grouping. In return for holding a bloc of the company's shares, the bank provided both regular financing and emergency support if the company ran into financial difficulties. This "main bank" system largely dissolved in the late 1990s as Japan's banking system came close to collapse.

With the recovery of the Japanese economy at mid-decade, however, some company boards began rebuilding cross-shareholding networks, this time with suppliers or nominal competitors rather than a commercial bank. While many boards saw such linkages as an effective means of defense against hostile takeovers, the sharp decline in Japanese stock prices in the autumn of 2008 highlighted the risks of this strategy. According to Daiwa Institute of Research, the proportion of stocks owned in cross-shareholding deals among Japanese firms continued to fall in 2009, dropping to 4.9 percent of shares for the fiscal year ending March 2010. Subsequent declines will be necessary to conclude that this change represents a trend, and it remains unclear whether the introduction of International Financial Reporting Standards (IFRS) will lead to further declines in cross-shareholdings.

Accounting and Disclosure: Implementation of so-called "Big Bang" reforms since 1998 has significantly improved Japan's accounting standards. Consolidated accounting has been mandatory since 1999 and "effective control and influence" standards have been introduced in place of conventional holding standards, expanding the range of subsidiary and affiliated companies included for the settlement of accounts. Consolidated disclosure of contingent liabilities, such as guarantees, is also mandatory. All marketable financial assets held for trading purposes, including cross-shareholdings and other long-term securities holdings, are recorded at market value.

Companies are required to disclose unfunded pension liabilities by valuing pension assets and liabilities at fair value. Fixed asset impairment accounting, in effect since 2005, requires firms to record losses if the recoverable value of property, plant, or equipment is significantly less than book value.

The greater focus on consolidated results and mark-to-market accounting had a significant effect in encouraging the unwinding of cross-shareholdings and the "main bank" system. Corporate restructuring has taken place, in many cases with companies reducing pension under-funding and banks disposal of many low-yield assets.

The Accounting Standards Board of Japan (ASBJ) and the International Accounting Standards Board (IASB) began discussions on the convergence of Japanese both accounting standards and IFRS practices in March 2005 and, in March 2006, further agreed to accelerate the process of convergence. The ASBJ embarked on similar discussions with the U.S. Financial Accounting Standards Board in May 2006. In December 2009, the FSA issued an order allowing companies to submit their financial statements based on international accounting standards. This order prepares the legal groundwork for a complete switch to IFRS in the future, but no decision has been made on the mandatory introduction of IFRS. Previously, the FSA accepted only Japanese or U.S. standards for consolidated accounting.

There has been greater disclosure of proxy voting during the past two years. The above-mentioned Financial System Council report issued in June 2009 urged the government to consider introducing legislation similar to the American ERISA law that would spell out the fiduciary duties of pension fund managers to exercise their proxy voting rights on behalf of pension beneficiaries. The report called upon the investment industry to establish rules or other means to require institutional fund managers and other large-scale investors who invest on behalf of retail investors to disclose how they exercise their proxy votes.

Taxation and M&A: Japan's standard tax rate for capital gains is 20 percent. However, under special policy measures intended to stimulate capital markets, Japan applies a special 10 percent capital gains tax rate on the proceeds of sales of listed stocks through 2011 for capital gains of less than ¥5 million and for dividends on listed shares of less than ¥1 million. The temporary cut in the tax rate from 20 percent to 10 percent on capital gains from listed share sales and dividend income is due to expire at the end of December 2011, but the government has proposed an extension through December 2013. In addition, a new tax-free program has been proposed to encourage individual investors to invest in stocks. Under the new program, to be effective from January 2012, combined annual capital gains and annual dividend income of up to ¥1 million will be exempted from income tax during a three-year period (2012-2014). Under a series of special measures Japan adopted to promote venture businesses, if the founding

shareholder of a qualified company sells shares in the company a ten percent capital gains tax rate will apply if the sale is made prior to public listing in an M&A transaction and, from 2008, a ten percent rate applies to shares sold by the founding shareholder within three years of listing.

Bankruptcy Laws: An insolvent company in Japan can face liquidation under the Bankruptcy Act or take one of four roads to reorganization: the Civil Rehabilitation Law; the Corporate Reorganization Law; corporate reorganization under the Commercial Code; or an out-of-court creditor agreement.

Japan overhauled its bankruptcy law governing small and medium size firm bankruptcies by enacting the Civil Rehabilitation Law in 2000. The law focuses on corporate restructuring in contrast to liquidation, provides stronger protection of debtor assets prior to the start of restructuring procedures, eases requirements for initiating restructuring procedures, simplifies and rationalizes procedures for the examination and determination of liabilities, and improves procedures for approval of rehabilitation plans. Japan's Corporate Reorganization Law, generally used by large companies, was similarly revised in 2003. Amendments made corporate reorganization for large companies more cost-efficient, speedy, flexible and available at an earlier stage. By removing many institutional barriers to the restructuring process, the new bankruptcy regime accelerated the corporate restructuring process in Japan.

Previously, most corporate bankruptcies in Japan were handled through out-of-court creditor agreements because court procedures were lengthy and costly. The fact that bankruptcy trustees had limited powers to oversee restructuring meant most judicial bankruptcies ended in liquidation, often at distress prices. Beginning in 2001, a group of Japanese bankruptcy experts published a set of private rehabilitation guidelines, modeled after the UK-based INSOL guidelines, for out-of-court corporate rehabilitation in Japan. Out-of-court settlements in Japan tend to save time and expense, but can sometimes lack transparency and fairness. In practice, because 100 percent creditor consensus is required for out-of-court settlements and the court can sanction a reorganization plan with only a majority of creditors' approval, the last stage of an out-of-court workout is often a request for a judicial seal of approval.

Credit Markets: Domestic and foreign investors have free access to a variety of credit instruments at market rates. Most foreign firms obtain short-term credit from Japanese commercial banks or one of the many foreign banks operating in Japan. Medium-term loans are available from commercial banks or from trust banks and life insurance companies. Large foreign firms tend to use foreign sources for long-term financial needs.

Competition from State Owned Enterprises

Return to top

Japan has privatized most former state-owned enterprises. The privatization of the financial companies of the Japan Post group, including Japan Post Bank and Japan Post Insurance, however, remains incomplete. After assuming power in September 2009, the DPJ-led government decided to delay indefinitely the stock sale of these companies. The U.S. Government has continued to raise concerns about the preferential treatment that Japan Post entities receive compared to private sector competitors and the impact

of these advantages on the ability of private companies to compete on a level playing field.

Japan does not have any sovereign wealth fund (SWF).

Corporate Social Responsibility

Return to top

Awareness of corporate social responsibility among both producers and consumers in Japan is high and growing, and foreign and local enterprises generally follow accepted CSR principles. Business organizations also actively promote CSR.

Political Violence

Return to top

Political violence is rare in Japan. Acts of political violence involving U.S. business interests are virtually unknown.

Corruption

Return to top

Japan's penal code covers crimes of official corruption. An individual convicted under these statutes is, depending on the nature of the crime, subject to prison sentences up to three years and possible fines up to ¥2.5 million (for the offering party), or prison sentences up to seven years and mandatory confiscation of the monetary equivalent of the bribe (for the recipient). With respect to corporate officers who accept bribes, Japanese law also provides for company directors to be subject to fines and/or imprisonment, and some judgments have been rendered against company directors.

Although the direct exchange of cash for favors from government officials in Japan is extremely rare, some have described the situation in Japan as "institutionalized corruption." The web of close relationships between Japanese companies, politicians, government organizations, and universities has been said to foster an inwardly-cooperative business climate that is conducive to the awarding of contracts, positions, etc. within a tight circle of local players. This phenomenon manifests itself most frequently and most seriously in Japan through the rigging of bids on government public works projects.

Japanese authorities have acknowledged the problem of bid-rigging and have taken steps to address it. Building on the longstanding laws on bribery of public officials and misuse of public funds, the 2006 amendments to the 2003 Bid-Rigging Prevention Act, now called the Act on Elimination and Prevention of Involvement in Bid-Rigging, aimed specifically to eliminate official collusion in bid rigging. The law authorizes the Japan Fair Trade Commission (JFTC) to demand central and local government commissioning agencies take corrective measures to prevent continued complicity of officials in bid-rigging activities, and to report such measures to the JFTC. The Act also contains provisions concerning disciplinary action against officials participating in bid rigging and compensation for overcharges when the officials caused damage to the government due to willful or grave negligence. The act prescribes possible penalties of imprisonment for up to five years and fines of up to ¥2.5 million. Nevertheless, questions remain as to

whether the Act's disciplinary provisions are strong enough to ensure officials involved in illegal bid-rigging are held accountable.

Complicating efforts to combat bid rigging is the phenomenon known as *amakudari* whereby government officials retire into top positions in Japanese companies, usually in industries that they once regulated. *Amakudari* employees are particularly common in the financial, construction, transportation, and pharmaceutical industries, among Japan's most heavily regulated industries. The 2007 revised National Public Service Act aimed at limiting involvement of individual ministries in finding post-retirement employment for its officials and more transparent administrative procedures may somewhat ameliorate the situation. In view of strong DPJ opposition to *amakudari* when they were an opposition party, there were great expectations that the DPJ-led government would move to eliminate *amakudari.* In 2010, however, the issue was not a high government priority, and *amakudari* practices persist.

Japan has ratified the OECD Anti-Bribery Convention, which bans bribing foreign government officials. The OECD has identified deficiencies in Japan's implementing legislation, some of which the Japanese Government has taken steps to rectify. In 2004, Japan amended its Unfair Competition Prevention Law to extend national jurisdiction to cover the crime of bribery and in 2006 made changes to the Corporation Tax Law and the Income Tax Law expressly to deny the tax deductibility of bribes to foreign public officials.

