



Doing Business in Japan: 2013 Country

Commercial Guide for U.S. Companies

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Chapter 1: Doing Business In Japan

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As the world's fourth-largest buyer of American products, Japan is a market that American companies should not overlook, but approach with a thoughtful strategy. Japan is a technology powerhouse, a "proving ground" for consumer requirements, and stands in the vanguard with respect to the sweeping changes recently seen in developed market demographics. Most U.S. state economic development agencies are also well aware of the important foreign direct investment coming into their communities from Japan. While the reasons U.S. firms engage with Japan are diverse, savvy firms recognize that underestimating the strategic and tactical importance of the Japanese market may disadvantage them not only in Japan, but in the United States and third-country markets as well.

Market Overview

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- Japan is back in the business news headlines in 2013, owing in part to a rising stock market, a sharply lower yen, and stirrings of domestic demand for both personal consumption and capital investment. The new economic policy linked to these developments is known as "Abenomics"-- a three pronged strategy of bold monetary loosening, fiscal stimulus centered on infrastructure spending, and growth-oriented structural reform. While the implications and ultimate success of this strategy in reigniting growth in Japan are far from certain, it has drawn considerable attention from U.S. businesses.
- In April 2013 the U.S. and Japanese governments agreed on a package of actions and agreements that pave the way for the Obama Administration to support Japan's participation in the Trans-Pacific Partnership (TPP). With Japan's participation in the TPP, its members would account for nearly 40 percent of World GDP. Moreover, the liberalization expected to be required of TPP member countries may play an important role in promoting the domestic economic reforms likely to be called for under "Abenomics."
- While Japan has made significant steps toward economic healing following the tragic combined earthquake, tsunami, and nuclear incident of March 2011, there are lasting changes noticeable on various levels, including idled nuclear power plants.
- Japan remains the world's third-largest economy, after the United States and China, with a GDP of roughly \$5.8 trillion. Japan is the fourth-largest export

market for U.S. goods and services, and our fourth-largest trading partner overall. In 2012 the U.S. exported \$70 billion in goods to Japan. The United States runs a persistent trade deficit with Japan in merchandise, and a surplus in services.

- Japan is the second-largest foreign investor in the United States, with more than \$257 billion invested.
- During 2012 the Japanese yen was stable against the dollar. However, the yen weakened appreciably in the first half of 2013. Even so, U.S. products remain competitive in Japan.
- Japan's large government debt, which totals over 200 percent of GDP, persistent deflation, and an aging and shrinking population are major challenges confronting the economy.
- In 2012, the top exporters to Japan were China, the United States, Australia, Saudi Arabia, the UAE, South Korea, and Indonesia. The top importers from Japan were China, the United States, 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. 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

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The degree of difficulty in penetrating the Japanese market depends 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), 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 make market entry difficult. These can include Japanese import license requirements, restricted or prohibited imports, temporary entry of goods, certifications, standards, labeling requirements, etc. For more details, see [Chapter 5, Trade Regulations, Customs and Standards](#) of this Guide.

Market Opportunities

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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 products and services including high-value food and beverage
Biotechnology
Cloud Computing
Cosmetics & Toiletries
Education & Corporate Training
Electronic Components
Healthcare IT
Medical Equipment
Pharmaceuticals
Renewable Energy
Safety & Security
Environmental Remediation & Engineering Services
Telecommunications Equipment
Travel & Tourism

For more details, please refer to [Chapter 4, Leading Sector for U.S. Export and Investment](#), of this Guide.

Market Entry Strategy

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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 nature and pace of deal-making in Japan are quite different from those in 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:

| | |
|------|--------|
| 2009 | 93.68 |
| 2010 | 87.78 |
| 2011 | 79.70 |
| 2012 | 79.82 |
| 2013 | 79.82* |
| 2014 | 79.82* |

*GOJ new easy-money fiscal policies have had a considerable effect thus far this year—102.58 as of 5/20/13-- and may continue to have a weakening effect on the yen.

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

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COUNTRY FACT SHEET: JAPAN

PROFILE

Population in 2011 (Millions): 128
 Capital: Tokyo
 Government: Constitutionalmonarchy

ECONOMY

| | 2009 | 2010 | 2011 |
|--|--------|--------|--------|
| Nominal GDP (Current Billions \$U.S.) | 5,035 | 5,489 | 5,867 |
| Nominal GDP Per Capita (Current \$US) | 39,321 | 42,863 | 45,870 |
| Real GDP Growth Rate (% change) | -5.5 | 4.5 | -0.76 |
| Real GDP Growth Rate Per Capita (% change) | -5.5 | 4.5 | -0.64 |
| Consumer Prices (% change) | -1.3 | -0.72 | -0.29 |
| Unemployment (% of labor force) | 5.1 | 5.0 | 4.6 |
| Economic Mix in 2010: 27.4% All Industries; 19.5% Manufactures; 71.5% Services; 1.2% Agriculture | | | |

FOREIGN MERCHANDISE TRADE (\$US Millions)

| | 2009 | 2010 | 2011 |
|---------------------------------|---------|---------|---------|
| Japan Exports to World | 580,719 | 769,839 | 823,184 |
| Japan Imports from World | 551,985 | 692,621 | 855,380 |
| U.S. Exports to Japan | 51,134 | 60,486 | 65,706 |
| U.S. Imports from Japan | 95,804 | 120,545 | 128,925 |
| U.S. Trade Balance with Japan | -44,669 | -60,060 | -63,219 |
| Position in U.S. Trade: | | | |
| Rank of Japan in U.S. Exports | 4 | 4 | 4 |
| Rank of Japan in U.S. Imports | 4 | 4 | 4 |
| Japan Share (%) of U.S. Exports | 4.8 | 4.7 | 4.4 |
| Japan Share (%) of U.S. Imports | 6.1 | 6.3 | 5.8 |

Principal U.S. Exports to Japan in 2011:

1. Chemicals (16.2%)
2. Computer & Electronic Products (12.7%)
3. Agricultural Products (12%)
4. Transportation Equipment (10.7%)
5. Food & Kindred Products (9%)

Principal U.S. Imports from Japan in 2011:

1. Transportation Equipment (37.1%)
2. Machinery, Except Electrical (18.3%)
3. Computer & Electronic Products (15.3%)
4. Chemicals (9.8%)
5. Electrical Equipment, Appliances & Components (3.5%)

FOREIGN DIRECT INVESTMENT

| | 2009 | 2010 | 2011 |
|--------------------------------------|---------|---------|---------|
| U.S. FDI in Japan (US \$Millions) | 93,576 | 102,597 | 116,533 |
| FDI in U.S. by Japan (US \$Millions) | 238,140 | 252,077 | 289,490 |

DOING BUSINESS/ECONOMIC FREEDOM RANKINGS

World Bank Doing Business in 2012 Rank: 24 of 185
 Heritage/WSJ 2012 Index of Freedom Rank: 22 of 179

Source: Created by USDOC/ITA/OTII-TPIS from many sources: FDI from USDOC, Bureau of Economic Analysis. US Trade from USDOC, Census Bureau, Foreign Trade Division. Japan Trade with World from United Nations where available. National Macroeconomic data from IMF/World Bank databases including World Economic Outlook and World Development Indicators. .WORLD and other country aggregates are summaries of available UN COMTRADE, IMF and other data, and coverage varies over time and by source, but typically represents greater than 85 percent of world trade and production. Note: Principal U.S. Exports and Imports Are 3-digit NAICS Categories

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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

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Traditionally, the bureaucracy 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 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. The 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 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 has it been eliminated completely. The Government of Japan (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 those 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

representing over 40 countries, and its more than 60 committees, sub-committees, and task forces are highly visible advocates for U.S. business interests. U.S. Embassy officers and staff liaise with these committees and work closely with the ACCJ on market access, deregulation, competition, trade, and investment issues. Some regulatory barriers 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

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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. As is the U.S. and elsewhere, the need for replacement or upgrading of aged infrastructure has been brought to the fore by recent high-profile infrastructure accidents. Moreover, the recently returned Liberal Democratic Party under Prime Minister Abe has signaled that renewed infrastructure spending will be a focus of its fiscal stimulus. Road tolls, however, are expensive. Although the government has periodically implemented initiatives to reduce certain tolls, as of April 2013, a large truck will pay over the equivalent of \$300 in tolls each way between Tokyo and Osaka (about 315 miles). Tolls for a small passenger car on the same trip amount to about \$120. Japan's airport fees push airline ticket costs up to be among the most expensive in the world. Japan's port practices and import processing are generally efficient.

Agricultural Products Market

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The importance of food in the Japanese culture is reflected by size of its food and agricultural market, recently valued at approximately \$821 billion (2011), and Japan is the largest food importer in the world. At 23 percent of disposable income, per capita spending (for households of two or more people) 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. One hallmark of this market is the Japanese consumers' obsession with quality. Japanese tend to value the taste of food over the quantity of food. However, this has changed slightly and many Japanese consumers are seeking value. Still, Japanese consumers are highly brand-conscious, cognizant of the seasonality of certain foods. 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 to be important and indicative of quality and healthfulness of the product.

Japan is the 4th largest destination for U.S. agricultural products, and is the number one destination for consumer ready food products. U.S. wheat, rice, corn, soybeans, pork, beef, processed fruits and vegetables, citrus, wine, cherries, and processed snack foods make up the largest sectors. In 2012, about 10 percent of all U.S. agricultural, forestry

and fishery product exports, valued at \$14.9 billion were destined for Japan, of which \$6.3 billion were consumer ready foods. 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 staple food supplies; (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 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, and ice cream, all of these markets have now, to some degree been opened. For example, on February 1, 2013, Japan expanded access for U.S. beef by revising its import regulations, including raising the cut-off age for beef importation from cattle from 20 months to 30 months. U.S. beef and beef product exports to Japan reached nearly \$1.03 billion in FY2012, the United States' second largest export market, accounting for 19 percent of U.S. trade. 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 Global Agricultural Information Network (GAIN) reports of the U.S. Department of Agriculture's (USDA) Foreign Agriculture Service at: <http://gain.fas.usda.gov/Lists/Advanced%20Search/AllItems.aspx>.

Leading Economic Regions

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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: New Tokyo International Airport in Narita, Chiba Prefecture (often called "Tokyo Narita"), and Tokyo International Airport (commonly known as "Tokyo Haneda"), just south of central Tokyo. 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 consists of Hokkaido and the six prefectures of northern Honshu that are called Tohoku (Aomori, Akita, Miyagi, Iwate, Fukushima, and Yamagata). Together they comprise roughly one third of the Japan's landmass and one ninth of its population. Hokkaido has a population of approximately 5.5 million and Tohoku has a population of approximately 9.2 million (as of 2011). The Gross Regional Product (GRP) for Hokkaido is approximately \$184 billion and for Tohoku is approximately \$333 billion (JPY100 to the dollar). Hokkaido, located roughly 500 miles north of Tokyo, is Japan's northernmost island.

These prefectures comprise Japan's agricultural heartland, with large-scale dairy production and diverse farming in Hokkaido, and highly prized rice growing in Akita and Miyagi Prefectures in Tohoku. Hokkaido's agricultural output was about \$9.9 billion and accounted for 12% of national agricultural output in 2010. According to Ministry of Agriculture, Forestry and Fisheries' statistics (2011), Hokkaido is the number one producer of wheat (67%), potatoes (78.9%), soybeans (27.1%), red beans (90%), kidney beans (94.6%), buckwheat (35.6%), sugar beets (100%), onions (53.7%) and fresh milk (51.9%) in Japan. Despite agriculture's importance, only 7.2 percent of Hokkaido's 2.51 million labor force is working in Primary Industries. 80% of Hokkaido's workforce is in the Tertiary Sector. According to a 2012 Hokkaido Prefectural Government Economic Indicators report on the prefecture's industrial structure, Hokkaido's manufacturing sector accounts for 8.1 percent of the workforce, which is half of the national average, and the construction sector accounts for 8.9 percent of the workforce, which is 1.4 percent larger than the national average. These figures illustrate Hokkaido's economic dependence on public works.

Tohoku on the other hand has succeeded in clustering manufacturing plants in sectors such as auto assembly, auto parts, electronic components, devices, circuits, and ICT equipment. Manufacturing accounted for 16.3 percent of regional output in 2009, with farming at 2.7 percent and construction at 5.7 percent (source: Tohoku Economy 2012 document issued by Tohoku METI).

The Great East Japan Earthquake and Tsunami Disaster, which occurred on March 11, 2011, inflicted considerable damage on Tohoku's manufacturing capability, Pacific fisheries and some of its most productive farmland. Cities and towns on the Pacific Coast of Aomori, Iwate, Miyagi, and Fukushima Prefectures were severely damaged by the tsunami waves which followed the massive earthquake. Much of the inland

manufacturing had recovered by mid-2012, but small and medium size suppliers who lost contracts to competitors in other parts of Japan after the disaster have struggled to resume operations. Fisheries and coastal farms hit by the tsunami face more significant challenges and, by some estimates, could take years to regain pre-disaster production levels.

Fukushima Prefecture, which hosts two large nuclear plants with a total of ten reactors, still faces tremendous nuclear-related problems resulting from the March 11, 2011 disaster. These include radioactive substance decontamination, reactor decommissioning, and harmful rumors about the prefecture's agricultural produce. Technologies that could help resolve these issues would be highly prized in the area.

The Government of Japan's (GOJ) Reconstruction Design Council has estimated that post-disaster reconstruction in Tohoku will cost up to 20 trillion yen (\$200 billion). Most of the major reconstruction projects will occur during the next 10 years, and annual public works spending is estimated at 2 trillion yen (\$20 billion), a fourfold increase over pre-disaster expenditures for public works. Shortages of labor and concrete for reconstruction projects are constraining the pace of reconstruction efforts. The shortage of technical personnel such as civil engineers, in addition to the shortage of regular construction workers, has inflated construction sector wages not only in Tohoku but also in other regions of Japan.

Uncertainty over the future of nuclear power following the March 11 earthquake and the Fukushima nuclear reactor incident is stimulating interest in new energy technologies in Northern Japan. Many of the tsunami-devastated coastal communities seek to develop renewable energy projects as part of their reconstruction plans. The largest of these cities is Ishinomaki (population 149,000), which is working with a consortium of private companies and NGOs on a "smart city" project.

Private sector renewable energy development is more active in Hokkaido, which ranks first among all the prefectures of Japan for the number and scale of mega-solar projects (75 such facilities on 466 hectares of land). A wide range of Japanese energy and non-energy sector companies have entered the solar power market in Hokkaido. These include construction companies, agricultural entities, and Softbank, one of Japan's major telecommunications companies. Softbank is operating test sites in Hokkaido and has plans to build one of Japan's largest mega-solar plants in Tomakomai City. This plant would produce 100,000 kilowatts of electricity, enough to meet the annual demand of 20,000 households, starting as early as 2014. Public sector renewable energy projects include vegetable cultivation using biomass fuel and geothermal energy; fertilizer manufacturing and energy generation using livestock waste; and the development of small-scale hydraulic power systems in agricultural irrigation ditches.

Hokkaido and Tohoku both have significant geothermal resources, particularly within the boundaries of national parks that have been off-limits to commercial development in the past. Changes in regulations that permit development of these resources may create opportunities for firms with expertise in horizontal drilling.

Northern Japan's well-developed infrastructure, highly skilled workers, and relatively low real estate costs and wages, combined with municipal and regional government investment incentives, have prompted many foreign companies to view Hokkaido and Tohoku as attractive destinations for investment. Especially with regard to reconstruction

efforts in the Tohoku region, new energy technologies, home building materials, biotechnology, marine and agricultural inputs, pharmaceuticals and medical and homecare equipment are some of the more promising sectors.

Northern Japan has ample capacity for air passenger and cargo traffic. Tourism and related industries are an important source of growth, having largely recovered from the 2011 earthquake and tsunami disaster. Direct flights from Sapporo to Honolulu and Bangkok since late 2012, new service between Sendai and Honolulu from summer 2013, and an increasing number of flights by Japanese and international Low Cost Carriers (LCC) are boosting traffic at regional airports in Hokkaido and Tohoku. Further economic stimulus is expected in 2015, when Shinkansen bullet train service reaches Hakodate in southern Hokkaido, passing under the Tsugaru Strait via the Seikan Tunnel, the longest in the world.

In early 2012 the Japanese Government approved construction of the next and final leg of the Shinkansen, between Hakodate and Sapporo, with a target construction period of 24 years. The total investment for the Hokkaido leg is estimated at 1.67 trillion yen (\$17 billion), with the Hokkaido Prefectural Government covering at least 290 billion yen (\$3 billion). When completed, the Hokkaido Shinkansen will connect Tokyo with Sapporo in less than five hours one-way, making the “bullet train” a truly nationwide high-speed passenger rail network.

Kansai

The region of Western Japan known as Kansai lies in the western-central part of Japan's main island of Honshu. With a land area of 17,360 square miles, a population exceeding 24 million and an economy of \$886 billion, Kansai is an essential segment of the Japanese market. The region is anchored by Osaka, a vast metropolitan area second only to Tokyo in scale, and includes the major cities of Kobe and Kyoto.

Kansai is an economic powerhouse in a wide range of sectors: electronics, food, pharmaceuticals, biotech, chemicals, textiles, energy and other vibrant industries. With its current GDP, Kansai by itself would rank as the world's 11th largest economy (between Korea and the Netherlands). The region leads Japan in the production of lithium-ion batteries, solar cells and medicinal drugs. Its SMEs also hold world market share in products as diverse as gear measuring machinery, nuts and bolts for nuclear power plants and barber chairs. Kansai is home to some of Japan's – and the world's – best known corporations, such as Sharp, Panasonic, Nintendo and Kyocera. Other Kansai-based companies offer products with a global reputation: Takeda's pharmaceuticals, Capcom's video games, Wacoal's lingerie and Mizuno's sporting goods.

In addition to this manufacturing might, Kansai has a rich history of leading research in the life sciences. Kansai's bioscience clusters are leading global contributors to advances in areas such as the human immune system, the fight against infectious diseases and cerebral and cardiovascular research. In addition, Kansai is home to the world's largest third-generation synchrotron radiation facility, known as “Spring 8,” and one of the world's fastest supercomputer, known as “Kei.”

Kansai's extensive infrastructure features railway networks of bullet trains that connect Osaka, Kobe, and Kyoto to all parts of the country, three major airports that link the

region to multiple domestic and international destinations and a combined super port that serves as a hub for East Asia. In 2013, Grand Front Osaka, a major redevelopment project of businesses and residences, opened at Osaka's central railway station. Grand Front's centerpiece is Knowledge Capital, a group of R&D facilities designed to foster innovation and exchanges among tenant companies, startups and academic institutions. In 2014, Abeno Harukas, set to be Japan's tallest skyscraper, will open its complex of shopping, offices and hotel in downtown Osaka.

Kansai is attracting companies looking to establish a base in Asia. Japan's first low-cost international carrier, Peach Air, has based its operations at Kansai International Airport (KIX). In 2012, one U.S. leader in emissions controls also strategically opened its manufacturing plant adjacent to KIX in order to position itself to expand its Asia business from Japan. Amazon has built its logistic center for Asia in Sakai (in southern Osaka) and will open its second Japan office in Osaka in 2013. In 2014, FedEx will establish its North Pacific Regional hub at KIX to continue the trend.

