

I mportance of Japanese Market in Global Strategy

By Tadayuki NAGASHIMA

Introduction

The unprecedented financial crisis stemming from the US subprime mortgage meltdown is taking its toll over national economies worldwide. The financial crisis – and the ensuing synchronized global economic downturn – represents the negative aspect of the ongoing globalization. Japanese businesses, most of them dependent heavily on exports, are being forced to cut back on production and employment. The dire situation comes in part from the contraction of overseas markets and in part from the yen's appreciation against other key currencies.

Amid the synchronized global recession, no optimism can be warranted concerning the outlook for investments in Japan. But given the positive aspect of globalization that has thus far helped spur economic growth and add value to products and services, Japan is highly likely to become all the more lucrative market for foreign businesses in their investment strategies. The attractiveness of the Japanese market should be considered from the perspective of “Japan in Asia” and “Japan firmly built in the globalization of economies in the world” rather than “Japan alone.” Through such a perspective, the importance of Japan in global investment strategies looms into view.

Attractiveness of Japanese Market – 3 Keywords

In considering the significance of Japan in mapping out a global corporate strategy, we can find three keywords – market opportunities, partnerships and innovation.

The first keyword is market opportunities. Amid the global economic slowdown, the Japanese economy is also shrinking. But there is no change in the fact that Japan is the second-largest market next only to the United States. Looking at its market scale, it is big enough to offer opportunities even to small and midsize foreign companies. Moreover, no less important in terms of market quality is the fact that there are numerous smart consumers in the Japanese marketplace. You can tap and grasp your opportunities not only in the Japanese market but Asian – and global – markets as well by testing whether you can have your products and services accepted by sophisticated Japanese consumers.

The second keyword is partnerships. As is well known, there are numerous advanced blue-chip companies in Japan, in addition to the likes of Toyota Motor Corp. and Sony Corp. The products of Japanese businesses have now won high market share worldwide. It is well-known through many news reports that Japanese-made motor vehicles have a global market share of around 30%. But industrial robots boast a higher share of 40%. As for materials, carbon fiber that is indispensable for manufacturing aircraft commands a 70% share and silicon wafers for use in semiconductors – the high-tech component industry – have the lion's share of as high as

74%. Today Japanese companies are playing significant roles as component suppliers and sources for materials in a variety of industrial sectors. Forming partnerships with these Japanese companies makes it possible for foreign firms to use each other's business resources in doing business internationally, thereby making it possible to reinforce international competitiveness and offer state-of-the-art products in the global market.

Innovation is the third keyword. In an effort to bolster international competitiveness and maintain growth, Japanese businesses have actively invested in research and development with the result that they have created cutting-edge technologies in the areas of automobiles, electronics, and environmental protection and energy conservation. And small and midsize companies in various parts of Japan are supporting efforts for innovation with their respective “only one” technology. For instance, the globally popular iPod portable digital music player of Apple Inc. is currently designed in the United States and fabricated in China. Technology of small Japanese companies is essential for production of the electronic gadget. In the city of Okaya, Nagano Prefecture, Nakamura Mfg. Co. is assembling super-small HDD substrates for use in the iPod with a workforce of only 120 employees. In Niigata Prefecture, Toyo Rikagaku Kenkyusho Co. is processing the back surface of the iPod body with a labor force of only 400 employees. These facts may be little known among people in Japan and abroad.

Moreover, Evryx Technologies Inc. of the United States, which supplies technology for image recognition via the mobile phone, is striving to bring about further innovation in the Japanese mobile phone market, widely viewed as the world's most advanced one, with the support of JETRO and in collaboration with Japanese cell-phone companies. With the ambitious entry into the advanced marketplace, Evryx technologies and services are poised to evolve further.

New Trends in Investments in Japan

Foreign direct investments in Japan logged a net inflow of about ¥2 trillion in 2008, according to the country's balance of payments statistics released by the Ministry of Finance in February.

Examining specific examples of JETRO-assisted foreign corporate entries into Japanese markets, you can notice that some foreign companies such as luxury car manufacturer Ferrari and interior goods retailer Alessi, both of Italy, have sought to boost their sales in Japan by setting up their own local bases, doing away with years of marketing via agents. Meanwhile, Ikea of Sweden and MCDecaux of France have expanded their presence from the Tokyo metropolitan area to main cities in provincial areas.

On top of these moves to bolster and expand Japan business, three new trends can be observed among foreign companies aiming to secure presence in this country.