Corruption, including bribery, raises the costs and risks of doing business. Corruption has a corrosive impact on both market opportunities overseas for U.S. companies and the broader business climate. It also deters international investment, stifles economic growth and development, distorts prices, and undermines the rule of law.

It is important for U.S. companies, irrespective of their size, to assess the business climate in the relevant market in which they will be operating or investing, and to have an effective compliance program or measures to prevent and detect corruption, including foreign bribery. U.S. individuals and firms operating or investing in foreign markets should take the time to become familiar with the relevant anticorruption laws of both the foreign country and the United States in order to properly comply with them, and where appropriate, they should seek the advice of legal counsel.

The U.S. Government seeks to level the global playing field for U.S. businesses by encouraging other countries to take steps to criminalize their own companies' acts of corruption, including bribery of foreign public officials, by requiring them to uphold their obligations under relevant international conventions. A U. S. firm that believes a competitor is seeking to use bribery of a foreign public official to secure a contract should bring this to the attention of appropriate U.S. agencies, as noted below.

U.S. Foreign Corrupt Practices Act: In 1977, the United States enacted the Foreign Corrupt Practices Act (FCPA), which makes it unlawful for a U.S. person, and certain foreign issuers of securities, to make a corrupt payment to foreign public officials for the purpose of obtaining or retaining business for or with, or directing business to, any person. The FCPA also applies to foreign firms and persons who take any act in furtherance of such a corrupt payment while in the United States. For more detailed information on the FCPA, see the FCPA Lay-Person's Guide at:
http://www.justice.gov/criminal/fraud/

Other Instruments: It is U.S. Government policy to promote good governance, including host country implementation and enforcement of anti-corruption laws and policies pursuant to their obligations under international agreements. Since enactment of the FCPA, the United States has been instrumental to the expansion of the international framework to fight corruption. Several significant components of this framework are the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (OECD Antibribery Convention), the United Nations Convention against Corruption (UN Convention), the Inter-American Convention against Corruption (OAS Convention), the Council of Europe Criminal and Civil Law Conventions, and a growing list of U.S. free trade agreements. This country is party to [add instrument to which this country is party], but generally all countries prohibit the bribery and solicitation of their public officials.

OECD Antibribery Convention: The OECD Antibribery Convention entered into force in February 1999. As of December 2009, there are 38 parties to the Convention including the United States (see http://www.oecd.org/dataoecd/59/13/40272933.pdf). Major exporters China, India, and Russia are not parties, although the U.S. Government strongly endorses their eventual accession to the Convention. The Convention obligates the Parties to criminalize bribery of foreign public officials in the conduct of international business. The United States meets its international obligations under the OECD Antibribery Convention through the U.S. FCPA.

UN Convention: The UN Anticorruption Convention entered into force on December 14, 2005, and there are 143 parties to it as of December 2009 (see http://www.unodc.org/unodc/en/treaties/CAC/signatories.html). The UN Convention is the first global comprehensive international anticorruption agreement. The UN Convention requires countries to establish criminal and other offences to cover a wide range of acts of corruption. The UN Convention goes beyond previous anticorruption instruments, covering a broad range of issues ranging from basic forms of corruption such as bribery and solicitation, embezzlement, trading in influence to the concealment and laundering of the proceeds of corruption. The Convention contains transnational business bribery provisions that are functionally similar to those in the OECD Antibribery Convention and contains provisions on private sector auditing and books and records requirements. Other provisions address matters such as prevention, international cooperation, and asset recovery.

OAS Convention: In 1996, the Member States of the Organization of American States (OAS) adopted the first international anticorruption legal instrument, the Inter-American Convention against Corruption (OAS Convention), which entered into force in March 1997. The OAS Convention, among other things, establishes a set of preventive measures against corruption, provides for the criminalization of certain acts of corruption, including transnational bribery and illicit enrichment, and contains a series of provisions to strengthen the cooperation between its States Parties in areas such as mutual legal assistance and technical cooperation. As of December 2009, the OAS Convention has 33 parties (see http://www.oas.org/juridico/english/Sigs/b-58.html)

Council of Europe Criminal Law and Civil Law Conventions: Many European countries are parties to either the Council of Europe (CoE) Criminal Law Convention on Corruption, the Civil Law Convention, or both. The Criminal Law Convention requires criminalization of a wide range of national and transnational conduct, including bribery,

money-laundering, and account offenses. It also incorporates provisions on liability of legal persons and witness protection. The Civil Law Convention includes provisions on compensation for damage relating to corrupt acts, whistleblower protection, and validity of contracts, inter alia. The Group of States against Corruption (GRECO) was established in 1999 by the CoE to monitor compliance with these and related anti-corruption standards. Currently, GRECO comprises 46 member States (45 European countries and the United States). As of December 2009, the Criminal Law Convention has 42 parties and the Civil Law Convention has 34 (see www.coe.int/greco.)

Free Trade Agreements: While it is U.S. Government policy to include anticorruption provisions in free trade agreements (FTAs) that it negotiates with its trading partners, the anticorruption provisions have evolved over time. The most recent FTAs negotiated now require trading partners to criminalize "active bribery" of public officials (offering bribes to any public official must be made a criminal offense, both domestically and trans-nationally) as well as domestic "passive bribery" (solicitation of a bribe by a domestic official). All U.S. FTAs may be found at the U.S. Trade Representative Website: http://www.ustr.gov/trade-agreements/free-trade-agreements.

Local Laws: U.S. firms should familiarize themselves with local anticorruption laws, and, where appropriate, seek legal counsel. While the U.S. Department of Commerce cannot provide legal advice on local laws, the Department's U.S. and Foreign Commercial Service can provide assistance with navigating the host country's legal system and obtaining a list of local legal counsel.

Assistance for U.S. Businesses: The U.S. Department of Commerce offers several services to aid U.S. businesses seeking to address business-related corruption issues. For example, the U.S. and Foreign Commercial Service can provide services that may assist U.S. companies in conducting their due diligence as part of the company's overarching compliance program when choosing business partners or agents overseas. The U.S. Foreign and Commercial Service can be reached directly through its offices in every major U.S. and foreign city, or through its Website at www.trade.gov/cs.

The Departments of Commerce and State provide worldwide support for qualified U.S. companies bidding on foreign government contracts through the Commerce Department's Advocacy Center and State's Office of Commercial and Business Affairs. Problems, including alleged corruption by foreign governments or competitors, encountered by U.S. companies in seeking such foreign business opportunities can be brought to the attention of appropriate U.S. government officials, including local embassy personnel and through the Department of Commerce Trade Compliance Center "Report A Trade Barrier" Website at tcc.export.gov/Report_a_Barrier/index.asp.

Guidance on the U.S. FCPA: The Department of Justice's (DOJ) FCPA Opinion Procedure enables U.S. firms and individuals to request a statement of the Justice Department's present enforcement intentions under the anti-bribery provisions of the FCPA regarding any proposed business conduct. The details of the opinion procedure are available on DOJ's Fraud Section Website at www.justice.gov/criminal/fraud/fcpa. Although the Department of Commerce has no enforcement role with respect to the FCPA, it supplies general guidance to U.S. exporters who have questions about the FCPA and about international developments concerning the FCPA. For further information, see the Office of the Chief Counsel for International Counsel, U.S.

Department of Commerce, Website, at http://www.ogc.doc.gov/trans_anti_bribery.html. More general information on the FCPA is available at the Websites listed below.

Exporters and investors should be aware that generally all countries prohibit the bribery of their public officials, and prohibit their officials from soliciting bribes under domestic laws. Most countries are required to criminalize such bribery and other acts of corruption by virtue of being parties to various international conventions discussed above.

Anti-Corruption Resources

Some useful resources for individuals and companies regarding combating corruption in global markets include the following:

- Information about the U.S. Foreign Corrupt Practices Act (FCPA), including a "Lay-Person's Guide to the FCPA" is available at the U.S. Department of Justice's Website at: http://www.justice.gov/criminal/fraud/fcpa.

- Information about the OECD Antibribery Convention including links to national implementing legislation and country monitoring reports is available at: http://www.oecd.org/department/0,3355,en_2649_34859_1_1_1_1_1,00.html. See also new Antibribery Recommendation and Good Practice Guidance Annex for companies: http://www.oecd.org/dataoecd/11/40/44176910.pdf

- General information about anticorruption initiatives, such as the OECD Convention and the FCPA, including translations of the statute into several languages, is available at the Department of Commerce Office of the Chief Counsel for International Commerce Website: http://www.ogc.doc.gov/trans_anti_bribery.html.

- Transparency International (TI) publishes an annual Corruption Perceptions Index (CPI). The CPI measures the perceived level of public-sector corruption in 180 countries and territories around the world. The CPI is available at: http://www.transparency.org/policy_research/surveys_indices/cpi/2009. TI also publishes an annual *Global Corruption Report* which provides a systematic evaluation of the state of corruption around the world. It includes an in-depth analysis of a focal theme, a series of country reports that document major corruption related events and developments from all continents and an overview of the latest research findings on anti-corruption diagnostics and tools. See http://www.transparency.org/publications/gcr.

- The World Bank Institute publishes Worldwide Governance Indicators (WGI). These indicators assess six dimensions of governance in 212 countries, including Voice and Accountability, Political Stability and Absence of Violence, Government Effectiveness, Regulatory Quality, Rule of Law and Control of Corruption. See http://info.worldbank.org/governance/wgi/sc_country.asp. The World Bank Business Environment and Enterprise Performance Surveys may also be of interest and are available at: http://go.worldbank.org/RQQXYJ6210.