Kansai, as the cultural and historical heart of Japan, is home to 5 UNESCO World Heritage sites. Six of the top seven prefectures, in terms of national treasures, are located in the region. Kansai is also known for its food, most notably Osaka's takoyaki (fried octopus balls), world renowned Kobe beef and the refined cuisine of Kyoto (considered to be the best in Japan). With its two professional teams, the Hanshin Tigers and the Orix Buffaloes, Kansai is a go-to destination in baseball-crazy Japan. In addition, the Tigers home of Koshien is the most famous ballpark in the country, given its long history of hosting Japan's nationwide high school baseball tournaments.

The people of Kansai are descended from Osaka's merchant culture. With their pragmatic, entrepreneurial and down-to-earth personalities, Kansai residents have a keen business sense, making them ideal business partners. Citizens of Kansai are also reputed to have Japan's best sense of humor – another useful trait.

The U.S. Commercial Service (CS) Osaka-Kobe provides a broad range of programs and services designed to help U.S. companies capitalize on opportunities in Kansai, particularly in the region's key industries of biotechnology, pharmaceuticals, medical devices, renewable energy, environmental technologies, educational services and tourism. In addition, from its base at the U.S. Consulate General in Osaka, CS Osaka-Kobe has national responsibility for building products, sporting goods, apparel and textiles. Working closely with the Kansai chapter of the American Chamber of Commerce in Japan and the local chambers of commerce in Osaka, Kobe and Kyoto, CS Osaka-Kobe helps promote American exports of goods and services and tourism to the United States through promotional events, U.S. Pavilions, business counseling, partnership searches, matchmaking services, networking and advocacy. For more information about the opportunities in Kansai for U.S. firms, please visit our CS Japan website at www.buyusa.gov/japan/en

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 four prefectures of Aichi, Gifu, Mie and Shizuoka are home to 15.1 million people, and the region is known as Japan's industrial heartland leading its economy.

Central Japan's theme is "monozukuri," or "making things," and the region boasts large shares of Japan's manufacturing sectors. For example, Central Japan's share of transportation sector manufacturing is well over 50 percent as the region hosts the headquarters or main factories of world-class manufacturers in autos (Toyota, Honda, Mitsubishi, Suzuki and Yamaha), auto parts (Denso, Aisin), aerospace (Mitsubishi, Kawasaki and Fuji), composite materials (Toray), machine tools (Mazak, Okuma), power tools (Makita), ceramics (Noritake, NGK Insulators and NGK Spark Plug) and office automation (Brother). Additionally, thousands of supporting suppliers make this one of the top industrial accumulations in the world.

Thus, the region accounts for about 0.84 percent of the world economy, 12.8 percent of Japan's GDP, and nearly 30 percent of Japan's total exports to the United States. Aichi Prefecture (pop. 7.4 million) is the political, economic, and transportation center of the region and it has ranked number one in the shipment of manufactured goods every year since 1977. The U.S. Consulate Nagoya is located in the city of Nagoya (pop. 2.3 million), the prefectural capital.

The auto industry experienced unexpected and serious hardships in 2011. Supply chain disruption caused by the March 11 earthquake/tsunami and the floods in Thailand temporarily crippled production and deferred sales. The industry has been recovering steadily with the region's traditional resilience by restructuring its supply chain and accelerating development and production of "green cars" (low fuel consumption and emission vehicles).

About half of Japan's 1.3 trillion yen aerospace sector is based in the region, and Mitsubishi, Kawasaki, and Fuji produce 35 percent of the Boeing 787 Dreamliner. A dozen U.S. suppliers are partnering with the Mitsubishi to develop Japan's first jetliner, the 70-90 seat Mitsubishi Regional Jet which is expected to start test flights in 2013 or 2014.

In December 2011, the Japanese government designated the Greater Nagoya area as a Special Economic Zone for promoting the aerospace industry. The program includes a free trade zone, investment incentives, networking of suppliers, and the creation of a national composite material center in Aichi and Gifu prefectures. In April 2013, the GOJ expanded the initiative to include Mie prefecture and also to incorporate small to medium size enterprises as well as major corporations. 37 cities and 65 companies will participate in the program. The GOJ is likely to approve the expansion plan in September 2013. In October 2012, the region hosted Asia's largest aerospace trade show, "Japan Aerospace 2012" which featured a total of 665 aerospace-related firms and organizations from over 32 countries. Sixty U.S. firms exhibited the largest number outside of Japan. About one third of the firms were housed in the Foreign Commercial Service-supported pavilion, with five of them obtaining \$3 million in sales and partnership agreements during the show.

Though none of its facilities were damaged during the March 11 earthquake/tsunami, Chubu Electric Power Company (CEPCO), Japan's third-largest utility and based in Chubu, was ordered by the Japanese Government (GOJ) to shut down its only nuclear plant as a precautionary measure and it has been constructing a tsunami defense wall and other related tsunami-defense facilities, even without clear GOJ guidelines. CEPCO plans to complete all of the protective measures by the spring of 2015. Even then it is

uncertain whether or not the plant will be restarted due to anti-nuclear sentiment. The high costs of switching to alternative power sources threatens CEPCO's profitability and the utility is working diligently to introduce "renewable energy" use as well as to find ways to reduce costs, such as through aggressive global procurement for cost-competitive equipment and products and negotiations with American firms regarding the importation of shale gas.

A boost to Central Japan's economy should come as Central Japan Railway Company's (JR Tokai) Maglev (superconducting magnetic levitation) train efforts have progressed from the feasibility study stage to the project stage. Construction of the new "Linear New Line," which will connect Nagoya to Tokyo in 40 minutes at a maximum speed of 500 kilometers per hour (rather than current hour and 40 minutes via the "bullet train") is expected to start in FY 2014 with a budget of \$50 billion (5 trillion yen). The target completion year is 2027.

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 about 13 million. The region's \$495 billion economy constitutes Japan's fourth largest economic center, representing about 8.8 percent of national GDP – comparable in size to Belgium. 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 is often called "Silicon Island," "Car Island," "Food Island" and "Solar Island." The region accounts for 15 percent of Japan's total production of semiconductors and IC chips. American companies like Teradyne have facilities here. Northern Kyushu also boasts more than 14 percent of Japan's automobile output, up from 5 percent in 2000, with Toyota, Nissan and Daihatsu operating state-of-the-art final assembly facilities, and Honda has an advanced motorcycle plant in the region. Kyushu's agricultural sector produces 19 percent of Japan's agricultural output and ranks first in Japan in livestock output (about \$7 billion in 2010), while the region accounts for about 25 percent of solar module production. The region also includes important industries such as steel manufacturing, ship-building and tourism. Japan's two space-launch facilities are located in Kagoshima Prefecture. A recent report shows that as of 2011, Kyushu has 247 offices of America-related companies (excluding hotels, airlines, retail outlets, insurance and food services) with almost half being pharmaceutical/medical firms, such as Baxter, Boston Scientific Japan and GE Healthcare Japan.

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 an excellent transportation infrastructure, including Kyushu's principal international airport, with access to much of Asia and direct flights to Hawaii and Guam; ferry services to South Korea and China; and the new Kyushu Shinkansen bullet train line to Kagoshima. Fukuoka has over the past few years welcomed new American businesses to the

Kyushu market such as Groupon Japan, Krispy Kreme Doughnuts, Delta Air Lines and Hawaiian Airlines.

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 almost 50 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 – comprises 160 islands stretching 623 miles from mainland Japan to Taiwan, but its 1.4 million people and \$43-billion economy are concentrated on the largest island, also called Okinawa. Although Okinawa’s market is relatively small by Japanese standards, there are significant opportunities for U.S. businesses, in part due to Okinawa’s history as a U.S.-administered territory from 1945-1972 and the continued U.S. military presence in Okinawa. Okinawans are open to imported goods and are already familiar with many American products and American food culture. Okinawa’s growing and well-educated workforce is the youngest in Japan and average wages are among the lowest in Japan. In addition, Okinawa offers a wide range of subsidies and tax incentives for investors and employers.

Because of Okinawa’s unique circumstances, the central government provides an extra annual subsidy to promote economic development in the prefecture. In FY2013, this subsidy will total \$3.77 billion, a 2.2 percent increase (in Japanese Yen) over FY2012, including a \$2.02-billion lump-sum subsidy controlled exclusively by the local government. Officials plan to invest approximately \$2.46 billion in public infrastructure in FY2013, including port upgrades, roads, and construction of the second runway at Naha International Airport. The GOJ approved \$160 million for the initial year of runway construction, and the total construction cost, including landfill, will be approximately \$2.48 billion.

Tourism is Okinawa’s major economic activity, and we project this approximately \$4.7 billion industry will continue growing. In 2012, the total number of tourists visiting Okinawa increased 7.8 percent to 5.84 million due to new domestic airline routes launched by low-cost carriers, new foreign airline routes, and increased visits by cruise ships. The number of foreign tourists visiting Okinawa increased 34.5 percent to 380,000 million in 2012, but 93.5 percent of all tourists visiting Okinawa are mainland Japanese, which offers unique opportunities to introduce new products to Japan via Okinawa.

Although public sector spending and tourism dominate Okinawa’s economy, government policy is encouraging diversification into information and communication technology (ICT), biotechnology, and air cargo. Since 1990, 263 ICT companies, some affiliated with

American firms, have begun operating in Okinawa. By January 2012, these firms had created 23,741 employment opportunities, about three-quarters of which are in call centers. In addition, Okinawa Island has fewer large earthquakes than other Japanese regions, and has therefore become a popular location for business continuity and disaster recovery-related investment.

The Okinawa Institute of Science and Technology (OIST) Graduate University, a world-leading natural sciences graduate school with an annual operating budget of about \$124 million, admitted its first 34 doctoral students in September 2012. OIST aims to contribute to the development of Okinawa by conducting ground-breaking research and attracting corporate research institutions and venture businesses to Okinawa, with the eventual goal of forming an intellectual and industrial cluster.

Okinawa's Naha International Airport is just two to four hours from major Asian cities such as Tokyo, Osaka, Seoul, Shanghai, Taipei, Hong Kong and Bangkok, and cargo operations at the airport go on 24 hours a day. In 2009, All Nippon Airways (ANA) took advantage of Okinawa's location in Asia to establish an international cargo hub. In 2012, Naha International Airport handled the 4th-largest amount of international air cargo in Japan after Narita, Kansai and Haneda. In FY2013, the local government approved \$54.6 million to build a new logistics center in the Okinawa International Logistics Industry Zone located adjacent to the airport, and we expect this center will attract new industries to Okinawa.

Government policies are funneling new investment into renewable energy systems. The four year, "Okinawa Smart Energy Island Infrastructure Project," launched in FY2011 and concentrated in Miyakojima City and the northern part of the main island, will facilitate large-scale introduction of renewable energy sources, particularly photovoltaic solar and wind power. The 50kW ocean thermal energy conversion (OTEC) demonstration plant on the island of Kumejima will start operation in June 2013.

The U.S. Consulate General in Okinawa and the American Chamber of Commerce in Okinawa, which has over 140 members from the American and Okinawan business communities, 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 working to discover commercial opportunities for U.S. firms in this dynamic regional market.

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Using an Agent or Distributor

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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, the U.S. company may want to consider starting with any of the following good, first-step measures before moving

forward with a greater commitment: regional exclusivity, a limited term of representation, minimum sales thresholds, or qualitative indicators of sales efforts.

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

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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, "Investment Climate,"](#) of this Country Commercial Guide.

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://export.gov/japan/bsp/index.asp>, or the Membership Directory of the American Chamber of Commerce in Japan website at <http://www.accj.or.jp>.

Franchising

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Based on available data, the total number of franchise chains increased during fiscal year (FY) 2011 ended March 31, 2012 to 1,260 from 1,233 in FY2010, continuing a growth trend for two years in a row. The total number of stores and outlets were 238,838, up 2.0% or 4,692 stores from a year earlier. The total turnover amounted to ¥21.6 trillion, showing an increase of 1.1%, or ¥235.2 billion from FY2010, the second consecutive year of growth after reversing its course in FY2010. Approximately 41.7% of the total turnover at franchised outlets was from convenience stores (CVS), up from 39.6% in FY2010. Food service chains accounted for 17.4% compared to 18.1% in FY2010.

The overall franchise market in FY2011 felt the negative impacts of the March 11, 2011 earthquake and radioactive concerns over the crippled nuclear power plants. Many businesses, particularly the food service sector, were interrupted or forced to close in the directly affected regions. Even in the metropolitan areas, scheduled rolling blackouts gave a heavy blow to their business. Nonetheless, industry experts point out that CVS demonstrated resilience and grew both in terms of sales revenues and the number of stores. In the retail business, secondhand store models were on the rise, which include books, home appliances, games & home entertainment (equipment and software), CD & DVD, clothing, luxury brand products, sporting goods, toys, jewelry, and mobile phones. These trends are expected to continue in FY2012 and for the near future.

U.S. franchising has heavily influenced the development of Japan's franchise industry since 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

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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, sales were estimated at 5.09 trillion yen in 2011. Business-to-consumer (B2C) Internet shopping has grown rapidly, and according to a survey by the Japan Direct Marketing Association (JADMA), 67.3 percent of direct sales shoppers (15-79 years old) used the Internet to place their orders in 2011. (up by 12.8 point from 2010). The other popular methods to place orders were: via home phones (excluding mobile phones) at 36.5 percent of shoppers, and mail order, 27.4 percent.

The most popular way of gathering product information in 2011 was the Internet via computer (58.7 percent), followed by hardcopy catalogs (32.1 percent) and Internet via mobile devices (21.9 percent). Young people are particularly adept at gathering product information via mobile devices. 63.1 percent of young women aged 29 or younger report using mobile devices to get product information. Since 66 percent of Japanese smartphone owners are women in their 20's, this is a booming channel for marketing to this segment. Japanese direct marketers use websites optimized for both PC and mobiles to reach consumers. U.S. exporters wishing to sell products targeting young Japanese will need to optimize their platforms for mobile access.

Because of ongoing revisions to credit card and e-commerce laws that provide increased protection for consumers in Japan, including protection against identity theft, Japanese consumers have less hesitation than in the past to buy online. C.O.D. (cash on delivery), payments at convenience stores (where Japanese are able to pay various bills), and credit cards were the three major payment methods in 2011.

Shopping from hard copy or online foreign catalogs is referred to as "personal importing" in Japan. Personal importing 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.

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.

Joint Ventures/Licensing

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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 website:

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

Selling to the Government

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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 revisions to the GPA, the present voluntary specified threshold for procurement by central government entities of 100,000 SDRs (except for construction and architectural, engineering and other technical services) will become obligatory in April 2013. 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. Recent revisions to the GPA Agreement allow for modern procurement procedures such as electronic bidding.

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

For Japan's Fiscal Year 2013, which began in March 2013, the Japanese defense budget was the fifth largest in the world and second largest in Asia at US\$58.6 billion. Japanese defense expenditure is mainly driven by the threat from North Korea's long-range ballistic missiles and China's maritime expansion. The Japanese Ministry of Defense (MOD) spends most of its budget on salaries, operational expenses, training, and development. Capital expenditure represents the second largest share, and includes the procurement of military equipment, material and R&D expenses, aircraft acquisition and shipbuilding.

Over recent decades, Japanese defense expenditure as a percentage of GDP has accounted for 1%, and this is expected to remain stable for the coming five-year period. Japan's defense posture and procurement strategy is grounded in a pair of foundational documents, the "National Defense Program Guidelines (NDPG) for FY 2011 and Beyond" and the "Mid-Term Defense Program, FY2011-2015 (MTDP)". Both documents were last approved by Japan's Cabinet in December 2010 under leadership of the now-opposition Democratic Party of Japan (DPJ), and are undergoing a review by the new Abe Administration, the results of which should be promulgated in December 2013.

The FY 2012 supplementary budget approved by the Abe cabinet included spending on defense. MOD requested US\$2.4 billion for telecommunications equipment, base renovations, and missile defense capabilities. The Japan Coast Guard, part of the Ministry of Land, Infrastructure, Transport, and Tourism, also requested funds for six additional patrol ships. Also, the MOD requested US\$1.3 billion more in fiscal year 2013 than it did last year. The Policy Research Council of the governing Liberal Democratic Party (LDP) supported this request in a highly publicized statement on January 7, 2013. This represented the first increase in eleven years for MOD.

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. The Mutual Defense Assistance Office (MDAO) at the U.S. Embassy in Tokyo is the in-country office for FMS. 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

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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://export.gov/japan>.

International Courier 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 the ability of U.S. exporters 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 (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

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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.

A website is a must for any business looking to break into the market in Japan. There are some key elements that should be incorporated into your website to gain familiarity and trust among potential Japanese buyers. Details in the “About Us” section of your website are especially important since this is a main information source that potential Japanese buyers will review. An “About Us” page for a U.S. website usually contains the company’s mission statement, description of the company’s business, management bios and contact information. In Japan, however, an “About Us” page includes more details such as a section called “Corporate Profile” in which corporate information such as the official company name, date of establishment, capital stock, revenue, board member names, number of employees, business partners, industry associations, banking, and the period of accounting are included. This additional information is not a requirement in Japan but many companies, including small businesses, disclose this information to help build trust and legitimacy with potential customers.

According to statistics published in August 2012 (http://www.meti.go.jp/policy/it_policy/statistics/outlook/ie_outlook.htm) by the Japanese Ministry of Economy, Trade and Industry (METI), the market size of business-to-business (B2B) electronic commerce in Japan in 2011 was ¥258 trillion (\$3.2 trillion), and the market size of the business-to-consumer (B2C) electronic commerce market in the same period was ¥8.5 trillion (\$106.7 billion). For cross-border e-commerce, METI estimates U.S. exports to Japan via e-commerce to be ¥47.1 billion (\$591 Million) in 2011.

There are few open B2B sites for foreign exporters in Japan, with most Japanese B2B sites focusing on domestic business transactions. Japan’s international B2B site is: <http://www.export-japan.com/>. On the other hand, B2C ecommerce sites are flourishing, and include Amazon Japan, Yahoo! Japan, and Japan’s largest e-commerce site, Rakuten. The growth of online entertainment sites is also notable in Japan, especially in the mobile arena. Japan’s major providers of online games are:

GREE: <http://developer.gree.co.jp/en/>
DeNA: <http://dena.jp/intl/>

U.S. firms interested in ecommerce might consider listing on the Japan External Trade Organization (JETRO)’s business matchmaking database known as TTPP (<http://www.jetro.go.jp/tppoas/howto/index.html#>). Registration is free and may be done in English.

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://export.gov/japan/tradeevents/index.asp>

Pricing

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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 early 2013 and continuing through midyear, the yen has fallen significantly against the dollar, limiting the price competitiveness of U.S. goods.

Sales Service/Customer Support

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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

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Japan generally provides strong IPR 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 U.S. government generally cannot enforce rights for private individuals in Japan. 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 Japan law. The U.S. Commercial Service can provide a list of local lawyers upon request: <http://japan.usembassy.gov/e/acs/tacs-7113.html>.

While the U.S. Government stands ready to assist, there is little we can do if the rights holders have not taken these fundamental steps necessary to securing and enforcing their IP in a timely fashion. Moreover, in many countries, rights holders who delay enforcing their rights on a mistaken belief that the USG can provide a political resolution to a legal problem 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. Negotiate from the position of your partner and 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. Keep an eye on your cost structure and reduce the margins (and the incentive) of would-be bad actors. 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. 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 or U.S.-based. These include:

- The U.S. Chamber of Commerce and the local American Chamber of Commerce in Japan (ACCJ)
- 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 U.S. 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 U.S. Patent and Trademark Office (USPTO) at: **1-800-786-9199**.
- For more information about registering for copyright protection in the U.S., contact the U.S. Copyright Office at: **1-877-476-0778** (toll free) or **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 U.S. 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.