First, players in foreign direct investments in Japan have begun to change. Up until last year, European and North American players had dominated such investments. Of late, however, investments in Japan from the rest of Asia are growing steadily. In value, Asian investments in Japan are still far smaller than those from the United States and Europe. But investments from the Asian region chalked up a 1.5-fold jump in 2008 from the previous year. A regional breakdown of foreign companies assisted by JETRO in their entry into Japan during 2008 shows companies from Asia outnumbered those from North America and Europe (Table 1).

The Asian businesses that moved into Japanese markets with the support of JETRO in 2008 include big Chinese e-commerce site operator Alibaba, Singapore government-affiliated real-estate investment fund Ascendas and major Indian generic drug maker Shasun Chemicals and Drugs. In addition, some Chinese high-tech companies have begun to enter Japanese markets with the aim of switching their production items to high value-added goods with made-in-Japan labels.

Second, foreign direct investments in Japanese environmental and energy-saving areas began to appear. Given Japan's dominant global position in these sectors, combined with severe competition, JETRO has extended support to only a limited number of foreign companies in their efforts to break into these areas. But growing public awareness of the environment and ecology has prompted some foreign companies to move into Japan. Such foreign businesses vary from energy-management software service providers to traders handling exports and imports of recycled materials and components. Although investment cases and amounts are still small relative to those in other areas, foreign direct investments in those areas are expected to gather momentum.

The third characteristic trend is that a growing number of foreign

TABLE 1
Foreign direct investments in Japan
(breakdown by region, ¥100 million)

	2007	2008
North America	15,176	6,609
Western Europe	5,560	5,081
Asia	2,029	3,501

Source: Balance of payments data (preliminary), Ministry of Finance

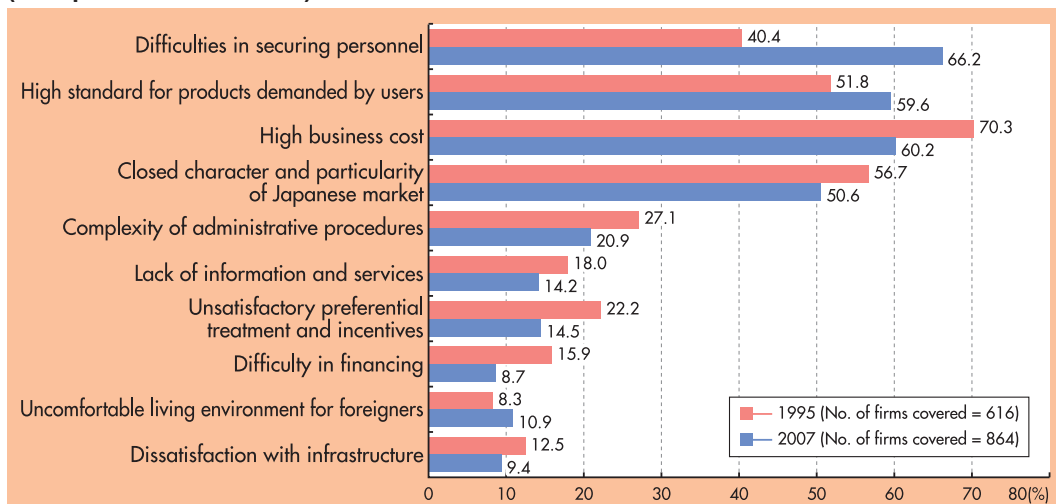
businesses are strategically moving into Japanese markets with an eye on the Asia market as a whole. For example, Brazil's state-run oil company Petrobras has acquired Nansei Sekiyu. The Brazilian oil giant's strategy calls for selling its bioethanol and other petroleum products to Asian countries using the acquired oil company as its marketing base. Meanwhile, French trend-analyzing and forecasting firm Trend Union has started offering information on Japanese trends early to customers in the rest of the world. A greater number of foreign companies are poised to use Japan as the springboard for launching into the Asia market.

Secure Business Climate for Foreign Firms

With corporate activities becoming increasingly global, the Japanese market was once seen by many foreign companies as a closed market because of high business cost, closed nature and peculiarity. Such a perception is particularly strong among those foreign companies which have little experience in doing business in Japan, and it has taken root firmly as a misperception about Japan.