- The World Economic Forum publishes the *Global Enabling Trade Report*, which presents the rankings of the Enabling Trade Index, and includes an assessment of

the transparency of border administration (focused on bribe payments and corruption) and a separate segment on corruption and the regulatory environment. See http://www.weforum.org/en/initiatives/gcp/GlobalEnablingTradeReport/index.htm.

- Additional country information related to corruption can be found in the U.S. State Department's annual *Human Rights Report* available at http://www.state.gov/g/drl/rls/hrrpt/.

- Global Integrity, a nonprofit organization, publishes its annual *Global Integrity Report*, which provides indicators for 92 countries with respect to governance and anti-corruption. The report highlights the strengths and weaknesses of national level anti-corruption systems. The report is available at: http://report.globalintegrity.org/..

Bilateral Investment Agreements

Return to top

The 1952 U.S.-Japan Treaty of Friendship, Commerce, and Navigation gives national treatment and most favored nation treatment to U.S. investments in Japan. As of December 2010, Japan has concluded or signed bilateral investment treaties (BITs) with sixteen trading partners, including Egypt, Sri Lanka, China, Hong Kong SAR, Turkey, Pakistan, Bangladesh, Russia, Mongolia, Vietnam, the Republic of Korea, Cambodia, Laos, Uzbekistan, Peru, and Columbia. The Japanese Government is currently negotiating bilateral BITs with the Kingdom of Saudi Arabia,, Kuwait, Kazakhstan, Papua New Guinea, and Angola, as well as a trilateral agreement with China and the Republic of Korea. The government is also preparing to negotiate BITs with other countries abundant in natural resources, particularly Qatar and Algeria.

Japan has economic partnership agreements (an EPA is analogous to a free trade agreement) containing investment chapters in force with Singapore, Mexico, Malaysia, Chile, Thailand, Indonesia, Brunei, the Philippines, Vietnam, Switzerland, as well as a multilateral EPA with all ten members of the Association of Southeast Asian Nations (ASEAN). It has also announced EPAs with India and Peru; resolution of final details was still pending as of the end of 2010.

U.S.-Japan Dialogue on Investment: Under the Economic Partnership for Growth, established by President Bush and Prime Minister Koizumi in June 2001, semi-annual discussions in the U.S.-Japan Investment Initiative Working Group addressed U.S. Government concerns about barriers to foreign investment in Japan. In 2010, as part of the recalibration of bilateral economic engagement, the two governments convened the U.S.-Japan Dialogue to Promote Innovation, Entrepreneurship and Job Creation, which met initially in May and was formally launched by both governments on November 13. The Investment Initiative's work included vigorous public outreach to increase receptivity to FDI, and both governments have continued to sponsor investment promotion seminars. In 2010, such events were held in San Francisco and in Makuhari, Chiba Prefecture, alongside the Green Device 2010 trade show.

OPIC and Other Investment Insurance Programs Return to top

U.S. OPIC insurance and finance programs are not available in Japan. Japan is a member of the Multilateral Investment Guarantee Agency (MIGA). Japan's capital subscription to the organization is the second largest, after the United States.

Labor Return to top

Changing demographic patterns, macroeconomic trends, and regulatory reforms are gradually affecting traditional Japanese employment practices. Foreign investors seeking to hire highly qualified workers in Japan should benefit from many of these changes.

Throughout most of the post-war period, Japanese employment practices -- most notably in the nation's large, internationally competitive firms -- rested on three pillars: lifetime employment, seniority-based wages, and enterprise unions. Today, all three are undergoing rapid transformation. Demographic pressures -- fewer young workers and a rapidly aging labor force and the subsequent structural changes in the Japanese economy -- are forcing many firms to sharply reduce lifetime employment guarantees and seniority-based wages in favor of merit-based pay scales and limited-term contracts. Although labor unions play a role in the annual determination of wage scales throughout the economy, that role has been shrinking. However, according to the FY 2010 Ministry of Health, Labor and Welfare (MHLW) "White Paper on Labor Economy", the estimated union membership as of June 30, 2009 marked a slight increase for the first time in 34 years and is now 18.5 percent. The number of "non-regular" workers who are union members has increased in recent years as a result of strengthened organizing efforts by some labor unions, although it is still substantially smaller than that of regular workers. With the formation of the DPJ-led government in September 2009, labor unions found the Japanese government more sympathetic than before to their concerns.

Investors should be aware of Japan's high wage structure. Growth in average wages has been slow however, a situation that largely reflects the shift to increased use of "non-regular" employees and the hiring of younger workers to replace older, higher-wage workers who have begun to retire. According to the MHLW White Paper, total cash salary, which began to increase in 2005 reflecting the economic recovery that began in 2002, fell again in 2007 and has been falling 3 years in a row. In 2009, the figure showed a record fall of 3.8 percent from the previous year. While Japan has accepted highly skilled foreign labor, Japanese firms have depended overwhelmingly on the local labor market to supply workers. In 2009, the number of registered foreign nationals fell 1.4 percent from the prior year to 2.19 million persons (1.71 percent of Japan’s population of 127.5 million). The number of foreign nationals newly entering Japan for the purpose of employment also dropped in 2009 to 57,093, a decrease of 20.9 percent from the prior year, according to Ministry of Justice statistics.

Traditionally, Japanese workers were classified as either "regular" or "other/non-regular" employees. This system, to a considerable degree, remains in place. Companies recruit "regular" employees directly from schools or universities and provide an employment contract with no fixed duration. In contrast, firms hire "non-regular" employees, mainly on fixed duration contracts. Since the mid-1990s, companies have

increasingly used part-time workers, temporary contract workers and dispatch workers to fill short-term labor requirements and to save labor costs. According to an MHLW survey on youth employment, 38.4 percent of employees aged 15-19 and 36.1 percent of employees aged 20-24 were "non-regular" workers in FY2009. There remains deep concern among Japanese government policy makers that the number of "non-regular" employees aged 25-34 remains stubbornly high and the ability of such workers to find permanent employment will decline as they get older. These "non-regular" employees have borne the brunt of corporate adjustment to the worldwide recession that began in September 2008. According to the MHLW White Paper on Labor Economy, the ratio of non-regular employees in 2009 fell slightly for the first time in 15 years to 33.4 percent, mainly due to the decrease in dispatch workers.

Defined contribution pension plans have been available in Japan since 2001. Such plans should promote greater labor mobility in the future, as workers are able to carry pension savings with them to new jobs. However, only about three percent of Japanese workers are currently covered by such plans. Although in January 2010 the government increased the tax deductible employer contribution limits from ¥46,000 ($505) to ¥51,000 ($560) per month, the second increase since 2001, this ceiling on contributions is too low to realize the full potential of the program. In 2008, 2009, and 2010, the government submitted legislation to allow employees to make individual contributions to their pension plans, but the bills were not enacted by the Diet.

Foreign-Trade Zones/Free Ports

Return to top

Japan no longer has free-trade zones or free ports. Customs authorities allow the bonding of warehousing and processing facilities adjacent to ports on a case-by-case basis.

Foreign Direct Investment Statistics

Return to top

Between 1998 and December 2009, Japan's stock of FDI increased from ¥3.0 trillion to ¥18.2 trillion. In the same period investment inflows were generally strong. All data in the tables below are current as of December 2010. Negative figures indicate net outflow.

Table 1a: Net FDI Inflows (Unit: USD billions; balance-of-payment basis)

JFY 2000	JFY 2001	JFY 2002	JFY 2003	JFY 2004
8.23	**6.19**	**9.09**	**6.24**	**7.81**
JFY 2005	JFY 2006	JFY 2007	JFY 2008	JFY2009
3.22	**-6.78**	**22.18**	**24.55**	**11.84**

Table 1b: Ratio of Inward to Outward FDI *(balance-of-payment basis)*

JFY 2000	**JFY 2001**	**JFY 2002**	**JFY 2003**	**JFY 2004**
1 : 3.8	1 : 6.2	1 : 3.5	1 : 4.6	1 : 4.0

JFY 2005	JFY 2006	JFY 2007	JFY 2008	JFY2009
1 : 14.1	1 : 9.4	1 : 3.3	1 : 5.3	1 : 6.3

1. Figures were first calculated in nominal Japanese yen and converted into U.S. dollars using Bank of Japan average annual exchange rates.
Source: http://www.jetro.go.jp/en/reports/statistics/data/bpfdi01_e_1004.xls
http://www.jetro.go.jp/en/reports/statistics/data/bpfdi02_e_1004.xls

Table 2: Foreign Direct Investment in Japan, by country (Unit: USD million; net and flow; balance-of-payment basis)

	CY2005	CY2006	CY2007	CY2008	CY2009
North America	-636	-2,666	12,709	12,005	1,712
U.S.A.	308	105	13,270	11,792	1,831
Canada	-944	-2,771	-561	213	-119
Asia	1,565	-852	1,605	3,381	1,093
China	11	12	15	37	-137
Hong Kong	960	-2,136	47	257	-81
Taiwan	-26	110	36	66	57
Korea	31	108	221	279	255
Singapore	598	1,062	1,282	2,716	756
Thailand	-6	1	1	6	24
India	1	-1	3	1	14
W. Europe	1,123	-3,938	4,785	4,861	8,210
Germany	237	-542	-813	1,185	389
U.K.	132	1,807	540	-1,289	5,629
France	-78	274	504	177	371
Netherlands	2,541	-7,583	-390	2,692	2,584
Belgium	-1,188	884	148	-2,040	14
Luxembourg	363	-12	484	477	543
Switzerland	-748	317	1,162	1,873	-990
E. Europe, Russia	0	-4	1	5	1
L. America	1,278	566	2,831	4,020	690
Mexico	0	0	0	0	0
Brazil	1	0	0	0	-8
Cayman Is.	1,069	-82	1,480	3,592	965
Oceania	-114	36	215	258	50
Middle East	9	-1	3	-2	23
Africa	1	63	33	21	61
TOTAL	3,223	-6,789	22,181	24,550	11,839