Due Diligence

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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. Legal counsel familiar with Japan laws may assist with creating solid contracts that include non-compete clauses and confidentiality/non-disclosure provisions, among others.

Japanese companies may be affected by downsizing and bankruptcies. 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://export.gov/japan/> (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

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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://export.gov/japan/bsp/index.asp>.

Web Resources

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As mentioned above:

www.StopFakes.gov

http://www.abanet.org/intlaw/intlproj/jipprogram_consultation.html

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://export.gov/japan/bsp/index.asp>

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_main_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://www.jetro.go.jp/ttppoas/>

Connect with the Commercial Service in Japan:
<https://twitter.com/BuyUSAJapan>

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

Commercial Sectors

- [Aerospace](#)
- [Cosmetics/Toiletries \(COS\)](#)
- [Education and Corporate Training](#)
- [Medical Equipment \(MED\)](#)
- [Nuclear Decontamination in Fukushima](#)
- [Pharmaceuticals \(DRG\)](#)
- [Renewable Energy](#)
- [Safety and Security \(SEC\)](#)
- [Telecommunication Equipment \(TEL\)](#)
- [Travel and Tourism](#)

Agricultural Sectors

Commercial Sectors

The above list of 10 sectors represents a targeted rundown of the best prospects for export-ready U.S. firms. Detailed overviews of each of these well-established sectors can be found in the pages that follow.

In addition to the above sectors, the following are three emerging sectors that we have identified as offering good export opportunities for U.S. companies as well:

Biotechnology

The Japanese biotechnology industry presents good business opportunities for U.S. firms. In 2012, the size of the Japanese biotechnology market was \$34.5 billion, a 1.3% increase over the previous year. Medical biotechnology is the leading sub-sector and antibody drugs have the highest growth potential. In 2011, the size of the market for antibody drugs was \$3 billion and is expected to grow to over \$6.3 billion by 2020. Regenerative medicine is another area with high growth potential in Japan. In 2012, the size of the market for regenerative medicines and related businesses, including research equipment, was approximately \$326 million. This market segment is expected to grow to over \$2.4 billion by 2020.

The Japanese government has been allocating significant funding for induced pluripotent stem cell (iPSC) research to develop this area as a leading technology in Japan, especially after the leader of this research field in Japan, Kyoto University Professor Shinya Yamanaka, received the 2012 Nobel Prize for Physiology or Medicine "for the discovery that mature cells can be reprogrammed to become pluripotent." At this time, with the exception of autologous cultured skin and cartilage, there are not many commercial applications for regenerative medicine in Japan, however strong potential exists for technology licensing and sales of research

equipment relating to stem cell research and tissue engineering. The market for cell and tissue culture research products, including reagents, medium and serum, is also expected to grow. Japanese pharmaceutical and medical device companies are seeking strategic partnerships, licensing and research collaboration opportunities with U.S. biotech companies/research institutes in these areas.

Cloud Computing

The Japan cloud computing market will continue its strong growth and continue as the foundation for the new economy. The Great East Japan earthquake in 2011 prompted enterprises and the public sector in Japan to explore the role cloud computing could play in supporting the country's critical infrastructure and in providing government services.

In 2011, the Japanese cloud service market size was about 660 million USD, a 45.6% increase from the previous year according to IDC Japan. The demand for cloud services grew after the above-mentioned earthquake and IDC predicts that the Japanese cloud service market size will grow to over 2.5 billion USD in 2015.

U.S. software companies (the majority of large U.S. software companies have subsidiaries in Japan) are leading growing cloud computing business development in Japan (e.g. Salesforce.com, Google). Judging by this success and the receptivity in the market, there are significant opportunities for growth for new market entrants from the U.S.

One of the critical issues facing cloud computing is how cloud data should flow between nations and whether restrictions should be placed upon it. The U.S. Embassy is helping to clarify this issue and promote a secure and open cloud environment

The cloud movement is about much more than remote software delivery. The cloud cannot be sufficiently understood as a standalone phenomenon in the IT market, but rather as a core transformation of the IT industry. Other factors enabled by accelerating cloud adoption include the expanding use of mobile devices, mobile apps, wireless broadband, cyber security, and 'big data' tools.

Cloud Computing Events in Japan

Event: Cloud Computing Expo
Location: Tokyo
Dates: (spring & fall), May 8-10, 2013
URL: <http://www.japan-it.jp/en/haru/>

Event: Cloud Days
Location: Tokyo/Osaka/Kyusyu
Dates: (spring & fall), Oct 9-11, 2013, Tokyo
URL: <http://expo.nikkeibp.co.jp/cloud/2013fall/exhibition/index.html>

Healthcare IT

In 2011 the market size of healthcare IT systems in Japan totaled \$6.3 billion. 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 and ordering systems among hospitals in 2011 was 16.1% and 27.9% respectively. 50.8% of the hospitals with more than 400 beds implemented electronic medical records and 72.6% of them have ordering systems. Due to rapid demographic changes and hospital shortages, demand for home nursing care is expected to grow. Healthcare IT is an emerging sector and promising areas for U.S. exporters would include security, data integration, and cloud computing.

Aerospace

Overview

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Unit: USD thousands

| | 2011 | 2012 | 2013 (estimated) | 2014 (estimated) |
|------------------------|--------|--------|---------------------|---------------------|
| Total Market Size | 12,635 | 15,948 | 16,000 | 16,000 |
| Total Local Production | 12,664 | 13,756 | 14,000 | 14,000 |
| Total Exports | 9,222 | 10,048 | 10,100 | 10,100 |
| Total Imports | 8,193 | 12,240 | 12,300 | 12,300 |
| Imports from the U.S. | 6,010 | 8,832 | 9,000 | 9,000 |
| Exchange Rate: 1 USD | 79.70 | 79.82 | 79.82 | 79.82 |

Total Market Size = (Total Local Production + Total Imports) – (Total Exports)

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

2013 and 2014 estimates are based on projections provided by the Society of Japanese Aerospace Companies (SJAC).

Japan continues to offer a lucrative market for imported aircraft, aircraft parts, and engines. U.S. firms have an overwhelming presence in the market due to long-standing relationships, some spanning over 50 years, with domestic manufacturers and trading firms. U.S. firms are presented with opportunities in the market as the domestic industry undertakes international projects, develops transport and patrol aircraft for defense, and develops small jets and small jet engines for civil aviation.

In the civil aircraft market, Japanese manufacturers such as Mitsubishi Heavy Industries, Kawasaki Heavy Industries, and Fuji Heavy Industries, supply about 35 percent of the content for the Boeing 787. The launch customer, All Nippon Airways, received the first 787 from Boeing in September 2011. Production is expected to increase in the long run, but the short to mid-term prospect is unknown due to a grounding of all 787s in January 2013.

Mitsubishi Heavy Industries 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). MJET announced in October 2007 that it selected Pratt & Whitney to supply Geared Turbofan engines for the aircraft. 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. manufacturers such as Parker Aerospace (hydraulic systems), Hamilton Sundstrand Corporation (electrical power system), and Rockwell Collins (flight control system) are also suppliers of MRJ. The first MRJ flight is scheduled in late 2013.

In terms of engines, the Japan Aero Engines Corporation (JAEC) is participating in the international joint development of the PW1100G-JM, a next-generation engine for the A320neo, a single-aisle aircraft which Airbus is developing with the aim of entering into service in 2015. The agreement between JAEC, Pratt & Whitney and MTU Aero Engines Holding AG (MTU) of Germany, was signed in September 16, 2011.

In the defense sector, a test flight for the C-2 (formally XC-2), a small transport aircraft, took place successfully in January 2010, and the prototype was delivered to the Ministry of Defense in March 2010. The P-1 (formally XP-1) next generation maritime patrol aircraft program began flight testing and crew training in March 2013. While the procurement details are still unknown due to a tight national defense budget, the Government of Japan is seeking ways to commercialize and move into the production phase for both the C-2 and P-1.

Sub-Sector Best Prospects

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

Opportunities

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Aerospace Industry Exhibition Tokyo 2013

Location: Tokyo

Dates: October 2-4, 2013

English language website: <http://www.tokyoaerospace.com/en>

Description: This biennial show is organized by the Tokyo Metropolitan Government and Tokyo Big Sight Inc.

Web Resources

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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

Cosmetics/Toiletries (COS)

Overview

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Unit: USD Millions

| | 2010 | 2011 | 2012 | 2013* (estimated) |
|------------------------|--------|--------|--------|----------------------|
| Total Market Size | 16,765 | 17,596 | 18,423 | 18,914 |
| Total Local Production | 16,176 | 17,158 | 17,582 | 18,041 |
| Total Exports | 1,452 | 1,653 | 1,563 | 1,578 |
| Total Imports | 2,041 | 2,091 | 2,404 | 2,452 |
| Imports from the U.S. | 353 | 373 | 429 | 433 |
| Exchange Rate: 1 USD | 87.78 | 79.70 | 79.82 | 79.82 |

Data Sources: Ministry of Economy, Trade and Industry, Trade Statistics of Japan

Note: * represents unofficial estimates of CS Japan

2012 demonstrated a strong recovery in the overall cosmetic market. In Japanese yen terms, the market in 2012 (1,473.4 billion yen) exceeded the level in 2010 (1,471.6 billion yen). Even in constant 2010 dollar terms, the total cosmetics market in 2012 exceeded the 2010 level, indicating a recovery of consumer psychology after the March 11, 2011 disasters.

Cosmetics imports to Japan in 2012 showed a remarkable increase to 191.8 billion yen (up 15.1%) from 166.6 billion yen the previous year. This volume indeed was the highest since the year 2003. The U.S. remained the second largest cosmetics exporter to Japan (18.2% of the total import market) and increased its relative share from the previous year's 17.8%. France maintained its position as largest exporter with (24.5%) of the market. The U.S. increased its relative share from 17.8% in 2011 whereas France lost its share from 27.2% in the year earlier. China remained third, but its share dropped to 9.0% in 2012, down from 10.0% in 2011 but up from 7.7% in 2010. Meanwhile, imports from Korea advanced to fourth place with 6.3% in 2012.

Skincare products continued to be the largest import category in 2012 with 71.5 billion yen (\$895.8 million), which compares to \$63.4 billion yen (\$796.1 million) in 2011 and 67.6 billion yen (\$770.4 million) in 2010. Imports of this category from the U.S. in 2012 were 19.2 billion yen (\$242.0 million), up 20.5% in yen terms from the previous year of 15.9 billion yen (\$199.8 million). U.S. imports accounted for 26.8% of the total skincare products, compared to 25.1% in 2011, second only to France's \$315.9 million (35.2% of this product category).

The hair care product category which includes shampoos, rinses, preparations for hair perms, and hair lacquers has become the second largest import category recently. Following a remarkable growth in 2011 (44.5 billion yen or \$559.0 million), the 2012 import volume further increased to 55.4 billion yen (or \$695.0 million). Recently, Thailand's hair care exports to Japan has outranked the U.S. and China, and is still growing with 37.7 billion yen (\$472 million) in 2012, up from 29.0 billion yen or \$364.2 million a year earlier. China was second with category total imports of 4.6 billion yen (\$57.8 million), up 41.3% from the previous year's 3.2 billion yen (\$41.0 million). The

U.S. was a close third in 2012 with 4.5 billion yen (\$57.2 million), up 27.0% from 3.6 billion yen (\$45.1 million) in 2011.

Fragrance imports in 2012 were slightly up to 18.7 billion yen from 18.4 billion yen in 2011, or \$234.4 million from \$231.8 million a year earlier. The U.S. was the third largest exporter with 1.6 billion yen (\$20.5 million), down from 1.7 billion yen (\$21.9 million) after France (11.1 billion yen or \$139.9 million) and Italy (3.5 billion or \$43.8 million).

Make-up imports in 2012 increased 6% to 22.7 billion yen from 21.3 billion yen, reversing its decline from 22.1 billion yen in 2009. In dollar term, it accounted for \$285.2 million in 2012 which compares to \$267.5 million in 2011, \$245.4 million in 2010 and \$236.6 million. France remained the leading supplier with exports of \$100.7 million (up 3.7% or \$97.2 million in 2011), followed by China with \$50.6 million (up 4.9%, \$48.3 million). The U.S. was third with \$42.9 million (down 8.6%, \$46.7 million). These three countries dominate the make-up segment with a share of 68.1%, compared to 71.5 percent a year earlier.

Industry sources are cautiously optimistic about the business environment for cosmetics in 2013 particularly in light of improving consumer psychology and recovery of the Japanese stock market despite the recent rapid depreciation of the Japanese yen which may affect foreign imports prices. Based on the constant exchange rate, the industry expects the overall market in 2013 will maintain at least 2012 levels and probably recover at a healthy pace.

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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 multifunctional or crossover functions such as a combination of aging-care, skin brightening (lightening), and/or 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 scent.

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

Tokyo Esthetic Expo 2013
Date: February 25 – 26, 2013
Venue: Tokyo Ryutsu Center
Organizer: Esthetic Journal
Phone: 81/3/6206-9212
URL: <http://t-est-expo.com/>

Tokyo Health Industry Show 2013
Date: March 13 - 15, 2013
Venue: Tokyo Big Sight, Tokyo
Organizer: UBM Media Co., Ltd.
Phone: 81/3/5296-1025, Fax: 81-3-5298-1018
URL: <http://www.this.ne.jp/eng/>

Japan Drug Store Show 2013
Date: March 15 - 17, 2013
Venue: Japan Convention Center (Makuhari Messe), Chiba
Organizer: Japan Association of Chain Drug Stores
Tel: 81/3/6410-4051, Fax: 81/3/3353-1745
URL: <http://drugstoreshow2012.jp/english/index.html>

Beautyworld Japan 2013
Date: May 13 – 15, 2013
Venue: Tokyo Big Sight, Tokyo
Organizer: MESAGO Messe Frankfurt Corporation
Phone: 81/3/3262-8939, Fax: 81/3/3262-8442
URL: <http://www.beautyworldjapan.com/english/tokyo/>

CITE Japan 2013 (Cosmetics Ingredients & Technology Exhibition)
Date: May 15 – 17, 2013
Venue: Pacifico Yokohama, Yokohama
Organizer: Federation of Japanese Cosmetic Ingredients Associations
Phone: 81/3/3219-3647, Fax: 81/3/3219-3628
URL: <http://www.citejapan.info/en>

COSME TOKYO 2013 & COSME TECH 2013
Date: June 26 – 28, 2013
Venue: Tokyo Big Sight, Tokyo
Organizer: Reed Exhibitions Japan Ltd.
Phone: 81/3/3349-8509, Fax: 81/3/3349-4922
URL: <http://www.cosmetokyo.jp/en/>, URL: <http://www.cosme-i.jp/en/>

DIET & BEAUTY FAIR ASIA 2013 &
SPA & Wellness JAPAN 2013
Date: September 9 – 13, 2013
Venue: Tokyo Big Sight, Tokyo
Organizer: UBM Japan Co., Ltd.
Phone: 81/3/5296-1013, Fax: 81/3/5296-1018

URL: <http://www.dietandbeauty.jp/en/>, URL: <http://www.spaandwellness.jp/en/>

Beautyworld Japan West 2013

Date: October 21 - 23, 2013

Venue: INTEX, Osaka

Organizer: MESAGO Messe Frankfurt Corporation

Phone: 81/3/3262-8939, Fax: 81/3/3262-8442

URL: <http://www.beautyworldjapan.com/english/osaka/>

BioFach Japan Organic EXPO 2013

Date: October 31 – November 2, 2013

Venue: Tokyo Big Sight, Tokyo

Organizer: NürnbergMesse GmbH

Phone: 49/911.86 06-86 92, Fax: 49/911.86 06-86 94

URL: <http://www.biofach-japan.com/en/>

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CS Japan Contacts: Chris Yoshiyuki Ono (Tokyo) 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 www.personalcarecouncil.org

Education and Corporate Training

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Higher Education Study Abroad

(\$ Unit: USD thousand)

| | 2010/11 | 2011/12 | 2012/13 |
|---------------------------------------|-----------|-----------|-----------|
| Total Market Value* | \$610,000 | \$590,000 | N/A |
| Number of Int'l Students in U.S.** | 723,277 | 763,495 | N/A |
| Number of Japanese Students in U.S.** | 21,290 | 19,966 | 21,000*** |

*--Estimated Japanese student expenditures as 2.6 percent of total of int'l students' expenditures at \$22.7 billion.

**--Number of students enrolled in the schools of higher education (Source: IIE OpenDoors)

*** --Unofficial CS Japan estimate

In the 2011/2012 academic year, a total of 764,495 international students studied in institutions of higher learning in the United States. International students contribute more than \$21 billion to the U.S. economy through their expenditures on tuition and living expenses. Japanese students accounted for 2.6 percent or 19,966 of the total international students in the U.S. in 2011/12. The total number of Japanese students dropped by 6.2 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 also the interest among young people in overseas study has been on the decline. Japan is the seventh leading country of origin of international students in the United States, following China, India, South Korea, Saudi Arabia, Canada and Taiwan. However, the number of student visas issued in Japan has started increasing again after declining for more than a decade. In 2010/2011, 16,881, and in 2011/2012, 18,669, student visas (F1 visa) were issued. Over the past two years, the number of student visas issued grew by around 20 percent.

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 roughly 2:1 in 2011/12. In addition to the 19,966 Japanese students noted above, tens of thousands of Japanese go to the United States for short-term language studies annually. The recent realization by the Japanese Government and corporate world of the need to globalize Japan's workforce, has started to influence students' interest in studying abroad. Increases in the number of inquiries about U.S. institutions and in the number of visitors to Study Abroad Fairs during 2012 were confirmed by many study abroad agencies and advising centers. Study abroad agencies are developing agent accreditation systems, a move which was welcomed by the Education Ministry.

Corporate Training Market

Because of the prolonged economic downturn, Japanese companies tend first to cut outside training/education costs, opting to use their low-cost, in-house trainers for the minimal training that is essential. According to a survey by the Ministry of Health, Labor and Welfare, the average expenditure of those companies (who provided off-the-job training) per employee in 2012 was 14,000 yen or \$175, which still remained at less than 60% of its 2008 levels. Competition from low-cost domestic programs is strong, although there may be a market for U.S. programs if they have unique offerings, 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 still small, quality localization, whether in presentation style, materials, and/or content, will be required for U.S. firms looking 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 need to partner with local companies, such as consulting companies and placement firms, which often service the training and/or workforce needs of Japanese companies. Although the business community optimistic about the economy this year, it will take some more time before companies increase their training budgets to the 2008 level and switch back to outsourcing their training needs.

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Study Abroad:

- TOEFL scores of Japanese students are low by global standards, and are even lower with iBT testing. Hence, U.S. colleges with relaxed TOEFL score requirements for admission attract more attention.
- One-semester and one-year abroad programs are getting even more popular among Japanese college students.

"Globally-competent businesspeople" has become the order of the day. Many students have become serious about improving their English proficiency to get good jobs after graduation. More students are interested in intensive English programs with business-related subjects. However, the recent depreciation of yen has made many students price-sensitive, and new competition is coming from some markets which offer low-cost short-term ESL programs targeting Japanese students on tight budgets.