According to the results of a survey conducted by JETRO in 2007 on attitudes of foreign-affiliated companies toward direct investment in Japan (Chart 1), substantial improvement was seen in their perception about the climate of the Japanese market for foreign companies in terms of high business cost, closed nature, peculiarity and administra-

CHART 1
Impediments to business in Japan
(multiple answers allowed)



Source: JETRO's Survey on Attitudes of Foreign-Affiliated Companies toward Direct Investment in Japan 2007

TABLE 2

Industry-wise rates of return on investments by US companies (2003-2007 average)

		Japan	Canada	France	Germany	Italy	Britain	World average
All industries		12.7	10.1	9.5	8.8	8.6	6.8	12.7
Mining			14.7	7.2	13.0	39.5	15.9	22.2
Manufacturing	Mfg. total	16.1	8.5	8.4	10.0	8.1	7.2	12.2
	Food	12.7	20.0	11.7	2.2	10.0	14.4	14.8
	Chemicals	13.8	11.7	17.0	13.0	9.7	6.1	13.4
	Primary/fabricated metals	1.8	5.8	0.8	15.6	9.5	10.3	10.0
	Machinery	12.5	8.7	30.1	10.3	7.7	7.2	12.4
	Computers/electronic products	16.7	8.5	6.4	15.5	11.0	8.3	14.9
	Electrical equipment/appliances/components	21.4	11.2	4.6	8.5	3.4	9.8	10.0
	Transportation equipment	13.4	0.4	6.3	3.1	3.5	-1.2	7.0
Other manufacturing	21.3	12.5	6.3	9.6	8.9	8.8	12.7	
Wholesale trade		9.9	13.6	26.9	13.9	17.9	12.2	19.3
Information		23.1	11.1	28.6	12.9	13.7	6.6	15.7
Depository institutions (banking)		-31.5	16.5	9.6	5.7	-31.2	-4.1	1.3
Finance (except depository institutions)/insurance		11.6	7.8	7.2	9.9	8.7	4.8	7.4
Professional/scientific/technical services		16.1	15.7	18.2	11.9	8.0	12.5	15.3
Holding companies (nonbank)		6.1	12.7	6.4	4.8	4.4	10.9	15.6
Other industries		13.8	8.5	6.6	7.6	12.2	6.0	9.9

Note: To calculate return on investment, income from direct investment is divided by direct investment cost at the end of the previous year. The world average includes the rates of countries other than those mentioned above.

Source: Compiled by JETRO from US Commerce Department data

tive procedures. Undoubtedly, business cost is still relatively high in Japan as exemplified by the corporate tax. But a secure climate for foreign companies doing business in Japan is in place as shown by, among other things, sufficient infrastructure for information/telecommunications and good conditions for intellectual property protection.

Table 2 shows returns on investments in foreign markets by US businesses that were calculated based on statistical data released by the US Department of Commerce. The rates of return on direct investments in the Japanese market by US companies average about 13% on an all-industry basis, the highest among major industrialized countries. Investment returns in electrical machinery, professional, scientific and technical services, transportation equipment, and finance (except depository institutions) and insurance represent the highest levels in Japan. In other sectors as well, rates are higher than those in other industrialized countries. These figures indicate that the business climate in Japan can be regarded as satisfactory for foreign companies.

As for the living environment in Japan, foreign business people can also enjoy a variety of dishes and cultures from around the world, and lead safe and comfortable lives. For instance, the Michelin Guide Tokyo 2009 described Tokyo as the hub of gastronomy – a city with the largest number of star-rated restaurants in the world. Japan well surpasses other countries and regions in terms of a safe and comfortable living environment.

Services of JETRO

Finally, let me introduce what services JETRO is offering to those foreign companies which are considering moving into and setting up

business footholds in Japan. JETRO is Japan's sole organization that has a one-stop service center for promoting investments in the country, known as the Invest Japan Business Support Center (IBSC). Since 2003, the IBSC has helped more than 600 foreign firms establish bases in Japan, mainly offering temporary offices free of charge. JETRO's services feature "seamless" support that includes supplying market information and helping foreign firms develop business ties with their Japanese counterparts, establish their bases in Japan and make secondary investments in the country.

Office Space of Tokyo IBSC

Currently, there are IBSC offices in six major Japanese cities – Tokyo, Yokohama, Nagoya, Osaka, Kobe and Fukuoka – where business activities are most buoyant in Japan. Each IBSC office has experienced staff and advisers well-versed in procedures for opening business bases such as market, legal, labor and tax affairs. Furthermore, foreign firms can set up business in Japan with extreme ease by making preparations jointly with JETRO that has not only an established credit standing as a government-affiliated organization but also an array of networks linked to Japanese business circles.

For further inquiries about JETRO's services for promoting investments in Japan, please access the Invest Japan website (<http://www.investjapan.org/>).

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