Source: http://www.jetro.go.jp/en/reports/statistics/data/bpfdi02_e_1004.xls

Table 3: Japan's FDI inward stock by country/region (Unit: USD millions)

	end of 2005	End of 2006	end of 2007	end of 2008	end of 2009
North America	47,729	44,273	45,947	75,680	76,184
U.S.	43,888	41,989	44,795	74,344	75,003
Canada	3,841	2,284	1,152	1,336	1,181
Asia	6,702	8,247	9,390	16,769	17,336
China	102	100	125	225	197
Hong Kong	2,612	1,928	2,301	3,203	1,444
Taiwan	1,391	1,475	1,534	1,892	2,656
Korea	313	423	694	1,235	1,999
Singapore	2,159	4,205	4,620	10,047	10,632
Thailand	42	42	44	61	79
India	10	9	13	18	32
Europe	38,101	42,367	62,341	86,915	83,883
Germany	5,904	4,582	3,811	6,592	7,166
U.K.	3,033	4,983	5,962	6,750	7,318
France	10,777	11,549	12,776	16,233	15,208
Netherlands	11,654	12,175	26,025	36,510	36,034
Belgium	474	1,901	1,947	1,362	934
Luxembourg	1,632	1,635	2,267	4,000	4,262
Switzerland	2,106	3,536	3,942	7,150	4,913
E. Europe, Russia	47	47	46	63	63
L. America	8,218	12,123	15,227	23,576	20,990
Mexico	4	4	5	6	6
Brazil	31	30	32	40	32
Cayman Is.	5,599	8,400	10,469	17,363	16,965
Oceania	478	492	779	1,075	1,095
Middle East	14	14	20	29	51
Africa	1	63	99	275	342
TOTAL	101,322	107,663	133,888	204,433	199,991

Source: http://www.jetro.go.jp/en/reports/statistics/data/09fdistocken02.xls

Table 4: FDI in Japan, by industry (Unit: USD million) (balance of payment basis)

		CY2005	CY2006	CY2007	CY2008	CY2009
Manufacturing (total)		-2,191	254	1,381	2,261	3,420
	General machinery	164	-24	-22	721	115
	Electric machinery	-1,195	32	-391	642	1,705
	Trans. equipment	32	-1,408	331	-55	469
	Precision machines	-59	598	20	113	94
	Chemicals and pharmaceuticals	-1,168	1,538	-1,010	245	307
	Iron, non-ferrous metals	-34	60	230	124	287
	Rubber & leather	1	35	35	4	6
	Petroleum	-44	37	935	300	-19
	Textiles	188	58	109	-3	-8
	Food	-211	-717	365	-86	421
	Glass & ceramics	103	193	663	212	-90
Non-manuf. (total)		5,414	-7,043	20,800	22,289	8,349
	Farming & forestry	-1	11	41	1	-5
	Fish/ marine products.	0	-39	-33	-	1
	Mining	0	1	0	0	-1
	Finance/ Insurance	645	2,265	17,661	19,823	5,205
	Wholesale & retail	1,157	-387	1,660	1,160	1,057
	Services	178	122	295	473	1,343
	Real estate	15	72	1,413	581	-71
	Communication	912	-9,715	-633	-1,028	619
	Transportation	2,108	28	-288	43	-90
	Construction	41	37	19	-60	16
TOTAL		3,223	-6,789	22,181	24,550	11,839

Source: http://www.jetro.go.jp/en/reports/statistics/bpfdi08_e_1010.xls

Table 5: Japanese Direct Investment Overseas, by country (Unit: USD millions; net and flow; balance-of-payment basis)

		CY2005	CY2006	CY2007	CY2008	CY2009
North America		13,169	10,188	17,385	46,046	10,889
	U.S.A.	12,126	9,297	15,672	44,674	10,660
	Canada	1,042	892	1,713	1,372	229
Asia		16,188	17,167	19,388	23,348	20,636
	China	6,575	6,169	6,218	6,496	6,899
	Hong Kong	1,782	1,509	1,131	1,301	1,610
	Taiwan	828	491	1,373	1,082	339
	R. Korea	1,736	1,517	1,302	2,369	1,077
	Singapore	557	375	2,233	1,089	2,881
	Thailand	2,125	1,984	2,608	2,016	1,632
	Indonesia	1,185	744	1,030	731	483
	Malaysia	524	2,941	325	591	616
	Philippines	442	369	1,045	705	809
	India	266	512	1,506	5,551	3,664
Western Europe		7,509	18,029	20,456	22,418	17,073
	Germany	270	1,128	880	3,905	2,089
	U.K.	2,903	7,271	3,026	6,744	2,126
	France	541	842	479	1,703	1,161
	Netherlands.	3,315	8,497	12,440	6,514	6,698
	Sweden	82	416	254	570	160
	Spain	363	136	10	210	162
Latin America		6,402	2,547	9,482	29,623	17,393
	Mexico	629	-2,603	501	315	211
	Brazil	953	1,423	1,244	5,371	3,753
	Cayman Isles	3,915	2,814	5,838	22,550	12,903
Oceania		943	723	4,204	6,060	7,629
	Australia	640	466	4,140	5,232	7,136
Middle East		542	242	958	1,138	575
	UAE	19	-56	60	194	139
	Saudi Arabia	494	254	746	892	378
Africa		25	899	1,101	1,518	-301
	South Africa	-17	466	82	648	143
TOTAL		45,461	50,165	73,483	130,801	74,650

Source: http://www.jetro.go.jp/en/reports/statistics/data/bpfdi01_e_1004.xls

Table 6: Japanese Direct Investment Overseas, by industry (Unit: USD millions, net and flow; balance of payment basis)

	CY2005	CY2006	CY2007	CY2008	CY2009
Manufacturing (total)	26,146	34,513	39,515	45,268	32,934
Chemicals and Pharmaceuticals	3,363	4,413	3,744	11,647	7,407
Food	1,685	1,025	12,776	3,601	8,954
Iron, non-ferrous & metals	1,331	1,795	2,202	3,152	3,738
General Mach.	1,296	1,663	2,642	3,726	4,411
Electric machinery	4,377	7,041	4,691	5,675	2,505
Transportation equipment	8,611	8,597	8,671	10,924	566
Precision machinery	1,419	1,420	1,293	953	609
Rubber and leather	831	1,107	835	771	445
Lumber & pulp	826	420	745	734	1,207
Textiles	416	180	371	716	477
Petroleum	531	2,921	-280	652	-51
Glass & ceramics	258	2,759	837	1,417	2,042
Non-manuf. (total)	19,315	15,652	33,968	85,533	41,717
Finance/Insurance	9,227	5,562	19,458	52,243	15,463
Wholesale & retail	4,623	5,483	4,792	13,319	8,418
Real estate	-851	-811	162	162	463
Services	1,086	188	1,406	2,721	1,263
Transportation	824	1,507	2,133	2,283	2,894
Mining	1,372	1,577	4,053	10,518	6,482
Construction	148	-64	490	389	499
Farming/ forestry	23	42	93	59	10
Fisheries	-44	28	64	119	36
Communications	1,712	-3,368	-331	1,675	3,870
TOTAL	45,461	50,165	73,483	130,801	74,650

Source: http://www.jetro.go.jp/en/reports/statistics/data/bpfdi07_en_1010.xls

Table 7: FDI Inflow Relative to GDP (balance-of-payment basis)

	CY2005	CY2006	CY2007	CY2008	CY2009
(a) GDP/Nom (trillion yen)	501.7	507.3	515.5	505.1	474.2
(b) FDI Inflow (trillion yen)	0.31	-0.76	2.65	2.52	1.17
b/a (pct)	0.06	-0.15	0.51	0.49	0.25

Sources (2005-2007): http://www.mof.go.jp/bpoffice/bpdata/fdi/fdi2bop.htm
(2008-2009):
http://www.esri.cao.go.jp/en/sna/data.html
http://www.mof.go.jp/bpoffice/ebpfdi.htm

Web Resources

Return to top

For the promotion of foreign direct investment (FDI) in Japan:

Japan External Trade Organization (JETRO)
http://www.jetro.go.jp/investjapan

For additional FDI statistics:
http://www.jetro.go.jp/en/stats/statistics
http://www.jetro.go.jp/en/invest/success_stories

Return to table of contents

Return to table of contents

Chapter 7: Trade and Project Financing

- How Do I Get Paid (Methods of Payment)
- How Does the Banking System Operate
- Foreign-Exchange Controls
- U.S. Banks and Local Correspondent Banks
- Financing
- Web Resources

How Do I Get Paid? (Methods of Payment)

Return to top

There are a number of methods used to settle payment in Japan: cash in advance, letter of credit used in conjunction with a documentary draft (time or sight), promissory note, documentary collection or draft, open account and consignment sales. As with U.S. domestic transactions, a major factor in determining the method of payment is the degree of trust in the buyer's ability and willingness to pay.

Because of the protection it offers to the U.S. exporter and the Japanese importer, an irrevocable letter of credit (L/C) payable at sight is commonly used for settlement of international transactions. As large Japanese general trading companies often serve as intermediaries to small and medium-sized companies, L/Cs are often issued in their name rather than in the name of the end user of the product. With the trading company taking on the risk of the transaction, the U.S. firm is protected from the possible bankruptcy of the smaller company.

Another payment option is the use of documentary collection or open account with international credit insurance that, unlike the letter of credit, allows the importer's line of credit to remain open. At the same time, this option protects the exporter if the buyer goes bankrupt or cannot pay. International credit insurance can be obtained from the Export-Import Bank of the United States or private insurers.