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Event: The Association of Boarding Schools (Tokyo)
Date: Fall, exact date TBD (but most likely in early or middle of November)
Website: <http://www.boardingschools.com/for-schools.aspx>

Event: student recruiting fairs by leading study abroad agents
Date: Spring (mainly for ESL programs) & Fall (heavier focus on degree programs).

Event: America EXPO 2013 Japan (College Fair, etc)
Date: September 21, 2013

Website: <http://americaexpo.jp/for-us-institutions/>

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JASSO (Japan Student Services Organization)

http://www.jasso.go.jp/index_e.html

Ministry of Education, Culture, Sports, Science, and Technology

<http://www.mext.go.jp/english/>

CS Japan Contact: Ms. Minae Suzuki

Minae.Suzuki@trade.gov

Medical Equipment (MED)

Overview

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Unit: USD thousands

| | 2011 | 2012 (estimated) | 2013 (estimated) | 2014 (estimated) |
|------------------------|--------|---------------------|---------------------|---------------------|
| Total Market Size | 29,937 | 33,654 | 33,972 | 34,293 |
| Total Local Production | 22,691 | 24,653 | 24,875 | 25,098 |
| Total Exports | 6,033 | 6,163 | 6,219 | 6,274 |
| Total Imports | 13,279 | 15,164 | 15,316 | 15,469 |
| Imports from the U.S. | 6,473 | 8,189 | 8,271 | 8,353 |
| Exchange Rate: 1 USD | 79.70 | 79.82 | 79.82 | 79.82 |

Total Market Size = (Total Local Production + Total Imports) – (Total Exports)

Data Sources:

Total Local Production: GOJ Ministry of Health, Labor and Welfare (MHLW)

Total Exports: MHLW

Total Imports: MHLW

Imports from U.S.: MHLW

Figures for 2012, 2013 and 2014 are unofficial CS Japan estimates.

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, Labor and Welfare's (MHLW's) Annual Pharmaceutical Production Statistics, the Japanese market for medical devices and materials in 2011 was approximately \$29.9 billion (up three percent from 2010 in yen terms). Japan's total imports of U.S. medical devices were approximately \$6.5 billion in 2011. Based on preliminary reports from MHLW, in 2011 the Japanese market for medical devices and materials was projected to have increased in yen terms. In the near term, the market is expected to increase in a measured fashion due to Japan's aging population and continued demand for advanced medical technologies. The market remains heavily dependent on imports, especially sophisticated medical technologies. U.S. exports to Japan were limited to a 22 percent market share according to the official figures. However, according to the American Medical Devices and Diagnostics Manufacturers' Association (AMDD), a trade association of Japanese operations of U.S. medical devices and diagnostics companies, during the last 7-year period, 58% of "new medical devices" approved in Japan were from its member companies.

The Government of Japan (GOJ) has been steadily improving review times and processes in accordance with the Five-Year Action Program for Speedy Review of Medical Devices that was implemented in December 2008. The Action Program included specific targets to be reached by the end of March 2014 (JFY 2013). Major targets included increasing the number of medical device reviewers (from 25 in 2008 to 104); and setting the performance goal for each review categories. By the end of March 2012 (JFY 2011), the Pharmaceutical and Medical Device Agency (PMDA) increased the number of reviewers to 90 persons and made measurable progress on achieving the performance goals in terms of the total review time (in median) except improved medical device (without clinical) review category. However, there has been no significant

increase in the number of approved items, especially for me-too medical device category, and also it has been pointed out that the number of approved products per reviewer per year has decreased since the Action Program was implemented. The medical review process could be further improved as a result of the revision of the Pharmaceutical Affairs Law. A bill to amend the PAL may be submitted during the ordinary session of the Diet in 2013. The proposed bill would include the creation of a system that considers the characteristics of medical devices separately from pharmaceuticals.

While the regulatory environment is expected to continue improving and 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 as a result of Japan's aging population. The GOJ has implemented pricing policies, such as the Foreign Average Price (FAP), to cut medical device reimbursement rates. The FAP rule adjusts the reimbursement prices of medical devices to no more than 1.5 times the simple average of the actual sales price in four countries (the U.S., Germany, France, and the UK). In the 2012 reimbursement revision, the GOJ again changed the FAP rule by adding Australia to the FAP group of countries for new devices. Despite the fact that the FAP rule has brought new medical device prices in Japan mostly in line with, if not lower than, the four compared countries through the past six reimbursement revisions, the price differential between Japan and overseas markets still remains as an issue to be solved within the GOJ. As national health expenditures are expected to further increase in coming years, the GOJ will continue to take measures to contain overall healthcare costs including reducing medical device reimbursement rates.

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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.

Opportunities

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Event: The International Modern Hospital Show 2013 (IMHS2013)
Date: July 17 - 19, 2013
Venue: Tokyo Big Sight
Web: <http://www.noma.or.jp/hs/eng/2013/outline/index.html>

Event: HOSPEX Japan 2013
Date: October 23 – 25, 2013
Venue: Tokyo Big Sight
Web: www.jma.or.jp/hospex/

Event: MEDTECH Japan 2014
Date: April 8-10, 2014
Venue: Tokyo Big Sight
Web: <http://events.ubm.com/event/2284/medtec-japan>

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| | |
|---|--|
| 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) | amdd.jp/en/index.html |
| Japan Federation of Medical Device Associations (JFMDA) | www.jfmda.gr.jp |

Nuclear Decontamination in Fukushima

Overview

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Budget for decontamination

Unit: Million USD

| | 2011 | 2012 | 2013 (estimated) | 2014 (estimated) |
|------------------------|-------|-------|---------------------|---------------------|
| Total Market Size | 2,400 | 4,500 | 6,200 | n/a |
| Total Local Production | 2,400 | 4,500 | 6,200 | n/a |
| Total Exports | 0 | 0 | 0 | 0 |
| Total Imports | n/a | n/a | n/a | n/a |
| Imports from the U.S. | n/a | n/a | n/a | n/a |
| Exchange Rate: 1 USD | n/a | n/a | n/a | n/a |

(Source: Ministry of Environment, Government of Japan)

The nuclear accident at the Fukushima Daiichi Nuclear Power Plant resulting from the March 2011 earthquake and tsunami that hit Northeast Japan released large amounts of radiological material into the surrounding environment and led to the evacuation of most of the residents living within a 19-mile radius of the plant. The Government of Japan (GOJ) estimates that 770,000 Tera-Becquerels of radiological materials, mainly Cesium 134, Cesium 137, and Iodine 131, were spread in Fukushima Prefecture across a 63-mile radius from the plant. Since 2011, Japan's Ministry of Environment (MOE), under the oversight of the Reconstruction Agency, has been leading the effort to clean up the contaminated areas and restore them to a state in which those evacuated can return. The work to clean up the highly contaminated areas just outside the Fukushima Plant could take years.

The MOE, as well as local governments in Fukushima and other Prefectures, are commissioning new nuclear remediation projects on a regular basis. In the future, decontamination efforts will move from simple cleaning or removal of radiological material to storage and disposal of radiological waste, which could present business opportunities for U.S. firms looking to assist Japan in its clean-up effort, provided these firms take a long-term view. We are working closely with the MOE to better understand the situation in Fukushima and offer suggestions concerning the remediation process.

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U.S. firms that possess unique and cost-effective products/technologies that could be utilized in upcoming decontamination projects could have good prospects for success in Japan. U.S. firms wishing to enter the Japanese market and participate in this nuclear decontamination work should consider teaming with a reputable, well-connected agent, distributor, or other partner, 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. We are ready to help U.S. firms make these essential contacts and seek partners in Japan.

The GOJ has established technologies to be used for nuclear remediation work in Japan. In order to add more approved technologies, the GOJ solicits new and promising decontamination technologies on a regular basis. While the latest solicitation was made in February 2013, we believe that new solicitations will be announced sometime in the future. During the last solicitation, expertise was sought in categories such as: more efficient decontamination; contaminated waste volume reduction; contaminated waste treatment; collection and treatment of contaminated water; transportation and temporary/interim storage; other technologies. Interested U.S. firms should familiarize themselves with the currently applied or approved technologies in order to better assess the suitability of their products/technologies for this remediation work. (Insert text here)

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Business Forum

In June 2012, the U.S. Embassy in Tokyo organized the “Environmental Remediation Technologies Visit,” bringing 32 U.S. firms to meet with Japanese government officials and companies, as well as visit decontamination sites in Fukushima. A follow-up “forum” is tentatively planned for the Fall for 2013.

Market Alert

With an aim of providing U.S. firms with the latest updates on this remediation work and opportunities, we post critical information in a “Market Alerts” section of our website for U.S. firms with technologies and know-how that are ready to pursue work in nuclear remediation and storage and/or disposal of contaminated materials. Interested firms can access these “Market Alerts” via our website at:
<http://export.gov/japan/fukushima/index.asp>

Trade Event

RADIEX 2013

(Radioactive Decontamination & Radioactive Waste Disposal International Exhibition)

Date: September 25-27, 2013

Venue: Science Museum, Tokyo

Organizer: The Environmental News (Kankyoshimbunsha Co., Ltd.)

URL: <http://www.radiex.jp/e/index.html>

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Ministry of Environment (MOE)

<http://www.env.go.jp/en/>

Ministry of Education, Culture, Sports, Science and Technology (MEXT)

<http://www.mext.go.jp/english/>

Cabinet Office, Government of Japan (CAO)

<http://www.cao.go.jp/index-e.html>

Reconstruction Agency

<http://www.reconstruction.go.jp/english/>

Fukushima Prefecture
<http://wwwcms.pref.fukushima.jp/>

Fukushima City
<http://www.city.fukushima.fukushima.jp/>

Fukushima Kankyo Saisei Office (Local office of MOE)
<http://tohoku.env.go.jp/fukushima/>

Japan Atomic Energy Agency (JAEA)
<http://www.jaea.go.jp/english/index.shtml>

Decontamination Information Plaza (MOE)
<http://josen-plaza.env.go.jp/>

Off-site Decontamination Measures (MOE)
<http://josen>

For further information or assistance, please contact: Takahiko Suzuki, Commercial Specialist, U.S. Commercial Service Japan, U.S. Embassy Tokyo at takahiko.suzuki@trade.gov

Pharmaceuticals (DRG)

Overview

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Unit: USD thousands

| | 2011 | 2012 (estimated) | 2013 (estimated) | 2014 (estimated) |
|------------------------|---------|---------------------|---------------------|---------------------|
| Total Market Size | 117,965 | 119,962 | 121,077 | 122,201 |
| Total Local Production | 87,671 | 86,911 | 87,693 | 88,482 |
| Total Exports | 1,737 | 1,738 | 1,754 | 1,770 |
| Total Imports | 31,760 | 34,790 | 35,137 | 35,489 |
| Imports from the U.S. | 6,140 | 6,958 | 7,028 | 7,098 |
| Exchange Rate: 1 USD | 79.70 | 79.72 | 79.72 | 79.72 |

Total Market Size = (Total Local Production + Total Imports) – (Total Exports)

Data Sources:

Total Local Production: GOJ Ministry of Health, Labor and Welfare (MHLW)

Total Exports: MHLW

Total Imports: MHLW

Imports from U.S.: MHLW

Figures for 2012, 2013 and 2014 are unofficial CS Japan estimates.

Japan continues to be the second largest pharmaceutical market in the world after the U.S. According to the latest official figures from the Ministry of Health, Labor and Welfare's (MHLW's) Annual Pharmaceutical Production Statistics, the Japanese market for prescription and nonprescription pharmaceuticals totaled \$117.7 billion (up 4.8 percent from 2010 in yen terms) in 2011. More than 90 percent of the total market consists of prescription pharmaceuticals. Imports of foreign pharmaceuticals accounted for approximately 30 percent of the total Japanese market in 2011. Japan's total imports of U.S. pharmaceuticals totaled \$6.1 billion in 2011, a 5 percent market share. However, the total market share of U.S.-origin pharmaceuticals in Japan would be significantly higher than suggested by official statistics if local production by U.S. firms and compounds licensed to Japanese manufacturers were included. In the near term, the size of the market is expected to increase due to continued demand for drugs from Japan's aging population and the rising number of chronic and long-term diseases. However, market growth will be restrained by the Government of Japan's (GOJ's) efforts to contain overall healthcare costs including downward pressure on expenditures associated the GOJ's reimbursement pricing system.

In the 2010 price revision, the GOJ implemented a new premium system that minimizes downward price revisions on new drugs for which there are no corresponding generics on a trial basis. This was a major positive development for pharmaceutical firms. In the 2012 price revision, the GOJ decided to continue the new premium system trial for an additional two years starting from April 1, 2012. Both Japanese and foreign pharmaceutical industries have been calling for making the new pilot premium system permanent in the 2014 price revision as they believe that the system is working as expected and will lead to elimination of the drug lag in the long-term. The implementation of the new premium system was a major positive development for pharmaceutical firms. However, as national health expenditures are expected to further

increase in coming years, the GOJ's pricing policies such as re-pricing based on market expansion to contain overall healthcare costs will continue to create a challenging environment for U.S. pharmaceutical firms.

Contrary to certain negative implications of the GOJ's pricing policies, there have been positive developments with regard to the regulatory environment for drugs in Japan. Review times have been reduced as a result of a series of measures taken by the GOJ to reduce the drug lag. The Pharmaceuticals and Medical Devices Agency (PMDA) continues exceeding its performance goals in terms of the total review time (in median). By the end of March 2012 (JFY 2011), drug review periods were 11.5 months for standard products (for 12 month performance goals) and 6.5 months for priority products (for 9 month performance goals). PMDA is expected to further improve the regulatory environment for drugs.

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Top selling pharmaceuticals in terms of therapeutic category in Japan include renin-angiotensin system (RAS) agents, anti-tumor agents, lipid-regulating agents and arteriosclerosis treatments; acid-reducing/anti-flatulence/anti-ulcer agents; systemic antibacterial agents; anti-thrombogenic agents; diabetic agents; calcium antagonist agents; and psychotropic agents.

The vaccine market is expected to grow as the GOJ has been taking measures to reduce the "vaccine lag" defined as a disparity between the number of vaccines available in Japan with those available in the U.S. and other industrialized countries. The GOJ added three types of vaccines (cervical cancer, Hib (Haemophilus influenza type B), and pediatric pneumococcal vaccines) to publicly funded vaccination programs from JFY 2013 starting in April. Also, the GOJ may make more vaccines mandatory in order to increase the vaccination rate in Japan.

Generics will also have good potential in the Japanese market as the GOJ continues to regard the promotion of generics as a key solution to reducing soaring healthcare costs. The GOJ set a volume-based generic share target of 60% or more in five years through FY2017 based on a new calculation formula that uses as a denominator the number of generics plus original drugs that are replaceable with generics. The 60% target is 34.4% under the old calculation method that used all listed drugs as a denominator. The market share of generics at the end of March 2013 was 44.8% under the new formula (25.6% under the old formula) As such, it is expected that the GOJ will continue to take measures to promote the use of generics, including requiring welfare recipients to use generic drugs as a rule.

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Event: INTERPHEX JAPAN
Date: July 10 -12, 2013
Venue: Tokyo Big Sight
Web: www.interphex.jp/en/Home/

Event: CPhI Japan 2014
Date: April, 2014
Venue: Tokyo Big Sight
Web: <http://www.cphijapan.com/home/>

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| | |
|--|--|
| 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 | www.phrma-jp.org |
| The Japan Pharmaceutical Manufacturers Association | www.jpma.or.jp |
| The Federation of Japan Pharmaceutical Wholesalers Association (JPWA) | http://www.jpwa.or.jp |
| Pharmaceutical and Medical Device Regulatory Science Society of Japan (PMRJ) | http://www.pmrj.jp |
| The Pharmaceutical Society of Japan (PSJ) | http://www.pharm.or.jp |
| Japan Generic Medicines Association (JGA) | http://www.jga.gr.jp |

Renewable Energy

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Accumulated Generation Capacity

Unit: Megawatt

| | 2011 | 2012 | 2013 (estimated) | 2014 (estimated) |
|------------------------|--------|--------|---------------------|---------------------|
| Total Market Size | 10,400 | 12,210 | 15,000 | 20,000 |
| Total Local Production | 10,400 | 12,210 | 15,000 | 20,000 |
| Total Exports | 0 | 0 | 0 | 0 |
| Total Imports | n/a | n/a | n/a | n/a |
| Imports from the U.S. | n/a | n/a | n/a | n/a |
| Exchange Rate: 1 USD | n/a | n/a | n/a | n/a |

(NB: Hydraulic power generation is not included in the above chart.)

Renewable energy in Japan is defined here as electricity produced from solar PV (both residential and non-residential), wind, biomass, and geothermal. We expect that Japan's future energy strategy will see a substantial reduction in the use of nuclear power and a massive deployment of renewable energy. In July 2012, the Government of Japan (GOJ) implemented a Feed-in-Tariff (FIT) law for renewable energy sources for the first time in history. Since then, Japanese renewable sectors, especially solar, have been booming. Also in September 2012, the GOJ laid out a growth strategy whereby Japan is committed to increase electricity generation from renewable energy sources by eight times, reaching 190 terawatt hours (tWh), up from 25 tWh in 2010. To achieve this increase, a total of 99 GW of new renewable energy capacity will need to be installed in the next two decades. We anticipate continued high growth in the renewable energy sector in coming years, providing excellent export opportunities for U.S. firms that have cutting-edge, cost-competitive products and services.

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Solar PV

Solar PV was the first technology to see a boost from the FIT because solar installations have short lead times and are not subject to long environmental impact assessment studies. Japan is unique in that 80% of current solar generation is in the form of residential rooftop solar panels, in large part due to government subsidies over the past few decades.

In turn, the FIT has also spurred interest in mega-solar projects. Currently, mega-solar costs approximately \$2,700 (or 270,000 yen) per kilowatt of installed capacity, which is double the cost in Germany. One reason for the discrepancy is that Japan has higher construction costs due to more stringent seismic and typhoon-resistance building standards. Also, Japan lacks a sufficient pool of unskilled labor for installation work and must utilize pricier skilled labor. However, we have learned that in some parts of Japan, mega-solar costs are approaching those of Germany.

Since the introduction of the FIT, Japan has seen over a thousand applications for new mega-solar plants, of which 50 have been constructed. In 2013, land shortages will bring a slowdown in additional projects. In Japan, two types of companies are leading most mega-solar projects: 1) companies with electrical expertise that were suppliers to electrical utilities, and 2) consortiums led by large trading companies that include major construction companies.

As the original 42 yen per kilowatt-hour (kWh) FIT rate for solar sparked a faster than expected increase in solar projects, the GOJ believed a new reduced rate was in order to slow, yet sustain the rate of new solar installations. For this reason, the FIT rate for solar was reduced to 38 yen starting April 1, 2013.

Wind Power Generation

Due to geographical reasons, Japan's wind power generation tends to be concentrated either in the northern part of Japan (Hokkaido and Tohoku) or in the southern part of Kyushu. Although wind power is a major portion of renewable generation in the U.S. and Europe, wind is underrepresented in Japan, with only 0.3% of the energy mix in 2009. As for the size of wind turbines in Japan, most are 2,000 kW and larger, which the Japan Wind Power Association says is the minimum required to sell electricity powered by wind to the power utilities. Compared to the U.S. and Europe, Japan is slow to develop onshore wind turbines. As of 2010, Japan is the 12th largest country in the world in terms of installed capacity of wind power. The reasons include the lack of well-developed transmission grid lines and Japan's restrictions on the new construction of onshore wind power stations.