A payment method widely used in Japan but sometimes unfamiliar to U.S. companies is the promissory note (*yakusoku tegata*). Promissory notes are IOUs with a promise to pay at a later date, typically 90 to 120 days. Banks will often provide short-term financing through discounting and rollover of notes. Factoring and other forms of receivables financing (whether with or without recourse) are not common in Japan, and more conservative businesspeople find such arrangements a violation of the “relationship” between buyer and seller. It should be noted that, domestically, it is not uncommon for the buyer to request, and be granted an extension of the term of the *tegata* if there are cash-flow problems.

How Does the Banking System Operate

Return to top

While financial system deregulation and international competitive pressure has drastically changed the face of Japanese banking (the consolidation of 19 banks into three mega banks), the connection between corporate finance and banking institutions and non-financial corporations remains much tighter in Japan than in the United States; and extends far beyond simple lender/borrower relationships. Much corporate banking business is rooted in either business groups with interlocking shareholding (*keiretsu*) or in regional relationships. Japanese banks are frequently shareholders in companies that conduct banking business with them.

This unique relationship between a company and its bank has been long-standing; until recently, a Japanese company rarely changed its primary lender, although it would occasionally "shop around" for better credit arrangements. Even when credit is loose, companies sometimes borrow in excess of their need in order to maintain good relations with their bank and to ensure that funds will be available in leaner years. Banks are often large shareholders in publicly traded corporations, have close relationships with both local governments and national regulatory agencies, and often play a coordinating role among their clients. The collapse of the asset price "bubble" and the consequent worsening of bank balance sheets since the early 1990s, as well as corporate borrowing outside of traditional channels, has increasingly caused borrowers to tap international capital markets, and placed traditional banking systems under considerable strain. However, it remains safe to say that the Japanese commercial bank system is much more relationship-oriented than the transaction-based U.S. system.
Japanese banks were able to avoid the direct impact from the global financial crisis due to their limited exposure to structured securities. Japanese authorities took macroeconomic and financial policy steps to sustain the economy and support the functioning of financial markets. To limit distortions, these emergency measures are being phased out with the beginning signs of recovery.

While large corporations with suitable credit ratings (especially export-oriented firms) can rely on corporate bond issues rather than banks for financing, bank lending continues to be the primary financing method for small and medium sized companies. However, after the "bubble" economy of the late 1980s and early 1990s, Japanese banks had a harder time maintaining strong capital positions, and consequently became more restrictive, leading to a credit crunch. In November 1996, the Japanese government embarked on a "Big Bang" financial reform initiative and in December of 2007 announced a plan to improve Japan’s global competitiveness in financial services. Japan’s Financial Services Agency (FSA) remains committed to implementing its Better Markets Initiative to improve the attractiveness of Tokyo as a financial center.

Japanese banks offer regular and time deposits and checking accounts for businesses. Checks are negotiable instruments that are in effect payable to the bearer (rather than to the order of the payee, as in the United States). This limits the usefulness of checks, and in fact, most payments are made by electronic bank transfer (which cost a few hundred yen on average), or by sending cash through the postal system. The banks (and now investment/securities firms) historically waged an uphill battle against the recently privatized postal savings system for consumer deposits, but now that the postal savings bank must pay taxes and deposit insurance, in addition to losing its implicit government guarantee, competition in the banking sector has increased.

Personal checking accounts are almost unknown in Japan. Most individuals use electronic bank transfers to settle accounts. Cash settlement is also very common and the Post Office has a mechanism for payment by "cash envelope" which is widely used in direct marketing and other applications. Many Japanese banks now operate 24-hour cash machines (as do some credit card companies). Bank and other credit cards are easy to obtain and are widely accepted. Some bank credit cards offer revolving credit, but in most cases balances are paid in full monthly via automatic debiting from bank accounts.

The relationship among trading company, end user and exporter is an important feature of the financing environment in Japan. The Japanese general trading company (*sogo shosha*) is an integrated, comprehensive organization that embraces a range of functions including marketing and distribution, financing and shipping and the gathering of commercial information. It performs functions that in the United States would be carried out by import/export companies, freight forwarders, banks, law firms, accounting firms and business consultants. Thus, U.S. firms dealing with trading companies should familiarize themselves with the financing capabilities of such firms.

Opening a Bank Account

All financial institutions in Japan are subject to Japanese law concerning the prevention of money laundering and are required to confirm that entities and individuals are legally registered or have resident status in Japan. Generally, non-resident U.S. business entities or citizens cannot open a bank account with a financial institution in Japan. Japanese law requires an applicant who wishes to open a bank account to present a set of documents that will enable a financial institution to confirm identify. For a U.S. business entity with a business establishment in Japan, such as a sales office, branch, or subsidiary, such documents will include (1) a certificate, certified copy, or certified abstract of their Japanese business registration, (2) a certificate showing corporate seal registration, and /or (3) other official documents as the financial institution may require. A U.S. citizen who is a lawful resident in Japan is required to present (1) a certificate of alien registration, (2) valid visa, and (3) other official documents, as required by the bank, such as a certificate of registration of one's personal seal ("*inkan*"). For a non-resident U.S. citizen, such as a short-time visitor, there may be bank transactions that one may be able to initiate without having a deposit account. These may include currency exchange or limited funds transfer.

Foreign-Exchange Controls Return to top

Foreign exchange regulations have almost no impact on normal business transactions.

U.S. Banks and Local Correspondent Banks Return to top

In addition to U.S. banks with branches in Japan, many other U.S. banks have correspondent relationships with Japanese banks, which themselves have many branches and subsidiaries in the United States.

Leading Commercial Banks in Japan:

Resona Bank
2-1 Bingomachi 2-chome, Chuo-ku, Osaka 540-8610
Tel: +81/6/6271-1221; fax: 6268-1337
http://www.resona-gr.co.jp/holdings/english/index.html

Bank of Tokyo-Mitsubishi UFJ
2-7-1 Marunouchi, Chiyoda-ku, Tokyo 100-8388
Tel: +81/3/3240-1111; fax: 3240-4764
http://www.bk.mufg.jp/english

Development Bank of Japan
1-9-1 Ohtemachi, Chiyoda-ku, Tokyo 100-0004
Tel: +81/3/3244-1770; fax: 3245-1938
http://www.dbj.jp/en/index.html

Japan Bank for International Cooperation
1-4-1 Ohtemachi, Chiyoda-ku, Tokyo 100-8144
Tel: +81/3/5218-3579; fax: 5218-3968
http://www.jbic.go.jp/english/index.php

Mizuho Corporate Bank
1-3-3 Marunouchi, Chiyoda-ku, Tokyo 100-8210
Tel: +81/3/3214-1111
http://www.mizuhocbk.co.jp/english

Sumitomo Mitsui Banking Corporation
1-1-2 Yurakucho, Chiyoda-ku, Tokyo 100-0006
Tel: +81/3/5512-3411; fax: 5512-4429
http://www.smbc.co.jp/global/index.html

Multilateral Development Bank Offices in Japan:
Asian Development Bank
Second floor, Yamoto Seimei Building
1-1-7 Uchisaiwai-cho, Chiyoda-ku, Tokyo 100-0011
Tel: +81/3/3504-3160; fax: 3504-3165
E-mail: adbjro@adb.org or http://www.adb.org

Financing

Return to top

While some large U.S. companies in Japan enjoy strong relationships with the larger Japanese "city banks," most medium and small-sized U.S. firms report that it is difficult to secure the specific type of trade financing services needed for importing and distribution. Under current global financial conditions, it seems likely that most foreign firms will continue to have difficulty accessing Japanese commercial bank financing. In Japan, credit evaluation is heavily asset-based, and real estate is still favored as collateral despite the collapse of "bubble" era valuations. Moreover, a firm's ability to borrow may also be based on its personal relationships and rapport with bank officials rather than on typical U.S. standards of credit-worthiness. Some smaller firms report that they have been forced to secure needed financing from offshore sources. For U.S.

companies with operations in Japan, teaming up with Japanese partners in a joint venture has been effective as a way to receive more favorable treatment from Japanese banks.

While most U.S. banks operating in Japan do engage in lending to subsidiaries of U.S. companies (especially their home market clients), many of them focus on higher value-added lines of business than conventional credit products. When a Japanese bank extends credit to a foreign-owned company in Japan, it generally evaluates the financial status of both the borrower and its parent company. Even in cases where the Japanese subsidiary is financially strong, the parent company is often requested to guarantee the obligation (although a “Letter of Awareness” may be accepted in lieu of a guarantee).

Types of Export Financing and Insurance

The Government of Japan's programs to promote imports and foreign investment in Japan include tax incentives, loan guarantees, low-cost loans to Japanese and foreign investors for import infrastructure through the Development Bank of Japan and other loan programs. Underscoring the Government's emphasis on import promotion, both the Ministry of Economy, Trade and Industry (METI) and the Japan External Trade Organization (JETRO) have established import divisions.

Four major public financing corporations, the Japan Bank for International Cooperation, the Development Bank of Japan, the Japan Finance Corporation for Small Business and the National Life Finance Corporation, now make low-interest loans to encourage imports to and investment in Japan. In addition, the services of the Japan Regional Development Corporation, a government-affiliated institution that develops business parks and provides long-term loans at low interest rates, are available to foreign companies.

The Japan Bank for International Cooperation's import credit program for manufactured goods aims to provide support for the import of manufactured goods from developed countries to Japan. Five-year secured or guaranteed loans with up to 70 percent loan-to-value, and credit lines at preferential interest rates are available to importers, distributors and retailers incorporated in Japan who plan to increase their imports of manufactured goods (excluding food products) 10 percent or more over the previous year. Direct 70 percent loan-to-value long-term loans are also available to foreign exporters for the purchase of manufactured goods to be exported to Japan under deferred-payment terms, as well as to foreign manufacturers and intermediary financial institutions for investment in production facilities and equipment to be used to produce goods for the Japanese market.

The Development Bank of Japan (DBJ) offers loans designed to increase imports into Japan. These loans are available to Japanese companies with at least 33 percent foreign capital or registered branches in Japan of non-Japanese companies for 40 to 50 percent of project costs for the expansion of business operations in Japan.
The Japan Finance Corporation for Small Business, and National Life Finance Corporation have expanded their programs to facilitate import sales. The programs aim to provide support to small-scale retailers, wholesalers and importers in Japan for investments to increase imports to Japan. A program between U.S. Eximbank and the Export-Import Insurance Division of METI (EID/METI) provides for co-financing insurance for U.S. exports to developing countries. EID/METI also provides advance

payment insurance for U.S. exports to Japan. For additional details on these and other cooperative financing programs, U.S. companies should contact U.S. Eximbank.
No insurance for U.S. exporters is available from the Japanese Government.

Other Financing

Japan has been a member of the Multilateral Investment Guarantee Agency (MIGA) since it was established in 1988. In addition to the investment loan programs from Japanese Government-affiliated lenders described above, prefectures and municipalities offer various incentives, including construction, land acquisition and labor hiring subsidies, special depreciation of business assets, tax deferments for replacement of specific assets, exemption from special land-owning taxes assessed by municipalities and prefectural and municipal real estate acquisition, enterprise and municipal property tax reductions. In addition, most prefectures offer loan programs to encourage companies to establish local operations.

Japan's venture capital specialist funds are only half the size of those in the United States, and the total outstanding amount of venture capital funds in Japan is about ¥1 trillion ($11 billion or about 5 percent of the U.S. figure), with almost no change over the past decade. Traditionally the top Japanese venture capital firms have acted more like quasi-banks. Also, Financial Services Agency guidance to brokers to set tough standards for companies seeking to go public results in even the best companies taking up to a decade to get a listing on the over-the-counter stock market – less than 1000 over-the-counter stocks are listed on the nine-year-old JASDAQ, Japan's electronic OTC market.

Types of Projects Receiving Financing Support: In line with the Cabinet Decision in March 1995, the Export-Import Bank of Japan (JEXIM) and the Overseas Economic Cooperation Fund (OECF) merged on October 1, 1999, creating a new institution, the Japan Bank for International Cooperation (JBIC).

JBIC is a governmental institution that encourages exports, secures access to energy resources, promotes direct overseas investments and improves Japan's external imbalances through financial assistance to the trade and investment activities of Japanese companies.

The financial facilities offered by JBIC include export loans, import loans, overseas investment loans and untied loans. JBIC also provides loan guarantees to private financial institutions, short-term loans designed to finance the external transactions of the governments of developing nations (bridge loans), and equity participation in the overseas projects of Japanese companies.

JBIC's international financial operations focus on projects in developing countries where local financial institutions cannot provide financing on their own. As JBIC's mandate is the support of internationalization for Japanese companies, its loans can be distinguished from Overseas Economic Cooperation operations, which target the economic development of developing countries.

Overseas Investment Loans and Overseas Project Loans: These loans are typically granted via JBIC and extended to Japanese corporations for overseas investment activities and overseas projects. Overseas investment loans can also be made to

overseas joint ventures involving Japanese capital and to foreign governments for capital investments or loans to joint ventures involving Japanese capital.
Un-Tied Loans: Extended to foreign governments, foreign governmental institutions, foreign financial institutions (including multilateral development banks), and foreign corporations for high-priority projects and economic restructuring programs in developing countries. These loans are not tied to the procurement of goods and services from Japan but are restricted to the specific purposes designated for each loan. These loans are managed by JBIC.

Web Resources

Return to top

Export-Import Bank of the United States: http://www.exim.gov
Country Limitation Schedule: http://www.exim.gov/tools/country/country_limits.html
OPIC: http://www.opic.gov
Trade and Development Agency: http://www.tda.gov/
SBA's Office of International Trade: http://www.sba.gov/oit/
USDA Commodity Credit Corporation: http://www.fsa.usda.gov/ccc/default.htm
U.S. Agency for International Development: http://www.usaid.gov
The Multilateral Investment Guarantee Agency (MIGA): http://www.miga.org/
Japan Finance Corporation: http://www.jfc.go.jp/english/index.html
Japan Financial Services Agency: http://www.fsa.go.jp/en/index.html

Return to table of contents

Return to table of contents

Chapter 8: Business Travel

- Business Customs
- Travel Advisory
- Visa Requirements
- Telecommunications
- Transportation
- Language
- Health
- Local Time, Business Hours and Holidays
- Temporary Entry of Materials and Personal Belongings
- Web Resources

Business Customs

Return to top

An understanding of Japanese business and social practices is useful, if not required, in establishing and maintaining successful business relationships in Japan. Perceived indifference to local business practices may be interpreted as a lack of commitment on the part of the exporter, and may lead to misunderstandings and loss of business opportunities. One should not assume that because meetings and correspondence are carried out in English that Western social and business norms apply.

Japanese society is complex, structured, hierarchical and group-oriented. It places strong emphasis on maintaining harmony and avoiding direct confrontation. Japanese social and cultural norms tend to be group oriented rather than focused on the individual. In building relationships (which often precede a first-time sale or an agreement) one should emphasize trust, confidence, loyalty and commitment for the long term.

Group decision-making is important in Japan and has been generally described as a “bottom up” exercise rather than “top down.” Family businesses founded since WWII and smaller second-tier firms are often exceptions to this rule. However, even in the large family firms, where decisions are made at the top, the process is usually managed so that company members have a sense of participation. This type of group decision-making requires time. Recognizing that it takes a longer time to cultivate business relationships in Japan than in the United States, U.S. business executives should not expect to make a deal in just a few days. Consistent follow-up is vital. Likewise, U.S. business people should recognize the importance of working with the staff level of their Japanese counterparts and not exclusively with the executive level.

Gift giving is expected on many business occasions in Japan. Regional U.S. gifts or company-logo gifts are appropriate. Quality is important, but the gift does not have to be expensive – it is the sentiment and relationship implied by the gift rather than its intrinsic value that is significant. Therefore, packaging of the gift is as important as the gift itself and should be done professionally. In Japan, sets of four are considered unlucky (the number four is pronounced the same as the word for death). Gifts that can be shared among a group are appropriate.

Business travelers to Japan should make sure to bring a large supply of business cards (with their title) when they come to Japan; printing bilingual cards is a nice touch. Business cards are exchanged to formalize the introduction process and establish the status of the parties relative to each other. Japanese bow when greeting each other but will expect to shake hands with foreign executives. A slight bow in acknowledgment of a Japanese bow is appreciated. Japanese executives deal on a last (family) name basis in business relationships, and initial business and social contacts are characterized by politeness and formality.

Business travelers visiting a Japanese firm for the first time should be accompanied by an interpreter or bilingual assistant. Many Japanese executives and decision-makers do not speak English, although they may be able to greet visitors in English and read English product literature relevant to their business or industry expertise. Although English is a required subject in Japan's secondary school curriculum, generally speaking, Japanese business people's English listening and speaking skills tend to be weaker than their reading and writing skills. Thus, the Japanese side in a business meeting generally expects visitors to bring an interpreter if they are serious about doing business. Although the cost for hiring an interpreter can be very high ($400 to $900 per day depending on the level), bringing an interpreter shows that a visiting firm is serious in its commitment to the Japanese market.

The first visit to a Japanese firm generally serves as a courtesy call to introduce U.S. executives and their company, and also allows the U.S. side to begin to evaluate a target company and its executives as potential business partners. A request to meet only with English speaking staff can mean missing the opportunity to become acquainted with higher-ranking executives.

A written contract, even if less detailed than a contract between two U.S. companies, is essential to meet legal, tax, customs and accounting requirements in Japan. Contractual commitments are perceived as representing long-term relationships so the terms and conditions, for example whether to grant exclusive rights, should be considered carefully.

Japan's travel infrastructure is on a par with that of the United States. All business and tourist traveler services are available. For additional information on traveling to Japan, contact the Japan National Tourist Organization (JNTO) in New York at: tel: (212) 757-5640; fax: (212) 307-6754, or visit JNTO's website at http://www.jnto.go.jp.

U.S. business travelers to Japan seeking appointments with U.S. Embassy Tokyo officials should contact the Commercial Section in advance. The Commercial Section can be reached by fax at +81/3/3589-4235 or by e-mail to tokyo.office.box@trade.gov

Travel Advisory

Return to top

There are no State Department travel advisories for Japan. Japan has long been noted for its low crime and safe streets.

Crimes against U.S. citizens in Japan are rare and usually only involve personal disputes, theft, or vandalism. Crime is at levels well below the U.S. national average. Violent crime is rare, but does exist. Incidents of pick pocketing of foreigners in crowded shopping areas, on trains and at airports have been a sporadic concern. Some U.S. citizens believe that Japanese police procedures appear to be less sensitive and responsive to a victim's concerns than would be the case in the United States, particularly in cases involving domestic violence and sexual assault. Few victim's assistance resources or battered person's shelters exist in major urban areas, and are generally unavailable in rural areas.

U.S. citizens can obtain up-to-date safety and security information by calling 1-888-407-4747 toll-free within the U.S. and Canada, or by calling a regular toll line, 1-202-501-4444, from other countries. These numbers are available from 8:00 a.m. to 8:00 p.m. Eastern Standard Time, Monday through Friday (except U.S. federal holidays).

For additional information, please refer to the State Department's "Consular Information Sheet" for Japan at http://travel.state.gov/travel/cis_pa_tw/cis/cis_1148.html

Visa Requirements

Return to top

A valid U.S. passport is necessary to enter and travel in Japan. By Japanese law, non-residents are required to carry their passports (or their Alien Registration Card if staying longer than 90 days) at all times.