Geothermal Power Generation

Although Japan ranks as the world's 3rd richest country in geothermal reserves behind Indonesia and the U.S., the country only utilizes 10% of its available resources. Hindered by an administrative ordinance that limits the number of geothermal power stations in natural parks to six, and by regulations such as the Natural Park Law, no new specific development plan has been produced since the Hachijojima Geothermal Power Station started operation in 1999. The GOJ is currently looking at ways to ease regulations governing access to geothermal resources, and partial deregulation has recently been adopted to generate a positive example of new geothermal power station development.

Biomass Power Generation

Japan has been utilizing a variety of biomass fuels as sources of electricity generation: wood waste, raw garbage, livestock waste, sewage sludge, industrial waste, agricultural waste, etc. Traditionally, wood biomass holds the largest share of all the other waste-based fuel sources in Japan. Under the FIT, biomass fuels which are applicable to the FIT tariffs are grouped in four categories: biogas (of which the highest rate of 40.95 yen/kWh is applied), timber from forest thinning, other woody materials, waste (excluding wood waste), and recycled wood. Japan distinguishes plants which only burn wood biomass, which fall under the FIT scheme, from thermal plants which use wood biomass as part of a fuel source, and has a total of 56 biomass plants that qualify as renewable. Before the FIT law was implemented, biomass power generation had been the second largest renewable power source in terms of electricity sold to the power utilities. We expect steady growth in the sector.

Solar PV

We expect that there is still a lot of potential for expansion of rooftop solar installation; currently solar panels are installed on one million of twelve million household structurally capable of supporting the equipment. Weight reductions in next generation panels and structural refurbishments of older buildings will mean that an additional 4.5 million households will be able to support solar installation by 2030 (GOJ estimates there are approximately 27 million households in Japan). Currently, panel manufacturers market directly to construction companies and consumers. In the near future, more independent system integrators will enter the market. Eighty percent of residential installations still use Japanese panels due to name-recognition; however, there has recently been a significant influx in non-Japanese brands since the implementation of the FIT law.

Wind Power Generation

Since the implementation of FIT law last year, the GOJ has been carrying out measures in order to increase wind power generation. Japan sees a lot of potential for off-shore wind as well as on-shore wind power generation in Hokkaido and Tohoku.

The GOJ allocated \$250 million (25 billion yen) in its FY2013 budget for grid expansion, which is not a traditional use of tax monies. Also, in February 2013, the GOJ disclosed ambitious plans to triple wind facilities in 10 years, to approximately 7.5GW. According to the plan, the government and private companies will invest \$3.1 billion (or 310 billion yen) in Hokkaido and Tohoku regions in order to strengthen the grid lines by introducing a unique “toll road” system. By using this system, private wind power operators will bear half the cost of strengthening the gridlines (the GOJ will cover the other half) with an aim of expanding wind power under the FIT system. Under the current law, gridline construction is the sole task of regional power utilities.

As for expansion of offshore wind power, Japan launched in 2012 a “floating” type offshore wind turbine demonstration project in Nagasaki, where the GOJ installed a 100 kW turbine. Japan plans to operate a much larger scale offshore wind farm project off the coast of Fukushima Prefecture in the near future. Recognizing that it is more expensive than on-shore wind, the GOJ is discussing the possibility of setting a separate, higher FIT for off-shore wind.

Geothermal Power Generation

As Japan’s energy situation has drastically changed since the March 11 earthquake, Japan can no longer afford to overlook its vast geothermal energy potential. The GOJ is now working in order to remove some of the restrictions on geothermal production. As geothermal projects take a long time (10 to 15 years) from planning to actual power generation and require considerable investment, the sector may not give U.S. firms immediate export opportunities. However, it is important to note that Japanese companies and local governments are now looking seriously at launching new geothermal development projects that should lead to a significant increase by 2020.

Biomass Generation

Starting in fiscal year 2013, the GOJ is introducing a new program to subsidize half the cost of constructing new biomass power plants. Also, biomass electricity can currently only be sold to designated power companies; the GOJ will reform this system to allow freer sales of this energy to Japan’s Independent Power Producers. The GOJ goal is for

2.8 million households (5% of the country's households) to be supplied by biomass electricity by 2020. Approximately 20 million tons of food waste is produced each year in Japan; most of which goes to landfills. Furthermore, due to the high cost of transporting trees thinned from Japan's forests, approximately 800 tons of these trees per year are left in forests. GOJ plans to utilize all these untreated biomass resources to fuel new power generation, which, under FIT, will produce more new projects in the near future.

Trade Event

World Smart Energy Week 2013

Date: February 27 – March 1, 2013

Venue: Tokyo Big Sight, Tokyo

Organizer: Reed Exhibition Japan Ltd.

URL: <http://www.wsew.jp/en/>

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CS Japan Contact: Takahiko Suzuki
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Agency for Natural Resources and Energy, GOJ
<http://www.enecho.meti.go.jp/english/index.htm>

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

Safety and Security (SEC)

Overview

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Unit: USD thousands

| | 2011 | 2012 | 2013 (estimated) | 2014 (estimated) |
|-------------------------|-----------|-----------|---------------------|---------------------|
| Total Market Size | 5,910,300 | 6,274,800 | 6,453,000 | 6,570,900 |
| *Total Local Production | 6,394,945 | 6,789,334 | 6,982,146 | 7,109,714 |
| *Total Exports | 1,075,675 | 1,142,014 | 1,174,446 | 1,195,904 |
| *Total Imports | 591,030 | 627,480 | 645,300 | 657,090 |
| *Imports from the U.S. | n/a | n/a | n/a | n/a |
| Exchange Rate: 1 USD | 79.70 | 79.82 | 79.82 | 79.82 |

(Data Source: Fuji Keizai (Total Market Size), *figures are unofficial CS Japan estimates)

According to the Fuji Keizai Research Company, Japan's security systems industry, including equipment and services, is projected to have steady growth averaging three percent per year for the next few years. Investment in security equipment is projected to increase due to improving economic conditions. Investment in new buildings will be a main driving force for the physical access-control market. The mid-term outlook for the security systems market is expected to grow due to increasing demand for replacement and upgrade of existing systems.

Two years have passed since the major disaster at the Fukushima nuclear power plant and, cleanup and radiation decontamination efforts still continue in disaster-affected areas. The market for personal protective equipment is expected to grow steadily and new technologies capable of treating contaminated water and soil are expected to draw attention. Due to growing awareness about disaster prevention measures, steady demand is expected in the market for disaster management-related business, estimated at U.S. \$1.3 billion annually over the next few years.

The development of various IP (Internet Protocol)-based systems along with cloud computing has had a significant impact on the physical security market. Along with cloud computing market growth, there are various potential business opportunities in IP-based security systems and equipment which employ more sophisticated digital technologies. Especially, there are good potential growth opportunities in next generation surveillance technologies including video analytics applications and smart cameras.

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U.S. products for the government security and anti-terrorism market, including those for port security enjoy a favorable position in the Japanese market, as U.S. technological leadership in such products is highly recognized.

In light of the experiences of the recent disaster in Japan, many Japanese companies are reconsidering their existing Business Continuity Planning (BCP) and cloud computing services have attracted increasing attention as the way to protect their

important data. There are great potential business opportunities for cloud computing services as part of business continuity planning.

There has also been an increase in demand from the public and private sector for enhanced information security solutions to combat the growing threat of cybercrime, cyber terrorism and identity theft.

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Event: Security Show
Date: March 5-8, 2013
Venue: Tokyo Big Sight
Web: <http://www.shopbiz.jp/en/ss/>

Event: Office Security Expo
Date: July 10-12, 2013
Venue: Tokyo Big Sight
Web: <http://www.osec.jp/>

Event: Risk Control in Tokyo (RISCON) - Safety and Security Trade Expo
Date: October 2-4, 2013
Venue: Tokyo Big Sight
Web: <http://www.kikikanri.biz/english/index.html>

Event: Special Equipment Exhibition & Conference for Anti-Terrorism (SEECAT)
Date: October 2-4, 2013
Venue: Tokyo Big Sight
Web: <http://www.seecat.biz/en/index.html>

Event: Tokyo International Fire and Safety Exhibition 2013
Date: October 2-4, 2013
Venue: Tokyo Big Sight
Web: <http://www.fire-safety-tokyo.com/eng/outline.html>

Web Resources

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CS Japan Contact: Ms. Kazuko Tsurumachi
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Cabinet Office Disaster Management
<http://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>

Telecommunication Equipment (TEL)

Overview

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Unit: USD millions

| | 2011 | 2012 | 2013 | 2014 |
|------------------------|--------|--------|--------|--------|
| Total Market Size | 54,997 | 58,037 | 64,010 | 72,798 |
| Total Local Production | 39,183 | 39,445 | 38,664 | 38,424 |
| Total Exports | 4,705 | 4,623 | 4,833 | 4,858 |
| Total Imports | 20,519 | 23,215 | 30,179 | 39,233 |
| Imports from the U.S. | 1,015 | 970 | 989 | 1,009 |
| Exchange Rate: 1 USD | 79.70 | 79.82 | 79.82 | 79.82 |

Total Market Size = (Total Local Production + Total Imports) – (Total Exports)

Data Sources:

Total Local Production: CIAJ

Total Exports: CIAJ

Total Imports: CIAJ and unofficial CS estimate

Imports from U.S.: CIAJ and unofficial CS estimate

The growth of Japanese telecom market was reaching a plateau due to the maturity of mobile phone market and a longer handset upgrade cycle. However the emergence of the smartphone revitalized the market. According to Nikkei, a significant amount of worldwide smartphone components are sourced from Japanese manufacturers. Now there are opportunities for U.S. component suppliers to these manufacturers.

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Smart phones/Tablets: touch-screen materials, image sensors, removable storage

Opportunities

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NTT Corporation, KDDI Corporation and Softbank Corporation are the biggest players in the industry. The growing popularity of smart phones was largely stimulated by manufacturers including some foreign firms, adding functions to adopt Japanese consumer's needs. Telecom companies are moving quickly to deploy 4G networks and devices. In addition, telecom companies in Japan may consider options for expanding embedded mobile capabilities, which can add significant value. U.S. suppliers with proven experience in these businesses have potential opportunities for the Japanese telecommunication market.

Interop Tokyo

<http://www.interop.jp/2013/english/index.html>

Makuhari Messe (Chiba, Japan)

June 11 - 14, 2013

CEATEC Japan

<http://www.ceatec.com/2013/en/application/index.html>

Makuhari Messe (Chiba, Japan)

October 1 - 5, 2013

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Communications and Information Network Association of Japan (CIAJ)

<http://www.ciaj.or.jp/e.htm>

CS Japan Contact: Rika Saito

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Travel and Tourism

Overview

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Unit: USD millions

| | 2011 | 2012 (estimated) | 2013 (estimated) | 2014 (estimated) |
|----------------------------------|---------|---------------------|---------------------|---------------------|
| Total Market Size ⁽¹⁾ | 127,647 | 131,121 | 129,691 | 133,875 |
| Total Outbound Market | 54,580 | 58,131 | 58,632 | 59,805 |
| U.S. Share of Outbound Market | 14,755 | 16,083 | 16,565 | 16,897 |
| Exchange Rate: 1 USD | 79.70 | 79.82 | 79.82 | 79.82 |

Unit: millions of people

| | 2011 | 2012 (estimated) | 2013 (estimated) | 2014 (estimated) |
|--|-------|---------------------|---------------------|---------------------|
| Number of Outbound Travelers | 16.99 | 18.49 | 18.77 | 19.33 |
| Number of Outbound Travelers to the U.S. | 3.25 | 3.68 | 3.79 | 3.87 |

Data Sources:

Total Market Size: Japan Tourism Agency (JTA), JTB Corp., and unofficial CS Japan estimates

Total Outbound Market: JTB Corp., and unofficial CS Japan estimates

U.S. Share of Outbound Market: U.S. Department of Commerce, Office of Travel and Tourism Industries (USDOT/OTTI), and unofficial CS Japan estimates

Number of Outbound Travelers: GOJ Ministry of Justice, JTB Corp., and unofficial CS Japan estimates

Number of Outbound Travelers to the U.S.: USDOT/OTTI and unofficial CS Japan estimates

Note:

(1) Total market size includes spending on overnight trips. Spending on day trips is not included.

In 2011, Japan was the fourth largest overall source of inbound travelers (and second largest overseas source) to the U.S., attracting 3.25 million visitors. The total number of Japanese outbound travelers in 2011 was 17 million. The U.S. continues to be one of the most popular destinations for Japanese visitors with a 19 percent market share in Japan. Japanese spending in the U.S. remained healthy with travel and tourism receipts totaling \$14.8 billion, a two percent increase over the previous year and second only to Canada.

There are three peak holiday periods in Japan: Golden Week, Obon, and the end of the year through the week of the 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 popular time to travel abroad. All of these holidays present excellent opportunities for travel to the U.S.

Travel industry in 2013 focused renewed interest in the growth potential of bilateral travel. Brand USA and the Japan Association of Travel Agents (JATA) signed an MOU to designate a “Japan-U.S. Tourism Exchange Year” from September 2012 until August 2013. A key factor behind this interest is the increase in the number of direct flights to the U.S., including new non-stops from Narita to Boston, Seattle, San Diego, San Jose and Denver. Now is an excellent time for the U.S. travel industry to actively promote their destinations and services in the Japanese market.

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(1) Senior Travel Market

Within the Japanese outbound travel market, the senior travel segment has good growth potential for U.S. firms and destinations. While the size of the Japanese population continues to decrease, the number of people aged 60 and over has been steadily increasing. Projections indicate that by 2015, one out of every three people in Japan will be over the age of 60, which will be approximately 42 million people. (Total population: 127.5 million) The Japanese senior segment, especially the 6.6 million baby boomers born between 1947 and 1949, was strongly influenced by American music, film and TV when growing up. As a result, these baby boomers, especially Japanese males, have a favorable impression of American lifestyle and culture. These seniors have time, money and energy to spend on leisure travel and are the best match for long-haul destinations such as the United States.

(2) Special Interest Tours (SITs)

While the majority of Japanese travelers still enjoy nature and scenery, shopping, gourmet food, history and culture, some travelers have a more specific purpose in mind such as attending sporting events or engaging in favorite activities such as hobbies. In Japan, these tours are called Special Interest Tours, or SITs. The number of Japanese SIT travelers has gradually increased in the past few years. These tourists are interested in traveling with others who share the same interests and have the potential to become repeat travelers. The following are examples of themes that appeal to Japanese travelers:

- Spectator sports such as professional baseball, basketball, soccer, golf, car racing and Olympics
- Participation in amateur marathons
- Sports activities such as golfing, hiking, fishing, diving, skiing, driving, cycling and other outdoor sports
- Art and cultural tours such as visiting museums and art galleries, and going to concerts and theaters
- UNESCO World Heritage Site tours
- Hobby tours such as quilting, photo taking, drawing, and dancing
- Train tours
- Cruises

Opportunities

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Event: JATA Tourism Forum & Travel Showcase 2013 – Brand USA Pavilion
Date: September 12-15, 2013
Venue: Tokyo Big Sight
Web: <http://www.tabihaku.jp/2013/en/index.php>

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Brand USA 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>
<https://twitter.com/BuyUSAJapan>

The United States remained Japan's top supplier of agricultural products, with a 26 percent market share in 2012. However, China, Australia, Thailand, Chile, and Brazil have grown as strong competitors for the United States. In CY 2012, U.S. farm exports to Japan fell slightly from \$15.6 billion to \$14.9 billion. However, much of that was due to the decline in feeds and fodders caused by the drought in the United States. In that same period, consumer ready products grew 11 percent, from \$5.65 billion to \$6.32 billion, driven mainly by red meats (pork and beef), dairy products, and fresh and processed fruits. In 2011, the value of Japan's consumer food and beverage market-- food retail and food service sector combined-- was valued at around \$821 billion. For complete agricultural statistics, please visit the web site of the USDA's Foreign Agricultural Service at <http://www.fas.usda.gov/data.asp>.

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, Supermarket Trade Show, and International Food Ingredients & Additives Exhibition and Conference (IFIA) 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-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 12.4 percent in 2010 while per capita protein consumption of meat went from five percent in 1960 to 18.3 percent in 2010. Per capita protein consumption for dairy products also increased from 2.5 percent in 1960 to 9.5 percent in 2010. 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 delivery services as well.

While economic stagnation and declining income have made people more price-conscious than in the past, 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 fifteen warehouses located throughout Japan, and is planning to open three more in summer 2013.

USDA's Foreign Agricultural Service issues a multitude of reports on the Japanese market each year, which can be found at <http://gain.fas.usda.gov/Lists/Advanced%20Search/AllItems.aspx>. In addition to numerous commodity reports, one can also find specific reports on the retail, HRI (hotel, restaurant, and institutional), and food processing sectors, as well as a general exporters guide and reports on current barriers to trade (FAIRS).

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

be 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. Three of the largest annual food related trade shows in Asia take place in Japan: the Supermarket Trade Show (February), FOODEX Japan (March), and International Food Ingredients & Additives Exhibition and Conference (IFIA) Japan (May). The Agricultural Trade Offices in Osaka and Tokyo participate in the following shows:

Event: The Supermarket Trade Show
Date: February - annually
Venue: Tokyo Big Sight
Web: <http://www.smts.jp/english/>

Event: The International Food and Beverage Exhibition FOODEX JAPAN 2012
Date: March - annually
Venue: Makuhari Messe
Web: <http://www.imexmanagement.com/>

Event: Wine & Gourmet Japan 2012
Partner Event: FABEX 2012
Dessert, Sweet and Drink Festival 2012
2011 Japan Meat Industry Fair
Date: April - annually
Venue: Tokyo Big Sight
Web: <http://www.wineandgourmetjapan.com>

Event: The International Food Ingredients & Additives Exhibition and Conference 2011 (ifia JAPAN)
Date: May - annually
Venue: Tokyo Big Sight
Web: <http://www.ifiajapan.com>

Event: Health Ingredients Japan
Partner Event: Safety and Technology Japan 2012 (S-tec)
Date: October - annually
Web: <http://www.hijapan.info>

Event: BioFach Japan Organic Expo
Date: November - annually
Venue: Tokyo Big Sight
Web: <http://www.biofach.jp>

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Chapter 5: Trade Regulations, Customs and Standards

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Import Tariffs

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On average, the applied tariff rate in Japan is one of the lowest in the world. In fiscal year (April-March) 2012, the simple average applied MFN (most favored nation) tariff rate was 6.3 percent, up slightly from 5.8 percent in FY2010, reflecting a change in nomenclature, and an increase in the average *ad valorem* equivalents (AVEs) of non-*ad valorem* duties. While import duties on many agricultural items continue to remain high, 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 22.2 percent (2012) is among the world's highest for industrialized countries. By comparison, the average agricultural import tariff is 5.2 percent (2012) in the U.S. and 13.5 percent (2012) 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/index.htm>.

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 137 developing countries and 14 territories, including 49 least developed countries (LDCs). The simple average GSP tariff rate is 5.3 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, the Philippines, Switzerland and Viet Nam 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 the section below on *Customs Regulations and Contact Information* in this chapter.)

Trade Barriers

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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

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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](#) in this chapter.

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 a 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](#) in this chapter.

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

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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 its 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.pmdtdc.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

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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 *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. 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

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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 fresh foods such as grapefruit or oranges, 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.