A visa is not required for short-term business visits (up to 90 days). It is not required to have a round-trip ticket, although it is recommended. A work or investor visa may take up to two months to obtain. Immunization and health certificates are not required. Foreigners remaining in Japan longer than 90 days must obtain an Alien Registration Card, available free of charge from the municipal office of the city or ward of residence in Japan.

Upon arrival, going through both immigration and customs checks are essentially a formality for U.S. business travelers as long as passport and air ticket are in order. Starting November 20, 2007, all foreign nationals entering Japan, with the exemption of certain categories listed below, are required to provide fingerprint scans and be photographed at the port of entry. This requirement does not replace any existing visa or passport requirements. Foreign nationals exempt from this new requirement include special permanent residents, persons under 16 years of age, holders of diplomatic or official visas, and persons invited by the head of a national administrative organization.

U.S. travelers on official business must have a diplomatic or official visa specifying the nature of travel as "As Diplomat," "As Official," or "In Transit" to be exempt from biometric collection. All other visa holders, including those with diplomatic and official visas stating "As Temporary Visitor," are subject to this requirement. SOFA personnel are exempt from the new biometrics entry requirements under SOFA Article 9 (2).

Passengers are advised to exchange some U.S. dollars for yen before leaving the airport.

U.S. Companies that require travel of foreign businesspersons to the United States should be advised that security options are handled via an interagency process. Visa applicants should go to the following links.

State Department Visa Website: http://travel.state.gov/visa/index.html

United States Visas.gov: http://www.unitedstatesvisas.gov/

The web address for the Consular Section of the U.S. Embassy in Tokyo is:
http://tokyo.usembassy.gov/e/tvisa-main.html

Telecommunications

Return to top

Japan has excellent telecommunications systems. Fiber optic and ADSL broadband services are available throughout the country. The 3G segment of the market now comprises 95 percent of the total mobile market in Japan. According to a survey by the Ministry of Internal Affairs and Communications, the broadband service availability rate surpassed 99 percent of total households in Japan in 2008. In 2010 Japan had over 30 million broadband lines in place, making it the third largest broadband country in the world after the US and China. Public WiFi hotspots can be found in increasing numbers airports, cafes and fast food restaurants. The following web site identifies wireless hotspots anywhere around the world:
http://www.hotspot-locations.com

Public phones, some of which accept only pre-paid cards, are still common but starting to disappear as nearly all communication goes mobile. To call the United States and Canada from Japan, one must dial 0101 before the ten-digit U.S. telephone number.

Almost all Japanese own at least one mobile telephone and use them constantly for e-mailing and downloading information from the Internet in addition to making telephone calls. There are a number of mobile phone networks and providers in Japan, but the Japanese mobile phone system is still not generally compatible with those of other countries, so your existing phone may not work in Japan. To determine if a particular phone is usable in Japan, please contact your service provider prior to visiting Japan. Mobile phones that work in Japan are available for rent at most major airports.

Cell phone rental services at Tokyo's Narita Airport can be found at:
http://www.narita-airport.jp/en/guide/service/list/svc_19.html

Cell phone rental services at Osaka's Kansai International Airport can be found at:
http://www.kansai-airport.or.jp/en/service/rental/rental_list.html

Transportation

Return to top

Japan has excellent, modern highways and roads linking all parts of country. Traffic conditions on expressways and in cities are often very congested, however. Most major

intercity highways operate on a toll basis, and tolls are extremely expensive, making passenger train travel very competitive, especially for the foreign visitor.

Japan boasts the world's densest and most modern passenger railroad system, with fast, frequent services to all parts of the country. Japan's famous *shinkansen* high-speed rail lines link Tokyo with Japan's major business centers at speeds of up to 185 mph. All of Japan's large cities have highly developed subway and commuter train service. Taxi service is available everywhere.

Language

Return to top

The national language of Japan is Japanese (*nihongo*) and is spoken and understood all over the country. English is a required subject in Japanese high schools, and it is by far the most widely known foreign language in Japan. International business correspondence and negotiations in Japan are almost always conducted in English. This being said, however, most Japanese, including business executives, have a limited understanding and command of English, although there are of course exceptions. Japanese business executives often read English much better than they can speak it or understand it when spoken. It is advisable, therefore, to be accompanied by a competent professional interpreter to all business meetings, especially an initial contact where you might be unsure of your counterparts' mastery of English.

Overseas visitors interested in the Japanese language can visit the following web sites:

"Japanese for the Western Brain"
http://kimallen.sheepdogdesign.net/Japanese/index.html

Jim Breen's Japanese Page
http://www.csse.monash.edu.au/~jwb/japanese.html

Health

Return to top

Japan poses no medical health risks to the business traveler. While medical care in Japan is good, English-speaking physicians and medical facilities that cater to U.S. citizens' expectations are expensive and not very widespread. Japan has a national health insurance system, which is only available to foreigners with long-term visas for Japan. National health insurance does not pay for medical evacuation or medical care outside of Japan. Medical caregivers in Japan require payment in full at the time of treatment or concrete proof of ability to pay before treating a foreigner who is not a member of the national health insurance plan. Most major credit cards are accepted.

For additional information, please refer to the State Department's "Japan – Country Specific Information" website at http://travel.state.gov/travel/cis_pa_tw/cis/cis_1148.html

Local Time, Business Hours, and Holidays

Return to top

Time: Japan is 14 hours ahead of U.S. Eastern Standard Time (EST) and 13 hours ahead of Eastern Daylight Time (EDT) from April to October. Consequently, 8:00 a.m. EST in New York City corresponds to 10:00 p.m. the same day in Tokyo. 8:00 p.m. EST in New York City corresponds to 10:00 a.m. *the next day* in Tokyo. Japan is one of the few major industrialized countries that do not observe some form of daylight saving time.

Hours: The typical Japanese workweek is Monday through Friday, 9:00 a.m. to 5:00 p.m., although many Japanese office workers put in long hours of overtime. Flex work hours have become popular at some large companies. Interestingly, the overwhelming majority of Japanese take their lunch break promptly at 12:00 noon and return to the office at 1:00 p.m. sharp.

Holidays: When a national holiday falls on a Sunday, the following Monday is a compensatory day. In addition, many Japanese companies and government offices traditionally close during the New Year's holiday season (December 29-January 3), "Golden Week" (April 29-May 5) and the traditional “O-Bon” Festival (August 13-15).

In 2011, Japan will observe the following official national holidays:

New Year's Day January 1 (Friday)
Adult's Day January 10 (Monday)
National Foundation Day February 11 (Friday)
Vernal Equinox Day March 21 (Monday)
Showa Day April 29 (Friday)
Constitution Memorial Day May 3 (Tuesday)
Greenery Day May 4 (Wednesday)
Children's Day May 5 (Thursday)
Marine Day July 18 (Monday)
Respect for the Aged Day September 19 (Monday)
Autumnal Equinox Day September 23 (Friday)
Health & Sports Day October 10 (Monday)
National Culture Day November 3 (Thursday)
Labor Thanksgiving Day November 23 (Wednesday)
Emperor's Birthday December 23 (Friday)

Temporary Entry of Materials and Personal Belongings

Return to top

There is no restriction for temporary entry of laptop computers and software for personal use. Regarding materials for exhibits, Japan is a member of the International Convention to Facilitate the Importation of Commercial Samples and Advertising Materials under the ATA *carnet* System (http://www.atacarnet.com). Use of a *carnet* allows goods such as commercial and exhibition samples, professional equipment, musical instruments and television cameras to be carried or sent temporarily into a foreign country without paying duties or posting bonds. These goods cannot be sold. A *carnet* should be arranged for in advance by contacting a local office of the United States Council for International Business or its helpline at (800) ATA-2900.

Web Resources

Return to top

Doing business in Japan:

U.S. Commercial Service Japan:
http://www.buyusa.gov/japan/en/doingbusinessinjapan.html

Consular information & official travel advisories for Japan:

U.S. Department of State:
http://travel.state.gov/travel/cis_pa_tw/cis/cis_1148.html

U.S. visas:
U.S. Department of State:
http://travel.state.gov/visa/visa_1750.html
U.S. Embassy Tokyo Consular Section:
http://tokyo.usembassy.gov/e/tvisa-main.html

Japanese customs, etiquette, and culture:
http://www.japan-guide.com
http://www.thejapanfaq.com
http://www.planettokyo.com

Japanese language:

"Japanese for the Western Brain"
http://kimallen.sheepdogdesign.net/Japanese/index.html
Jim Breen's Japanese Page
http://www.csse.monash.edu.au/~jwb/japanese.html

Business infrastructure:

Japan National Tourist Organization (JNTO):
http://www.jnto.go.jp

Health:
U.S. Department of State; Japan – Country Specific Information:
http://travel.state.gov/travel/cis_pa_tw/cis/cis_1148.html

Temporary entry of materials under the *carnet* system:
http://www.atacarnet.com

Return to table of contents

Return to table of contents

Chapter 9: Contacts, Market Research and Trade Events

- Contacts
- Market Research
- Trade Events

Contacts

Return to top

U.S. EMBASSY TRADE PERSONNEL

Commercial Service Tokyo
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Helen Peterson, Commercial Attaché (Healthcare, Fisheries and Tourism Unit)
Mark Wildman, Commercial Attaché (Advanced Technologies Unit)

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Consulate General Naha (Okinawa)
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Foreign Agricultural Service
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(U.S. Address: Unit 45004, Box 226, APO AP 96337-5004)
Tel: +81/3/3224-5105; fax: 3589-0793
Web: www.usdajapan.org/
E-mail: agtokyo@usda.gov