JAS law requires that place of origin be displayed for all fresh food products. If the products are sold individually, in-store signs must display both the name and place of origin of the products. Although this information is required to be displayed for both domestic and imported products, processed food products produced in Japan are not required to show the country of origin labeling. However, all imported processed foods and beverages are required to bear country of origin labeling. The definition of country of origin by CODEX is “When a food undergoes processing in a second country which changes its nature, the country in which the processing is performed shall be considered to the country of origin for the purposes of labeling”. For example, the country of origin for coffee beans imported into and roasted in the United States is the United States. However, the country of origin of the coffee beans themselves should also be noted. This is not a legal requirement but a commercial requirement. 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 Affairs 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 2009 GAIN Report on the creation of the Consumer Affairs Agency: <http://tinyurl.com/ydwqsch>

U.S. Foreign Agriculture Service GAIN Report on the proposed new food labeling law: <http://goo.gl/NQZYu>

U.S. Foreign Agriculture Service GAIN Report on Food and Agriculture Import Regulations and Standards (FAIRS) – Japan: <http://goo.gl/wLyDE>

Prohibited and Restricted Imports

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Japan strictly prohibits entry of narcotics and related utensils, firearms, firearm parts and ammunition, explosives and gunpowder, precursor materials for chemical weapons, germs which are likely to be used for bio-terrorism, 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/index.htm>.

Customs Regulations and Contact Information

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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 to overcome these issues. It may be necessary to employ an import agent or customs broker to help facilitate customs entry. See [Chapter 3, Using an Agent or Distributor](#) for more information.

The typical time between arrival of goods and the granting of import permission was between two and three days for sea cargo and about a day 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 a material 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.

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/index.htm>

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

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Overview

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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 accessing the market.

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 distributors 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

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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

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Please see the [Product Certification](#) section below.

Product Certification

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Under the 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

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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

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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 prepares 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: 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

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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 10,259 standards (as of March, 2011). 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). The Council for Agricultural and Forestry Standards, a JAS Council consisting of consumers, manufacturers, commercial users, and academic experts, establishes JAS's standards. Existing JAS Standards are reviewed every five years by each JAS Council. As of March, 2011 (the latest available information), there were 214 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 (ROCB). 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>.

All producers and distributors are required to ensure that their labels are in compliance with “Quality Labeling” standards. Cross-Category Quality Labeling Standards such as the “Quality Labeling Standards for Processed Foods, Fresh Foods and Genetically Modified Foods” were established in 1999. These standards are available in English at: <http://www.maff.go.jp/e/jas/labeling/index.html>. As of January, 2011 (the latest available information), there were 56 individual quality labeling standards under the JAS law.

In September 2009, responsibility for all labeling issues in Japan, including food labeling, was officially transferred to the new Consumer Affairs Agency. More information on product labeling can be found on Japan’s Consumer Affairs Agency website: <http://www.caa.go.jp/en/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](#) in this chapter.

Contacts

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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
E-mail: please use the enquiry form at https://www.jsa.or.jp/eng/form_mail_e.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>

Trade Agreements

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As of May 2013, Japan had entered into economic partnership agreements (EPAs) with 12 countries: Brunei, Chile, Indonesia, Malaysia, Mexico, Singapore, Switzerland, Thailand, the Philippines, Vietnam, India and Peru. In addition to bilateral agreements, Japan and the Association of Southeast Asian Nations (ASEAN) have also entered into an agreement on a Comprehensive Economic Partnership. EPAs are currently being negotiated with the Republic of Korea, Australia, the Gulf Cooperation Council, Columbia, Mongolia, Canada, and the European Union.

Japan has also committed to joining the Trans-Pacific Partnership 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

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Agriculture changes to requirements (e.g. MRL changes), as well as annual commodity reports: <http://gain.fas.usda.gov/Lists/Advanced%20Search/AllItems.aspx>

Information on trading in agricultural products with Japan:

FAIRS Narrative report:
<http://goo.gl/wLyDE>

FAIRS Certification report:
<http://goo.gl/Neued>

Japanese import clearance and customs procedures:

Japanese Ministry of Finance/Japan Customs
<http://www.customs.go.jp/english/>

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.pmdtc.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:

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

Japanese Import Standards and Regulations:

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

<https://twitter.com/BuyUSAJapan>

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Chapter 6: Investment Climate

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Openness To, and Restrictions Upon, Foreign Investment

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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. The Japanese government's commitment to implement policies to improve the climate for foreign investment, however, has been uneven. Japan's stock of FDI, as a percentage of gross domestic product (GDP), stood at 3.9% at the end of 2011, compared with 28.7% on average for all Organization for Economic Cooperation and Development (OECD) member countries. While the FDI stock has risen substantially since the 1990's, Japan still has the lowest ratio of FDI as a proportion of GDP of any OECD member.

In terms of trends, outbound investment continued moving upwards during 2012 as Japanese companies' large cash holdings combined with low global equity values and the strong yen supported their active merger and acquisition (M&A) activity abroad. Meanwhile, investment activity inside Japan showed a modest increase in numbers of M&A transactions during 2012, ending a five-year downward trend. Final 2011 statistics for FDI in Japan show a net outflow of about \$1.7 billion for the year, and provisional figures for the nine months through September 2012 indicated an outflow of \$0.4 billion. Notwithstanding the imbalance between inward and outward FDI, and the increase in M&A activity by Japanese firms overseas, Japan's outward FDI as a percentage of GDP also remains among the lowest of major OECD members.

Japan has largely recovered from the economic shocks caused by the March 2011 Tohoku earthquake and tsunami, and gross domestic product has returned to its pre-quake levels. Japan continues to face challenges of low growth, deflation, and an aging population and shrinking workforce. While the strong yen posed challenges for Japan's export sector in 2012, some exports – particularly automobiles – still performed well. At the same time, the strong yen cushioned the cost of increased fuel imports resulting from reduced reliance on nuclear power generation in the wake of the March 2011 disasters. Japan's unemployment rate of 4.6% is low compared to many other developed economies, but is relatively high by domestic standards as the rate has historically ranged between 3.0% and 3.5%. As of 2012, the International Monetary Fund estimates Japan's public debt at about 235% of GDP – the highest percentage among advanced economies. The national Diet voted in 2012 to raise the consumption tax from 5% to 10% in stages by 2015 to help reduce the fiscal imbalance.

Economic issues featured prominently in the Diet Lower House election of December 2012, in which the Liberal Democratic Party (LDP) returned to power after three years of government led by the Democratic Party of Japan (DPJ). The LDP claimed 294 of the 480 Lower House seats. LDP President Shinzo Abe became Prime Minister on December 26; Abe had previously served as Prime Minister from 2006-2007. The new Abe Government has set economic recovery and revitalization as key goals and has proposed a large supplementary budget, with half earmarked for public works projects, to stimulate the economy. The Government is also expected to prod the Bank of Japan to ease monetary policy in order to tackle deflation, and will aim to stimulate growth through science and technology research and innovation.

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 17th on Transparency International's Corruption Perceptions Index in 2012, with a score of 74. The World Bank ranked Japan number 24 on its Ease of Doing Business 2013 report, covering the period June 2011 through May 2012. The 2012 Index of Economic Freedom compiled by the Heritage Foundation ranked Japan number 22, with a score of 71.6, or "mostly free." In each instance, Japan's ranking was slightly lower than the previous year.

| Measure | Index/Ranking | Year |
|---------------------------------|----------------------|-------------|
| TI Corruption Perceptions Index | 17 | 2012 |
| Heritage Economic Freedom | 22 | 2012 |
| World Bank Doing Business | 24 | 2013 |

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 challenges, many of which relate more to prevailing practices comprising the business environment rather than to government regulations. The most notable are:

- An 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 tend to inhibit labor mobility.

The U.S. and Japanese governments have discussed these issues bilaterally under several different initiatives. In recent years, economic policy dialogues serving as the principal fora for discussing issues relating to the investment environment were 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.

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 Act 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.

The 2007 Financial Instruments and Exchange Act (amended in 2008) established a flexible regulatory system for financial markets and applied 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.

The structural reforms, revisions to Japan's legal code, and pro-active Japanese government policies to welcome FDI and promote corporate restructuring of the past decade have increased foreign investment in Japan through M&A activity. The numbers have generally tracked the performance of the broader economy, declining as Japan's economy struggled after 2008 but rebounding somewhat between January and

November 2012, with the 1,652 transactions in that period representing a 10.5% increase over the corresponding period of 2011, according to estimates by RECOF, a Tokyo-based M&A consultancy. The majority of these mergers were domestic transactions, but transactions involving foreign counterparts have also increased. The number of takeover bids (TOB) in Japan exceeded 100 for the first time in 2007 but has since dropped to more modest levels, amounting to 42 between January and October 2012 according to RECOF. The total value of M&A deals involving Japanese companies between January and November 2012 was 10.4 trillion yen, up 5.5% from the previous year. Japanese M&A directed at overseas companies amounted to 6.86 trillion yen during this period, accounting for 66% of total M&A and up 16.8% from 2011, according to RECOF.

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%. Japan's Radio Law and separate Broadcasting Law also limit foreign investment in broadcasters to 20%, or 33% 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.

Though the Ministry of Land, Infrastructure, Transport and Tourism (MLIT) was expected to begin new discussions in 2012 on the possibility of further privatization of Tokyo's Narita International Airport, the discussions have not progressed. The GOJ had also planned to establish an "Action Plan of Airport Management Reform" by the summer of 2012, based on the proposals in the MLIT Airport Administration Study Group report completed in July 2011, but none was made. The GOJ submitted a bill to the Diet in March 2012 that would allow private firms to manage 27 airports that are currently managed by the GOJ, including larger airports like Sendai and Hiroshima, but the bill was not acted on and did not carry over to the new Diet session in January 2013.

Laws and Regulations Governing Investment

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 Ministry of Finance, and to the ministry having jurisdiction over that business sector, through the Bank of Japan within 15 days of acquiring more than 10% 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% 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 (article 6), shareholdings (articles 10, 11 and 14), interlocking corporate directorates (article 13), mergers (article 15), and acquisitions (article 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 to apply when the domestic sales amount of any one of the parties exceeds 20 billion yen and the domestic sales amount of another one of the parties exceeds five billion yen. The 20 billion yen threshold can be applied for either the acquirer or the target company, and likewise the five billion yen threshold. Also these can apply in the case where more than two companies are involved in the merger. The amendments 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's real estate sector experienced a painful contraction following the credit crunch of 2008 as prices declined. The real estate market, particularly for premium properties, has rebounded after the Bank of Japan (BOJ) began buying real estate investment trust (REIT) shares in 2010. As of December 2012, BOJ has 110 billion yen of REIT shares on its books, a very small portion of BOJ's total assets but up substantially from just 2.2 billion yen in 2010. The small number of large real estate deals between unrelated parties, however, continues to impede recovery of the real estate market. Additionally, U.S. investors have reported isolated instances of criminal elements interfering with real estate transactions in Japan, particularly those involving distressed 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 property available 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 REITs and mutual funds that invest in property rights, although the REIT market in Japan remains relatively small. As of December 2012, there are 40 REITs listed on the Tokyo Stock Exchange (TSE). The TSE's REIT Office Index has rebounded from the all-time low it reached in December 2011, and as of December 2012 was at its highest point since January 2011.

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 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 in Japan are not subject to Japanese 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.

In June 2011, the U.S. Department of the Treasury announced that it planned to begin formal negotiation of amendments to the existing bilateral income tax treaty with Japan in order to bring the existing tax treaty into closer conformity with the current tax treaty policies of the United States and Japan.

Investment Promotion and Incentives

Since 2001, the Japanese Government has made increased inward FDI an explicit policy goal, but policies and programs to achieve this goal have changed over time. Most recently, in November 2011 the GOJ established a "Conference on Promoting Japan as an Asian Industrial Center and Direct Investment into Japan," a task force chaired by the Parliamentary Secretary of the Cabinet Office and composed of officials from relevant government ministries. It subsequently released a "Program for Promoting Japan as an Asian Business Center and Direct Investment into Japan" with the aim of boosting investment profitability, utilizing a special zone system, and improving support structures for investment. The Conference set a target in June 2012 to double Japan's FDI stock up to 35 trillion yen by 2020, and this target was incorporated into the Comprehensive Strategy for the Rebirth of Japan, which was endorsed by the Cabinet on July 31, 2012.

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. (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 (www.jetro.org).

Post-Disaster Reconstruction Policy and Special Zone Legislation

The Diet has allocated 18.9 trillion yen to date for reconstruction of the Tohoku region that was devastated by the March 11, 2011 earthquake and tsunami. The appropriations cover the five years from FY2011 to FY2015 (designated as the "concentrated reconstruction period"). The total combines funds allocated in the three supplementary budgets passed in FY2011 and the FY2012 budget, and includes major portions for rebuilding infrastructure along with various grant programs, some to be administered by local governments. As of December 6, 2012, approximately 420 billion yen in grants had been made to 26 towns and villages to promote collective housing relocation, and approximately 396 billion yen to 53 towns and villages for public housing developments. There are calls for additional reconstruction money in the FY2013 budget.

Under GOJ guidelines, participation in Tohoku reconstruction should be open to foreign contractors and investors. Japan's new Reconstruction Agency, established in February 2012, has hosted numerous briefings in conjunction with other agencies for foreign private companies and the diplomatic corps in Japan to promote private foreign direct investment and explain investment incentive measures in the disaster-hit areas. The Reconstruction Agency maintains a website on the reconstruction status at <http://www.reconstruction.go.jp/english/>, and is available at invest.tohoku@cas.go.jp to answer questions and consult with the private sector, including foreign companies, interested in investing in the disaster-hit regions.

Local governments in the Tohoku region play a central role in formulating reconstruction plans and implementing nationally-approved measures. The special economic zones legislation of 2011 includes 222 municipalities in the 11 prefectures of the affected region. Local municipalities may choose from a given menu of regulatory, tax relief, and other measures from which to craft special economic zones specific to their needs. As of December 14, 2012, 30 reconstruction promotion plans that feature special zones have been approved. The list of approved plans, and details on each, are available on the Reconstruction Agency website. While local governments are responsible for creating their own recovery plans, central government officials are providing technical assistance in drafting plans, exchanging information, and coordinating joint projects. On April 1, 2012, Corporate Coordination Promotion Offices were set up in the Reconstruction Agency's headquarters as well as in the Tohoku Bureaus.

Another key aspect of the special measures is the possibility to rezone agricultural, residential, and industrial areas to fit local plans. Each locality has decided or will

determine the aspects of its own special zone, so tax incentives and relaxed zoning may vary from locality to locality. Companies wishing to participate in Tohoku reconstruction should be aware of these circumstances, and may wish to seek a Japanese partner to negotiate the various zones and search for opportunities through the diverse proposals presented by local governments.

While Tohoku reconstruction efforts present significant potential opportunities for investors, challenges remain. According to a report submitted to the Diet by the Reconstruction Agency in November 2011, public infrastructure recovery has largely progressed according to the project plan and time schedule. However, shortages of skilled labor and construction materials have hindered progress in housing relocation and reconstruction. As a result, many local municipalities have been unable to begin housing projects and their allocated budgets have not been used. The GOJ is working with local governments to address these problems.

Conversion and Transfer Policies

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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 Act.

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 yen 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 Financial Action Task Force (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

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In the post-war period, the Japanese Government has not expropriated any enterprises and the expropriation or nationalization of foreign investments in Japan is extremely unlikely. Historically, nationalizations of enterprises have been rare and have all involved Japanese firms: 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, and the 2010 nationalization of Japan Airlines as a part of a two-year corporate reorganization plan. The airline has since been re-privatized.

Most recently, in the wake of the March 2011 nuclear accident at the Fukushima Daiichi Nuclear Power Station, the Tokyo Electric Power Company (TEPCO) was placed under "temporary public control" when the government injected \$12.5 billion through the Nuclear Damage Liability Facilitation Fund to procure a 50.1% stake in the company in

May 2012. Total government support for TEPCO and its compensation payments to victims and evacuees of the nuclear accident reached \$37 billion in December 2012. The utility is scheduled to pay back the funds over time, but the plan is contingent on the uncertain restart of TEPCO's large nuclear plant on Japan's west coast.

Dispute Settlement

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There have been no major bilateral investment disputes since 1990. 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.

Legal Services

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. In March 2012, the Cabinet endorsed the draft revisions of the Act on Special Measures concerning the Handling of Legal Services by Foreign Lawyers to allow gaiben to form professional corporations and branch offices, and the amendment bill was submitted to the Diet. However, it was dropped when the Diet was dissolved in late 2012 and it is unclear whether it will be taken up again in the new session.

Courts and Arbitration

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

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

Right to Private Ownership and Establishment

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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 Japan to revoke Article 821 or more formally clarify its meaning. The Japanese Government has said it will 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

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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.

While patent and trademark procedures in Japan have historically been costly and time-consuming, the GOJ has made strides to improve procedures in recent years. Specific complaints included the weaknesses of Japanese enforcement and legal redress; for example, judges are not adequately trained or that court procedures do not adequately protect business-confidential information required to file a case. In response, 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 an IPR court has been established. 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 all 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. In place since January 2008, 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. In May 2011, the GOJ enacted a partial amendment to the Unfair Competition Prevention Law that protects trade secrets from being disclosed during court trials and makes it illegal to sell items designed to circumvent technological protection measures, even if the device has other legal uses. Both of these changes address specific issues of concern with the previous law. The partial amendment came into enforcement on December 1, 2011.

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

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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, and has 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 undertake 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

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Stock Exchanges

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 400 listed companies participate as of December 2012. 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. However, in March 2012 AIM was integrated into TSE and rebranded as "Tokyo PRO Market." As of December 2012, only three companies were listed on the Tokyo PRO Market, out of 2,303 total listed on TSE.

Japan's stock exchanges face competitive pressures. In 2012, 56 firms delisted from the TSE. Other major stock exchanges in Asia -- including Taiwan, Hong Kong, Seoul, and Singapore -- continue to seek stock listings by Japanese companies, and media reports indicate that some Japanese firms chose to conduct initial public offerings of shares offshore. In part to improve their competitiveness internationally, Japan's two biggest stock exchanges, Tokyo and Osaka, completed a merger on January 1, 2013. Cash equity trading will be consolidated on the Tokyo Exchange in July 2013, while derivatives trading is slated to be consolidated on the Osaka Exchange in January 2014.

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 to 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 receiving an investment from or being acquired by a domestic firm with which they have a pre-existing business relationship.

After the Companies Act took full effect in 2007, expanding the types of M&A structure available in the Japanese market, many companies adopted defensive measures against hostile takeovers, though the prevalence of such measures has since declined. The most common of these are "advance warning systems" or "poison pill"-type rights distribution plans. While the financial crisis starting in 2008 reduced the threat of hostile takeovers by reducing available capital, the 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 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 fully entered into force in May 2007 as the Companies Act, 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 allowed 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.

Changes in Corporate Governance

Under the 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 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 Companies Act makes these options available to all listed companies. Unfortunately, very few listed Japanese companies have adopted the board committee system. Companies can also 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 were a disincentive for foreign investors, the Japanese Government in the last few years has taken an increasingly strong stance towards corporate misconduct. In March 2012, the Financial Services Agency (FSA) implemented an amendment to corporate disclosure rules to require disclosure of information on the degree of independence of outside directors and outside company auditors, such as the relationship between the company and the current or previous employer of those outside directors/auditors. In addition, FSA launched a review of existing regulation and government supervision of Japan's asset management sector. The FSA has recently published draft amendments aimed at reducing the likelihood of cases like the AIJ Investment Advisors scandal, which involved fraudulent handling of pension fund assets by an investment management firm.

Broadly, the FSA's proposed amendments are aimed at introducing systems to help domestic trust banks and pension funds verify financial information provided by discretionary investment management companies, as well as increasing the volume of information which discretionary investment management companies are required to provide. In addition, the FSA proposes implementing heavier penalties for false statements made by discretionary investment management companies and introducing a more rigorous system of regulatory supervision and inspection. Following the proposals, the FSA has also imposed administrative punishments (including suspension of certain business operations) on three investment advisors who managed investments for the fund which AIJ is suspected of defrauding.

In 2010 the Ministry of Justice (MOJ) convened a Legislative Advisory Council having the authority to consider amendments to the Companies Act of 2005. The 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 at the outset. However, TEPCO's failure to take steps that would have prevented the March 2011 nuclear disaster, as well as high-profile Olympus and AIJ scandals that resulted from lax corporate governance sparked renewed interest in corporate governance reform in 2011. In August 2012, MOJ published and submitted to the Justice Minister draft amendments to the Companies Act with an accompanying resolution that "there is the need to establish discipline in the rules and regulations of financial instruments

exchanges to the effect that listed companies shall strive to secure at least one independent board member that is an outside director." Although MOJ did not recommend a change in the law to require listed company boards to have at least one outside director – due at least in part to opposition by Japanese business groups – the amendments would require those companies which do not have an outside director to disclose why it considers the appointment of an outside director as inappropriate. The amendments also create an alternative structure where companies may institute an audit and supervisory committee (kansa kantoku iinkai setchi geisha) whose members do not serve as directors. It is expected that the amendment bill will be submitted to the Diet in early 2013. While viewed as a positive step, the international business community has expressed concern that the amendments do not go far enough to strengthen corporate governance.

In 2009, the TSE implemented new restrictions on private placements to protect the interests of shareholders and published its Listing System Improvement Action Plan. The plan sets out steps to enhance corporate governance, improve disclosure, and improve the governance of group companies. At the end of 2009 the TSE released its revised Principles of Corporate Governance for Listed Companies, the first revision since their formulation in 2004, adding points to enhance corporate governance not only of the parent company, but of the corporate group as a whole; strengthen statutory auditors' functions; and identify suitable governance models. The TSE published a "TSE Listed Companies White Paper on Corporate Governance," and revised its requirements to handle earnings forecast disclosure in a "practical manner" in 2011. In March 2012, TSE relaxed rules for listed firms' earnings forecasts. Firms now have more flexibility to choose items to include, how to present items, and which periods to cover. The changes are intended to steer firms preparing disclosure in the direction of dialogue with investors, rather than "perfunctory conformation with rules," and came into effect with TSE financial statement filings for the fiscal year ending March 2012. In response to the MOJ Subcommittee's recommendations on corporate governance, TSE has requested that its listed companies make efforts to secure an independent outside director.

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 1990's as Japan's banking system came close to collapse. Within a 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 a March 2011 study by Nomura Holdings Inc., the cross-shareholding ratio (market value basis) in FY ended March 2011 was a record-low 11.1%, a 0.4% decline from the previous year.

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.

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 a final decision has not been made on the mandatory introduction of International Financial Reporting Standards (IFRS). In June 2011, the FSA announced it would delay its road map towards adoption of IFRS for publicly traded companies due to concerns over additional costs for Japanese companies struggling after the March 11 earthquake. The FSA's road map originally indicated it would be mandatory for Japanese companies to report under IFRS in 2015 or 2016. The FSA said instead there will be a transition period of five to seven years prior to mandatory adoption in order to allow companies sufficient time to prepare for the new reporting standard.

There has been greater disclosure of proxy voting during the past few 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 individual capital gains is 20%. However, under special policy measures intended to stimulate capital markets, Japan applied a special 10% capital gains tax rate on the proceeds of sales of listed stocks through 2011, and was subsequently extended to December 2013 for capital gains of less than 5 million yen and for dividends on listed shares of less than 1 million yen. Starting January 1, 2014, earned income from new investments of up to 1 million yen will be exempt from capital gains and dividend tax for up to 10 years. The program will be in effect until December

31, 2016, during which time taxpayers can make an investment of up to 1 million yen in stocks and stock funds each year, aggregating to a maximum of 3 million yen in total. 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 10% capital gains tax rate will apply if the sale is made prior to public listing in an M&A transaction and, from 2008, a 10% 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. Since bankruptcy trustees had limited powers to oversee restructuring, most judicial bankruptcies ended in liquidation, often at distressed prices. 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

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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. In April 2012, the Diet passed legislation to

amend the Postal Privatization Laws that were first enacted under Prime Minister Koizumi in 2005. Among other things the revised legislation (1) changes the group's organizational structure from a five company structure to a four company structure by requiring the mail delivery company and the postal network company to merge; (2) removes the deadline to fully privatize Japan Post Insurance and Japan Post Bank; (3) mandates that Japan Post group provide insurance and banking services universally in an integrated manner, which will raise costs to the Japan Post system and discourage the selling of private sector products through the Japan Post's post office network; and (4) substantially eases new product expansion, particularly after 50 percent of the postal financial entity's shares are sold.

Also, the Japan Post Company, which was established on October 1, 2012 through merger of the postal operating entities, should provide private companies access to its network comparable to that given to Japan Post entities, and select and distribute financial products of private providers through its network transparently and without discrimination. In addition, Japan should implement measures to prevent cross-subsidization among the Japan Post businesses and related entities, such as ensuring the Japan Post companies' strict compliance with the Insurance Business Law's "arm's length" rule and requiring adequate financial disclosures to demonstrate that cross-subsidization is in fact not occurring.

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.

In addition, U.S. private equity firms can still face challenges when seeking to make significant investment in "strategic industries" deemed important to Japan's national interests. Private equity buyout deals in Japan during 2012 totaled only USD 3.5 billion, which is 4% of the value in the United States.

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

Corporate Social Responsibility

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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

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

Corruption

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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 yen (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, 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 yen. 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, frequently 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 popular expectations that the DPJ-led government would move to eliminate amakudari after assuming power in 2009. However, successive DPJ governments did not make the issue a 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 Anti-bribery 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 Anti-bribery Convention: The OECD Anti-bribery Convention entered into force in February 1999. As of March 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 Anti-bribery Convention through the U.S. FCPA.

UN Convention: The UN Anticorruption Convention entered into force on December 14, 2005, and there are 158 parties to it as of November 2011 (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 Anti-bribery 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 34 parties (see <http://www.oas.org/juridico/english/Sigs/b-58.html>) [Insert information as to whether your country is a party to the OAS Convention.]

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 49 member States (48 European countries and the United States). As of December 2011, the Criminal Law Convention has 43 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 Anti-bribery Convention including links to national implementing legislation and country monitoring reports is available at: http://www.oecd.org/departement/0,3355,en_2649_34859_1_1_1_1_1,00.html. See also new Anti-bribery 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 213 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/index.asp>. The World Bank Business Environment and Enterprise Performance Surveys may also be of interest and are available at: <http://data.worldbank.org/data-catalog/BEEPS>.
- 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/s?s=global+enabling+trade+report>.
- 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/j/drl/rls/hrrpt/>.
- Global Integrity, a nonprofit organization, publishes its annual *Global Integrity Report*, which provides indicators for 106 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://www.globalintegrity.org/report>.

Bilateral Investment Agreements

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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 2012, 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, Colombia, Papua New Guinea, Kuwait, and Iraq, as well as a trilateral agreement with China and the Republic of Korea. The Japanese Government is

currently negotiating bilateral BITs with the Kingdom of Saudi Arabia, Kazakhstan, Angola, and Uruguay. The government is also preparing to negotiate BITs with other countries possessing abundant natural resources, including Qatar, Algeria and the Ukraine.

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, India and Peru, as well as a multilateral EPA with all ten members of the Association of Southeast Asian Nations (ASEAN). It is negotiating bilateral EPAs with Australia, the Gulf Cooperation Council states, the Republic of Korea, Colombia and Mongolia, and has agreed to open official negotiations on an FTA with the European Union and a trilateral EPA with China and the Republic of Korea.

OPIC and Other Investment Insurance Programs

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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

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Changing demographic patterns, macroeconomic trends, and regulatory reforms are gradually affecting traditional Japanese employment practices. Throughout most of the post-war period, these 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, but mobility among firms of skilled and white-collar labor, at both the mid-level and executive level, remains low. Demographic pressures – fewer young workers due to the long-term trends of a declining birth rate 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.

Labor Unions

Although labor unions play a role in the annual determination of wage scales throughout the economy, that role has been shrinking. The FY2012 Ministry of Health, Labor and Welfare (MHLW) "White Paper on Labor Economy" estimated that union membership as of June 30, 2011 had fallen by 93,000 from the previous year to 9.96 million people. This figure has been in constant decline since it peaked at 12.70 million in 1994. 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 LDP regaining power in December 2012, labor unions have expressed some concerns over the prospect of more conservative labor policies, as DPJ-led governments had been seen as more sympathetic to union issues than previous LDP administrations.

Employment Patterns and Labor Force Composition

While investors should be aware of Japan's high wage structure, growth in average wages in recent years has been slow, a situation that largely reflects the state of the economy and the increased use of "non-regular" employees. According to the MHLW White Paper, total cash salary, after rising in 2005-2006, fell steadily from 2007-2009, increased by 0.6% in 2010, and fell again by 0.2% in 2011. While Japan has accepted highly skilled foreign labor, Japanese firms have depended overwhelmingly on the local labor market to supply workers. As of the end of 2010, the number of registered foreign nationals fell 2.4% from the prior year to 2.13 million persons (or 1.67% of Japan's population of 128 million). The number of foreign nationals newly entering Japan for the purpose of employment also dropped in 2010 to 52,503, a decrease of 8% from the prior year, according to the Ministry of Justice "White Paper on Immigration Control 2011."

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. In recent years, re-hiring of employees on non-regular status after retirement is on the rise.

According to the FY2012 "White Paper on Children and Youths" by the Cabinet Office, 32.3% of employees aged 15-24, 26.8% of employees aged 25-29, 25.6% of employees aged 30-34 and 28.1% of employees aged 35-44 were "non-regular" workers in FY2011. There remains deep concern among Japanese government policy makers that the number of younger workers in "non-regular" status remains stubbornly high and that the ability of such workers to find permanent employment will decline as they get older. These "non-regular" employees bore the brunt of corporate adjustment to the worldwide recession that began in September 2008, with companies reducing their recruitment of new college graduates into the work force. According to the MHLW "White Paper on Labor Economy," the ratio of non-regular employees in 2011 increased slightly from the previous year to 35.1%. The White Paper points out that although there are many who choose to work as "non-regular workers" to suit their own purposes, such as flexible working hours, statistics show that in 2010; approximately 22.5% of all non-regular workers were in such status because they were unable to land "regular" jobs. These trends coincide with a persistent decline in labor force participation by young people (age 15 to 34). According to MHLW, the number of Japanese aged 15-34 participating in the labor force fell to 17.43 million in 2011, and has accounted for less than 30% of the total labor force since 2008.

Government Measures to Increase Workforce Participation

In the face of population decline and a rapidly aging society, the Japanese Government has pursued measures to increase participation and retention of older workers in the labor force. A revision to the "Employment Stability Law for the Elderly" passed the Diet in August 2012, and requires companies to introduce employment systems allowing employees reaching retirement age (generally set at 60) to continue working until 65, if they desire. The revised law will enter into force in April 2013. The Government is also pursuing work-life-balance measures for families, such as by increasing the number of

day care facilities and encouraging companies to make it easier for their employees to take childcare leave, in order to boost women's participation in the workforce. The long-term effectiveness of these measures remains to be seen.

Dispatch Work

In response to public criticism after many manufacturers terminated contracts with staffing (dispatching) companies following the global financial crisis of 2008, the Bill to Partially Revise the Labor Dispatch Law was submitted to the Diet in early 2010. This bill was intended to drastically limit dispatch work and prohibit dispatch to factories. Nevertheless, the bill did not pass in 2010 or 2011, due to the political opposition claiming that the law's revision would have adverse effects on corporate earnings and domestic employment. The DPJ compromised with the opposition and accepted a major modification to the bill which would allow dispatch to factories, and this modified version finally passed the Diet in April 2012. The new law, which bans dispatch contracts of 30 days or less except in certain narrow circumstances, went into force on October 1, 2012.

Pensions

Japan's legislature passed the Pension Security Enhancement Act in August 2011, which became effective January 1, 2012. Provisions of the Act will allow employees to contribute to an employer-sponsored defined contribution (DC) plan for the first time. Previously, only employers could contribute to a DC plan on behalf of employees. Under the new rules, employee contributions cannot exceed employer contributions. The limit on combined employer and employee contributions to a DC plan will remain the same: 51,000 yen per month if the employer sponsors only one occupational DC plan for employees or 25,500 yen if the employer also sponsors a defined benefit (DB) plan. Both employer and employee contributions receive preferential tax treatment. The Act also extends DC coverage to workers from age 60 or younger to age 65 and below.

There are two types of DC plans in Japan: employer-sponsored plans for employees, and individual plans available to the self-employed and to workers of employers who do not sponsor a pension plan. Contributions receive favorable tax treatment. In the case of employer-sponsored plans, contributions are recorded as an expense by the company and are 100% tax deductible for the participant; for individual plans, the entire contribution is tax deductible for the participant up to the contribution limit, currently 816,000 yen annually. Voluntary private pension plans in Japan (including DC and employer-sponsored defined-benefit (DB) plans) supplement the country's two-tiered public pension system, which comprises a flat-rate plan for all residents under the national pension program and an earnings-related plan under the employees' pension insurance program.

Foreign-Trade Zones/Free Ports

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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.

Between 1998 and December 2011, Japan's stock of FDI increased from 3.0 trillion yen to 17.5 trillion yen. In the same period investment inflows were generally strong, although net outflow has been observed for the last two years. All data in the tables below are current as of December 2012. Negative figures indicate net outflow.

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

| JFY 2002 | JFY 2003 | JFY 2004 | JFY 2005 | CY 2006 |
|----------|----------|----------|----------|---------|
| 9.09 | 6.24 | 7.81 | 3.22 | -6.78 |
| | | | | |
| CY 2007 | CY 2008 | CY2009 | CY2010 | CY2011 |
| 22.18 | 24.55 | 11.84 | -1.36 | -1.70 |

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

| JFY 2002 | JFY 2003 | JFY 2004 | JFY 2005 | CY 2006 |
|----------|----------|----------|----------|---------|
| 1 : 3.5 | 1 : 4.6 | 1 : 4.0 | 1 : 14.1 | n/a |
| | | | | |
| CY 2007 | CY 2008 | CY2009 | CY2010 | CY2011 |
| 1 : 3.3 | 1 : 5.3 | 1 : 6.3 | n/a | n/a |

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/country2_e_cy11.xls

http://www.jetro.go.jp/en/reports/statistics/data/country1_e_cy11.xls

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

| | CY2007 | CY2008 | CY2009 | CY2010 | CY2011 |
|---------------|--------|--------|--------|--------|--------|
| North America | 12,709 | 12,005 | 1,712 | 3,014 | -3,120 |
| U.S.A. | 13,270 | 11,792 | 1,831 | 2,961 | -3,197 |
| Canada | -561 | 213 | -119 | 53 | 76 |
| Asia | 1,605 | 3,381 | 1,093 | 3,123 | 1,384 |
| China | 15 | 37 | -137 | 314 | 109 |
| Hong Kong | 47 | 257 | -81 | 698 | 125 |
| Taiwan | 36 | 66 | 57 | 21 | 111 |
| Korea | 221 | 279 | 255 | 274 | 197 |

| | | | | | |
|-------------------|--------|--------|--------|--------|--------|
| Singapore | 1,282 | 2,716 | 756 | 1,575 | 782 |
| Thailand | 1 | 6 | 24 | 9 | -1 |
| India | 3 | 1 | 14 | 4 | 9 |
| W. Europe | 4,785 | 4,861 | 8,210 | 198 | 1,203 |
| Germany | -813 | 1,185 | 389 | 2,205 | 18 |
| U.K. | 540 | -1,289 | 5,629 | 4,817 | 1,792 |
| France | 504 | 177 | 371 | 1,128 | 3,438 |
| Netherlands | -390 | 2,692 | 2,584 | -7,733 | 3 |
| Belgium | 148 | -2,040 | 14 | -479 | -556 |
| Luxembourg | 484 | 477 | 543 | 381 | -406 |
| Switzerland | 1,162 | 1,873 | -990 | 51 | 69 |
| E. Europe, Russia | 1 | 5 | 1 | 6 | 0 |
| L. America | 2,831 | 4,020 | 690 | -7,724 | -1,388 |
| Mexico | 0 | 0 | 0 | -7,321 | -248 |
| Brazil | 0 | 0 | -8 | 2 | 1 |
| Cayman Is. | 1,480 | 3,592 | 965 | 616 | -1,294 |
| Oceania | 215 | 258 | 50 | -17 | 90 |
| Middle East | 3 | -2 | 23 | 0 | 142 |
| Africa | 33 | 21 | 61 | 36 | -13 |
| TOTAL | 22,181 | 24,550 | 11,839 | -1,359 | -1,702 |

Source: http://www.jetro.go.jp/en/reports/statistics/data/country2_e_cy11.xls

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

| | end of 2007 | end of 2008 | end of 2009 | end of 2010 | end of 2011 |
|---------------|-------------|-------------|-------------|-------------|-------------|
| North America | 45,947 | 75,680 | 76,184 | 73,900 | 72,863 |
| U.S. | 44,795 | 74,344 | 75,003 | 72,497 | 70,908 |
| Canada | 1,152 | 1,336 | 1,181 | 1,403 | 1,955 |
| Asia | 9,390 | 16,769 | 17,336 | 23,279 | 26,671 |
| China | 125 | 225 | 197 | 399 | 560 |
| Hong Kong | 2,301 | 3,203 | 1,444 | 4,044 | 2,225 |
| Taiwan | 1,534 | 1,892 | 2,656 | 2,255 | 4,584 |
| Korea | 694 | 1,235 | 1,999 | 1,933 | 2,402 |
| Singapore | 4,620 | 10,047 | 10,632 | 13,901 | 16,031 |
| Thailand | 44 | 61 | 79 | 100 | 111 |

| | | | | | |
|----------------------|---------|---------|---------|---------|---------|
| India | 13 | 18 | 32 | 40 | 52 |
| W. Europe | 62,341 | 86,915 | 83,883 | 92,126 | 101,841 |
| Germany | 3,811 | 6,592 | 7,166 | 10,009 | 9,651 |
| U.K. | 5,962 | 6,750 | 7,318 | 9,386 | 15,894 |
| France | 12,776 | 16,233 | 15,208 | 19,193 | 20,505 |
| Netherlands | 26,025 | 36,510 | 36,034 | 36,890 | 39,936 |
| Belgium | 1,947 | 1,362 | 934 | 94 | 165 |
| Luxembourg | 2,267 | 4,000 | 4,262 | 4,842 | 4,228 |
| Switzerland | 3,942 | 7,150 | 4,913 | 5,271 | 6,171 |
| E. Europe, Russia | 46 | 63 | 63 | 77 | 104 |
| L. America | 15,227 | 23,576 | 20,990 | 23,593 | 22,699 |
| Mexico | 5 | 6 | 6 | 261 | 20 |
| Brazil | 32 | 40 | 32 | 38 | 41 |
| Cayman Is. | 10,469 | 17,363 | 16,965 | 18,784 | 18,463 |
| Oceania | 779 | 1,075 | 1,095 | 1,245 | 1,406 |
| Middle East | 20 | 29 | 51 | 59 | 208 |
| Africa | 99 | 275 | 342 | 387 | 376 |
| TOTAL | 133,888 | 204,433 | 199,991 | 214,722 | 226,224 |