Agricultural Trade Office (Tokyo)
Steve Shnitzler, Director
U.S. Embassy Tokyo, 1-10-5, Akasaka, Minato-ku, Tokyo 107-8420
(U.S. Address: Unit 45004, Box 241, APO AP 96337-5004)
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Agricultural Trade Office (Osaka)
Chika Motomura, Ag. Marketing Specialist
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E-mail: atoosaka@usda.gov

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Energy Department
Ronald Cherry, Energy Attaché
U.S. Embassy Tokyo, 1-10-5 Akasaka, Minato-ku, Tokyo 107-8420

Tel: +81/3/3224-5444; fax: 3224-5769

Treasury Department
Robert Kaproth, Financial Attaché
U.S. Embassy Tokyo, 1-10-5 Akasaka, Minato-ku, Tokyo 107-8420
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CHAMBERS OF COMMERCE/TRADE ASSOCIATIONS

American Chamber of Commerce in Japan (ACCJ)
Sam Kidder, Executive Director
Masonic 39 MT Bldg. 10F; 2-4-5 Azabudai, Minato-ku; Tokyo 106-0041
Tel: +81/3/3433-5381; fax: 3433-8454
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American Chamber of Commerce in Japan (ACCJ) Kansai Chapter
Keizo Yamada, Director Chapter Office - Kansai
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American Chamber of Commerce in Japan (ACCJ) Chūbu Chapter
Noriko Kato, Chūbu Operations Manager
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Web: http://www.accj.or.jp/user/298/Chubu/

Japan Business Federation (Nippon Keidanren)
International Economic Affairs Bureau
1-3-2 Otemachi, Chiyoda-ku, Tokyo 100-8188
Tel: +81/3/6741-0171; fax: 6741-0301
Web: http://www.keidanren.or.jp

Japan Association of Corporate Executives (Keizai Doyukai)
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Web: http://www.doyukai.or.jp/en

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Japan-U.S. Business Council
Keidanren Kaikan, 1-3-2 Otemachi, Chiyoda-ku, Tokyo 100-0004
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Web: http://www.tokyo-cci.or.jp/english/index.html

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Web: http://www.kankeiren.or.jp/English

Kansai Association of Corporate Executives (Kansai Keizai Doyukai)
Executive & Administrative Dept./Planning & Research Dept.
Nakanoshima Center Bldg. 28F, 6-2-27, Nakanoshima, Kita-ku, Osaka 530-6691
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Web: http://www.kansaidoyukai.or.jp

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International Group
2-10-19 Sakae, Naka-ku, Nagoya 460-8422
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Web: http://www.nagoya-cci.or.jp/eng

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International Center
9-28 Hakata Ekimae 2-chome, Hakata-ku, Fukuoka 812-8505
Tel: +81/92/441-1117; fax: 441-1600
Web: http://www.fukunet.or.jp/english/index.html

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Web: http://www.fukuoka-fta.or.jp/english/index.html

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Japan Chain Stores Association
Toranomon NN Bldg., 11F., 1-21-17 Toranomon, Minato-ku, Tokyo 105-0001
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All Nippon Kashi Association
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Japan Convenience Foods Industry Association
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Web: www.instantramen.or.jp/english/index.html

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Japan Dehydrated Vegetable Association
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Japan Food Service Association
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Web: www.reishokukyo.or.jp/

Japan Fruit Juice Association
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Web: www.kaju-kyo.ecnet.jp/

Japan Health Food & Nutrition Food Association
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Email: jhnfa@jhnfa.org

Web: www.jhnfa.org/

Japan Nut Association
Kohinata Bldg #203, 2-18-10,
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Web: http://www.jna-nut.com/

Japan Self-Service Association
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Web: www.jssa.or.jp/

Japan Restaurant Association
BM Kabutocho Bldg., 11-7 Nihonbashi Kabutocho, Chuo-ku, Tokyo 103-0026
Tel: +81/3/5651-5601; fax: 5651-5602
Email: info@jpnrestaurant.org
Web: www.joy.ne.jp/restaurant/

Japan Wine And Spirits Importers' Association
Daiichi Tentoku Bldg., 1-13-5 Toranomon, Minato-ku, Tokyo 105-0001
Tel: +81/3/3503-6505/6506; fax: 3503-6504
Web: www.youshu-yunyu.org/english/index.html

JAPANESE GOVERNMENT AGENCIES

Ministry of Economy, Trade and Industry (METI)
Trade & Investment Facilitation Division
1-3-1 Kasumigaseki, Chiyoda-ku, Tokyo 100-8901
Tel: +81/3/3501-1662; fax: 3501-2082
Web: http://www.meti.go.jp/english/index.html

Japan External Trade Organization (JETRO)
Invest Japan Dept.
Ark Mori Bldg., 6F, 1-12-32, Akasaka, Minato-ku, Tokyo107-6006
Tel: +81/3/3582-5511
Web: http://www.jetro.go.jp

JETRO “Invest Japan” Business Support Center
Ark Mori Bldg., 7F, 1-12-32, Akasaka, Minato-ku, Tokyo107-6006
Tel: +81/3/3582-4686; fax: 3584-6024
Web: http://www.jetro.go.jp/en/invest/investmentservices/ibsc

Manufactured Imports and Investment Promotion Organization (MIPRO)
World Import Mart Bldg 6F, 3-1-3 Higashi-Ikebukuro, Toshima-ku, Tokyo 170-8630
Tel: +81/3/3988-2791; fax: 3988-1629
Web: http://www.mipro.or.jp/english/

For further contact information of Japanese government agencies and quasi-governmental organizations, please contact Commercial Service Japan offices.

U.S. FEDERAL GOVERNMENT

U.S.A. Trade Information Center
Ronald Reagan Building and International Trade Center
1300 Pennsylvania Avenue, NW
Washington, D.C. 20004
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Email: tic@ita.doc.gov
Web: http://www.export.gov/exportbasics/eg_main_017483.asp

U.S. Department of Commerce
Assistant Secretary for Trade Promotion and
Director General of the U.S. and Foreign Commercial Service
International Trade Administration
1401 Constitution Avenue, N.W., Washington, DC 20230
Web: http://www.export.gov

U.S. Department of Commerce, Market Access and Compliance Country Desk
Office of Japan
Keith Roth, Director
International Trade Administration
Room 2320, 14th Street and Constitution Avenue, N.W.
Washington, DC 20230
Tel: 202-482-2515; fax: 202-482-0469
Email: Keith.Roth@trade.gov
Web: http://www.mac.doc.gov/japan

U.S. Department of Agriculture
Foreign Agricultural Service
1400 Independence Ave., S.W., Washington, DC 20250
Email: info@fas.usda.gov
Web: http://www.fas.usda.gov

U.S. Department of State
Commercial and Business Affairs Office
2201 C Street, N.W., Room 2318, Washington, DC 20520
Tel: 202-647-1625; fax: 202-647-3953
Email: BusinessOutreachweb@state.gov
Web: http://www.state.gov/business

Export-Import Bank of the United States (Ex-Im Bank)
811 Vermont Avenue, N.W.
Washington, DC 20571
Tel: (202) 565-3946 (EXIM) or (800) 565-3946 (EXIM)
Email: info@exim.gov
Web: http://www.exim.gov

Overseas Private Investment Corporation (OPIC)

1100 New York Avenue, N.W.
Washington, D.C. 20527
Tel: 202-336-8400; fax: 202-336-7949
Email: info@opic.gov
Web: http://www.opic.gov

Market Research

Return to top

To view market research reports produced by the U.S. Commercial Service please go to the following website: http://www.export.gov/marketresearch.html and click on Country and Industry Market Reports.

Please note that these reports are only available to U.S. citizens and U.S. companies. Registration to the site is required, but free of charge.

In addition, each year the Foreign Agricultural Service offices in Tokyo and Osaka prepare more than 100 reports on food market developments in Japan. These include sector studies, product-specific market briefs and reports on market-opening and other trade policy developments. All reports are available on-line by accessing the Foreign Agricultural Service web site at http://www.fas.usda.gov/scriptsw/attacherep/default.asp

Trade Events

Return to top

Please click on the link below for information on upcoming trade events.

http://www.export.gov/tradeevents.html

Please click on the link below for information regarding upcoming trade events in Japan specifically: http://www.buyusa.gov/japan/en/event.html

Return to table of contents

Return to table of contents

Chapter 10: Guide to Our Services

The President's National Export Initiative aims to double exports over five years by marshaling Federal agencies to **prepare U.S. companies to export successfully**, **connect them with trade opportunities** and **support them once they do have exporting opportunities**.

The U.S. Commercial Service offers customized solutions to help U.S. exporters, particularly small and medium sized businesses, successfully expand exports to new markets. Our global network of trade specialists will work one-on-one with you through every step of the exporting process, helping you to:

- Target the best markets with our world-class research
- Promote your products and services to qualified buyers
- Meet the best distributors and agents for your products and services
- Overcome potential challenges or trade barriers
- Gain access to the full range of U.S. government trade promotion agencies and their services, including export training and potential trade financing sources

To learn more about the Federal Government's trade promotion resources for new and experienced exporters, please click on the following link: www.export.gov

For more information on the services the U.S. Commercial Service offers to U.S. exporters, please click on the following link: http://www.buyusa.gov/japan/en

U.S. exporters seeking general export information/assistance or country-specific commercial information can also contact the **U.S. Department of Commerce's Trade Information Center** at **(800) USA-TRAD(E).**

We value your feedback on the format and contents of this report. Please send your comments and recommendations to: Market_Research_Feedback@trade.gov

To the best of our knowledge, the information contained in this report is accurate as of the date published. However, **The Department of Commerce** does not take responsibility for actions readers may take based on the information contained herein. Readers should always conduct their own due diligence before entering into business ventures or other commercial arrangements. **The Department of Commerce** can assist companies in these endeavors.

Return to table of contents