Source: <http://www.jetro.go.jp/en/reports/statistics/data/11fdistocken02.xls>

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

| | CY2007 | CY2008 | CY2009 | CY2010 | CY2011 |
|----------------------------------|--------|--------|--------|--------|--------|
| Manufacturing (total) | 1,381 | 2,261 | 3,420 | 1,766 | 2,406 |
| General machinery | -22 | 721 | 115 | 1,089 | 70 |
| Electric machinery | -391 | 642 | 1,705 | -281 | 1,132 |
| Trans. equipment | 331 | -55 | 469 | 3,359 | 252 |
| Precision machines | 20 | 113 | 94 | 291 | -251 |
| Chemicals and pharmaceuticals | -1,010 | 245 | 307 | -2,859 | 774 |
| Iron, non-ferrous metals | 230 | 124 | 287 | 233 | 521 |
| Rubber & leather | 35 | 4 | 6 | 5 | 6 |
| Petroleum | 935 | 300 | -19 | -144 | -83 |
| Textiles | 109 | -3 | -8 | -95 | 124 |
| Food | 365 | -86 | 421 | 220 | 282 |

| | | | | | |
|------------------------|--------|--------|--------|--------|--------|
| Glass & ceramics | 663 | 212 | -90 | -138 | -66 |
| Non-manuf. (total) | 20,800 | 22,289 | 8,349 | -3,125 | -4,108 |
| Farming & forestry | 41 | 1 | -5 | 9 | -5 |
| Fish/ marine products. | -33 | - | 1 | 0 | -1 |
| Mining | 0 | 0 | -1 | 64 | 1 |
| Finance/ Insurance | 17,661 | 19,823 | 5,205 | -1,503 | -3,702 |
| Wholesale & retail | 1,660 | 1,160 | 1,057 | -229 | 1,588 |
| Services | 295 | 473 | 1,343 | 875 | 794 |
| Real estate | 1,413 | 581 | -71 | 216 | -239 |
| Communication | -633 | -1,028 | 619 | -3,244 | -2,748 |
| Transportation | -288 | 43 | -90 | 197 | -259 |
| Construction | 19 | -60 | 16 | -1 | -67 |
| TOTAL | 22,181 | 24,550 | 11,839 | -1,359 | -1,702 |

Source: http://www.jetro.go.jp/en/reports/statistics/data/industry2_e_1009.xls

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

| | CY2007 | CY2008 | CY2009 | CY2010 | CY2011 |
|----------------|--------|--------|--------|--------|--------|
| North America | 17,385 | 46,046 | 10,889 | 9,016 | 15,166 |
| U.S.A. | 15,672 | 44,674 | 10,660 | 9,193 | 14,730 |
| Canada | 1,713 | 1,372 | 229 | -177 | 436 |
| Asia | 19,388 | 23,348 | 20,636 | 22,131 | 39,492 |
| China | 6,218 | 6,496 | 6,899 | 7,252 | 12,649 |
| Hong Kong | 1,131 | 1,301 | 1,610 | 2,085 | 1,509 |
| Taiwan | 1,373 | 1,082 | 339 | -113 | 862 |
| R. Korea | 1,302 | 2,369 | 1,077 | 1,085 | 2,439 |
| Singapore | 2,233 | 1,089 | 2,881 | 3,845 | 4,492 |
| Thailand | 2,608 | 2,016 | 1,632 | 2,248 | 7,133 |
| Indonesia | 1,030 | 731 | 483 | 490 | 3,611 |
| Malaysia | 325 | 591 | 616 | 7,058 | 1,411 |
| Philippines | 1,045 | 705 | 809 | 514 | 1,019 |
| India | 1,506 | 5,551 | 3,664 | 2,864 | 2,326 |
| Western Europe | 20,456 | 22,418 | 17,073 | 14,450 | 39,213 |
| Germany | 880 | 3,905 | 2,089 | -321 | 2,165 |
| U.K. | 3,026 | 6,744 | 2,126 | 4,624 | 14,125 |

| | | | | | |
|---------------|--------|---------|--------|--------|---------|
| France | 479 | 1,703 | 1,161 | 551 | 116 |
| Netherlands. | 12,440 | 6,514 | 6,698 | 3,288 | 5,346 |
| Sweden | 254 | 570 | 160 | -623 | -95 |
| Spain | 10 | 210 | 162 | 38 | 124 |
| Latin America | 9,482 | 29,623 | 17,393 | 5,346 | 11,287 |
| Mexico | 501 | 315 | 211 | 688 | 264 |
| Brazil | 1,244 | 5,371 | 3,753 | 4,316 | 8,290 |
| Cayman Isles | 5,838 | 22,550 | 12,903 | -1,848 | 223 |
| Oceania | 4,204 | 6,060 | 7,629 | 6,407 | 8,767 |
| Australia | 4,140 | 5,232 | 7,136 | 6,371 | 8,149 |
| Middle East | 958 | 1,138 | 575 | -348 | 716 |
| UAE | 60 | 194 | 139 | -498 | 207 |
| Saudi Arabia | 746 | 892 | 378 | 117 | 104 |
| Africa | 1,101 | 1,518 | -301 | -372 | 464 |
| South Africa | 82 | 648 | 143 | 104 | 459 |
| TOTAL | 73,483 | 130,801 | 74,650 | 57,223 | 115,732 |

Source: http://www.jetro.go.jp/en/reports/statistics/data/country1_e_cy11.xls

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

| | CY2007 | CY2008 | CY2009 | CY2010 | CY2011 |
|-------------------------------|--------|--------|--------|--------|--------|
| Manufacturing (total) | 39,515 | 45,268 | 32,934 | 17,803 | 57,952 |
| Chemicals and Pharmaceuticals | 3,744 | 11,647 | 7,407 | 7,902 | 19,618 |
| Food | 12,776 | 3,601 | 8,954 | 2,017 | 8,149 |
| Iron, non-ferrous & metals | 2,202 | 3,152 | 3,738 | 3,873 | 5,017 |
| General Mach. | 2,642 | 3,726 | 4,411 | 4,385 | 5,655 |
| Electric machinery | 4,691 | 5,675 | 2,505 | 1,361 | 7,334 |
| Transportation equipment | 8,671 | 10,924 | 566 | -3,582 | 4,132 |
| Precision machinery | 1,293 | 953 | 609 | 51 | 2,791 |
| Rubber and leather | 835 | 771 | 445 | 634 | 715 |
| Lumber & pulp | 745 | 734 | 1,207 | 1,068 | 1,268 |
| Textiles | 371 | 716 | 477 | 377 | 672 |
| Petroleum | -280 | 652 | -51 | -837 | 216 |
| Glass & ceramics | 837 | 1,417 | 2,042 | 377 | 1,325 |

| | | | | | |
|--------------------|--------|---------|--------|--------|---------|
| Non-manuf. (total) | 33,968 | 85,533 | 41,717 | 39,420 | 577,780 |
| Finance/Insurance | 19,458 | 52,243 | 15,463 | 11,397 | 19,111 |
| Wholesale & retail | 4,792 | 13,319 | 8,418 | 1,946 | 12,407 |
| Real estate | 162 | 162 | 463 | 765 | 2,447 |
| Services | 1,406 | 2,721 | 1,263 | 1,596 | 4,022 |
| Transportation | 2,133 | 2,283 | 2,894 | 2,294 | 1,606 |
| Mining | 4,053 | 10,518 | 6,482 | 9,061 | 16,477 |
| Construction | 490 | 389 | 499 | 302 | 436 |
| Farming/ forestry | 93 | 59 | 10 | 145 | 250 |
| Fisheries | 64 | 119 | 36 | 47 | -7 |
| Communications | -331 | 1,675 | 3,870 | 9,899 | -1,799 |
| TOTAL | 73,483 | 130,801 | 74,650 | 57,223 | 115,732 |

Source: http://www.jetro.go.jp/en/reports/statistics/data/industry1_e_1009.xls

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

| | CY2007 | CY2008 | CY2009 | CY2010 | CY2011 |
|----------------------------------|--------|--------|--------|--------|--------|
| (a) GDP/Nom (trillion yen) | 513.0 | 501.2 | 471.1 | 481.1 | 468.2 |
| (b) FDI Inflow (trillion yen) | 2.65 | 2.52 | 1.12 | -0.11 | -0.14 |
| b/a (pct) | 0.52 | 0.50 | 0.24 | n/a | n/a |

Sources:

http://www.esri.cao.go.jp/jp/sna/data/data_list/sokuhou/files/2012/qe123/___icsFiles/afieldfile/2012/11/09/gaku-mcy1231.csv

http://www.mof.go.jp/english/international_policy/reference/balance_of_payments/ebpfdi.htm

Web Resources

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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

<https://twitter.com/BuyUSAJapan>

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Chapter 7: Trade and Project Financing

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How Do I Get Paid (Methods of Payment)

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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

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While financial system deregulation and international competitive pressure has drastically changed the face of Japanese banking (the consolidation of 19 major 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 (although banks are in the process of reducing their total equity holdings), have close relationships with both local governments and national regulatory agencies, and often play a coordinating role among their clients. 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. Similarly, the direct impact of the March 2011 earthquake and tsunami on major banks was relatively minor. There were no major disruptions to the payments and settlement system, and the Bank of Japan injected substantial liquidity so that banks could meet funding needs, as well as manage demand for cash withdrawals from depositors. In general, the major banks now are well-capitalized and have healthy balance sheets, but suffer from low interest rate margins and weak demand for lending.

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 and for many larger companies as well.

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 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 for deposits has intensified.

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 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

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Foreign exchange regulations have little impact on normal business transactions.

U.S. Banks and Local Correspondent Banks

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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:

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/global/index.html>

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>

Aozora Bank
3-1, Kudan-minami 1-chome, Chiyoda-ku, Tokyo 102-8660
Tel: +81-3-3263-1111
<http://www.aozorabank.co.jp/english/>

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>

Shinsei Bank
Nihonbashi Muromachi Nomura Building
4-3, Nihonbashi-muromachi 2-chome, Chuo-ku, Tokyo 103-8303
Tel: +81/3-6880-7000
<http://www.shinseibank.com/english/>

Citibank
Citigroup Center, 3-14 Higashi-Shinagawa 2-chome, Shinagawa-ku, Tokyo 140-8639
Tel: +81-45-330-2871
<http://www.citibank.co.jp>

Project Financing

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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. 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 (DBJ) and other loan programs. Underscoring the Government's emphasis on import promotion, 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 (JBIC), the Development Bank of Japan (DBJ), the Japan Finance Corporation for Small Business and Nippon Export and Investment Insurance (NEXI, formerly known as EID/MITI) offer low-interest loans to encourage imports to and investment in Japan.

The Japan Bank for International Cooperation (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. It was created in October 1999 as a result of a merger of the Export-Import Bank of Japan (JEXIM) and the Overseas Economic Cooperation Fund (OECF). The financial facilities offered by JBIC include export loans, import loans, overseas investment loans and untied loans.

JBIC'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 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.

In addition, a program between U.S. Export-Import Bank (EXIM Bank) and Japan's Nippon Export and Investment Insurance (NEXI, formerly known as EID/MITI) provides for co-financing insurance for U.S. exports to developing countries. NEXI also provides advance payment insurance for U.S. exports to Japan. Also on October 2012, U.S. EXIM Bank and JBIC signed a co-financing agreement to facilitate export transactions involving U.S. and Japanese companies, by providing "one-stop-shop" export finance services to buyers in third countries purchasing both U.S. and Japanese goods and services. The two nations' export credit agencies provide a one-stop-shop financing

package, creating administrative efficiencies for foreign buyers. For additional details on these and other cooperative financing programs, U.S. companies should contact U.S. EXIM Bank.

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 deferrals 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 estimated to be only half the size of those in the United States. 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. Japan's electronic OTC market was established in October 2010 by integrating Hercules, JASDAQ and NEO platforms.

Types of Projects Receiving Financing Support:

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.

Regional Development Support: The Japan Regional Development Corporation (JRDC), a government-affiliated organization which, in cooperation with local governments, promotes regional development outside of major metropolitan areas, and the Regional Economy Vitalization Corporation of Japan (REVIC) both provide support for certain types of regional projects within Japan.

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.

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U.S. Export-Import Bank (EXIMB):

<http://www.exim.gov>

Country Limitation Schedule:

<http://www.exim.gov/tools/countrylimitationschedule/index.cfm>

U.S. EXIMB and JBIC “one-stop-shop” export finance services

<http://www.exim.gov/newsandevents/releases/2012/Ex-Im-Bank-Japan-Bank-for-International-Cooperation-Sign-Co-financing-Agreement.cfm>

Overseas Private Investment Corporation (OPIC):

<http://www.opic.gov>

U.S. Trade and Development Agency:

<http://www.tda.gov/>

U.S. SBA's Office of International Trade:

<http://www.sba.gov/oit/>

USDA Commodity Credit Corporation:

<http://www.fsa.usda.gov/FSA/webapp?area=about&subject=landing&topic=sao-cc>

U.S. Agency for International Development (USAID):

<http://www.usaid.gov>

The Multilateral Investment Guarantee Agency (MIGA):

<http://www.miga.org/>

Japan External Trade Organization (JETRO)

<http://www.jetro.go.jp/>

Japan Finance Corporation:

<http://www.jfc.go.jp/n/english/index.html>

Japan Financial Services Agency:

<http://www.fsa.go.jp/en/index.html>

Japan Bank for International Cooperation (JBIC)

<http://www.jbic.go.jp/en/>

Development Bank of Japan (DBJ)

<http://www.dbj.jp/en/index.html>

Ministry of Economy, Trade and Industry (METI)
<http://www.meti.go.jp/english/index.html>

Nippon Export and Investment Insurance (NEXI)
<http://www.nexi.go.jp/en/>

Regional Economy Vitalization Corporation of Japan (REVIC)
<http://www.revic.co.jp/index.html> (Japanese only)

<https://twitter.com/BuyUSAJapan>

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Business Customs

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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 lost 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. A wide range of business travel and tourist 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 +81/3/3224-5064 or by e-mail to tokyo.office.box@trade.gov

Travel Advisory

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Japan has long been noted for its low crime and safe streets. Crimes against U.S. citizens in Japan are rare. Crime is at levels well below the U.S. national average. Violent crime is extremely 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.

To access the most up-to-date travel and safety 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

U.S. citizens can also 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).

Visa Requirements

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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. 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 evaluations are handled via an interagency process. Visa applicants should go to the following links.

State Department Visa Website: <http://travel.state.gov/visa/>

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

Telecommunications

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Japan has excellent telecommunications systems. Fiber optic and 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 with over 30 million broadband lines in place, making it the third largest broadband country in the world after the U.S. and China. Public WiFi hotspots can be found in increasing numbers at airports, cafes and fast food restaurants. The following web site identifies wireless hotspots around the world:
<http://www.hotspot-locations.com/>

Public phones, some of which accept only pre-paid cards, are still common but disappearing 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 or smartphone 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 Tokyo's Haneda International Airport can be found at:
<http://www.haneda-airport.jp/inter/en/premises/service/internet.html#mobilePhone>

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

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Japan has a system of modern highways and roads linking all parts of country. However, traffic conditions on expressways and in cities are often very congested. Most major intercity highways operate on a toll basis, and tolls can be extremely expensive, making passenger train travel very competitive, especially for international visitors.

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. All of Japan's large cities have highly developed subway and commuter train service. Taxi service is widely available.

Language

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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 spoken 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

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Aside from the area in the immediate vicinity of the Fukushima Daiichi Nuclear Power plant, crippled by the disaster in 2011, 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 non-citizens 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 those who are not covered by 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

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Local 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 does not observe some form of daylight saving time.

Business Hours: The typical Japanese workweek is Monday through Friday, 9:00 a.m. to 5:30 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 observed. 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 2013, Japan will observe the following official national holidays:

New Year's Day, January 1 (Tuesday)
Adult's Day, January 14 (Monday)
National Foundation Day, February 11 (Monday)
Vernal Equinox Day, March 20 (Wednesday)
Showa Day, April 29 (Monday)
Constitution Memorial Day, May 3 (Friday)
Greenery Day, May 4 (Saturday)
Children's Day, May 5 (Sunday, observed on Monday, May 6)
Marine Day, July 15 (Monday)
Respect for the Aged Day, September 16 (Monday)
Autumnal Equinox Day, September 23 (Monday)
Health & Sports Day, October 14 (Monday)
National Culture Day, November 3 (Sunday, observed on Monday, November 4)
Labor Thanksgiving Day, November 23 (Saturday)
Emperor's Birthday December 23 (Monday)

Temporary Entry of Materials and Personal Belongings

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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.

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Doing business in Japan:

U.S. Commercial Service Japan:

<http://export.gov/japan/doingbusinessinjapan/index.asp>

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://japan.usembassy.gov/e/tvisa-main.html>

Japanese customs, etiquette, and culture:

<http://www.japan-guide.com>

<http://www.thejapanfaq.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>

<https://twitter.com/BuyUSAJapan>

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Contacts

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U.S. EMBASSY TRADE PERSONNEL

Commercial Service Tokyo

Andrew Wylegala, Minister-Counselor for Commercial Affairs

U.S. Embassy Tokyo, 1-10-5 Akasaka, Minato-ku, Tokyo 107-8420

Tel: +81/3/3224-5060; fax: 32244235

Web: <http://export.gov/japan/>

E-mail: Office.Tokyo@trade.gov

Greg Loose, Counselor for Commercial Affairs

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Japan Convenience Foods Industry Association
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Web: <http://www.instantramen.or.jp/>

Japan Dairy Industry Association
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Web: <http://www.nyukyoku.jp/>

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

Japan Fruit Juice Association
Zenkoku Tobacco Bldg., 3F., 1-10-1 Shibadaimon, Minato-ku, Tokyo 105-0012
Tel: +81/3/3435-0731; fax: 3435-0737
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Web: www.kaju-kyo.ecnet.jp/

Japan Health Food & Nutrition Food Association

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Web: www.jhnfa.org/

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Japan Restaurant Association
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Japan Wine and Spirits Importers' Association
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JETRO "Invest Japan" Business Support Center
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Manufactured Imports and Investment Promotion Organization (MIPRO)
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Web: http://www.export.gov/exportbasics/eg_main_017483.asp

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Commercial and Business Affairs Office
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Web: <http://www.state.gov/business>

Export-Import Bank of the United States (Ex-Im Bank)
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Email: info@exim.gov
Web: <http://www.exim.gov>

Overseas Private Investment Corporation (OPIC)
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Web: <http://www.opic.gov>

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Market Research

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To view market research reports produced by the U.S. Commercial Service please visit <http://www.export.gov/mrktresearch/index.asp> 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, and is free.

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

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

<http://export.gov/tradeevents/index.asp>

Please click on the link below for information regarding upcoming trade events in Japan specifically.

<http://export.gov/japan/tradeevents/index.asp>

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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: (Insert link to Products and Services section of local buyusa.gov website here.)

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)**.

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.

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