

[Return to table of contents](#)

## Chapter 2: Political and Economic Environment

For the most recently updated background information on the political and economic environment of Japan, please click on this link to the U.S. Department of State Background Notes: <http://www.state.gov/r/pa/ei/bgn/4142.htm>

Following the political/economic summary below, additional information is provided for: Government Role in the Economy; Infrastructure, Agricultural Products Market, and Japan's Leading Economic Regions: Tokyo, Hokkaido/Tohoku, Chubu, Kansai, Kyushu/Yamaguchi, and Okinawa.

### **Summary:**

Japan has enjoyed continuous, if somewhat tepid, economic growth for most of the past decade. At the same time, the government in recent years has undertaken noteworthy structural reforms of various elements of the economy thereby creating new opportunities for U.S trade and investment.

Since 2001, the United States and Japan have participated in the Economic Partnership for Growth, launched by President Bush and then Prime Minister Koizumi, which includes the U.S.-Japan Investment Initiative designed to identify and remove barriers to cross border investment in both countries. The Economic Partnership for Growth also includes the U.S.-Japan Regulatory Reform and Competition Policy Initiative designed to promote economic growth through sectoral and cross-sectoral regulatory reform. The Regulatory Reform Initiative includes working groups on communication and information technology, energy, medical equipment and pharmaceuticals, and financial services, as well as a cross-sectoral working group that discusses competition policy, transparency, distribution, commercial law, and legal reform.

As Japan strives to stimulate economic growth in order to maintain a high standard of living despite a rapidly aging and declining population, substantial investment and business opportunities for non-Japanese firms are expected in a number of sectors. In particular, as deregulation progresses, Japan's service industries -- which, despite being among the least efficient among leading developed countries, still generate two-thirds of the country's GDP and employment -- beckon as potential new areas of growth. Some specific sectors identified by the Japanese government itself as open to potential development by foreign firms are retail sales, information and communications technology, biotechnology, medical services, and environmental technology and services. Detailed reports on each of these sections are available on the Internet from the Japan External Trade Organization at <http://www.jetro.go.jp/en/market/atract/>.

### **Government Role in the Economy**

Traditionally, the bureaucracy has played a leading role in the Japanese economy. Politicians elected to the National Diet, from whose ranks come most of Japan's Cabinet ministers, have small staffs and traditionally have relied on bureaucrats for policy initiatives and the drafting of legislation. In addition, the ministries have exercised power

directly through thousands of required licenses, permits and approvals that tightly regulate business activity and by informal, but in practice, virtually compulsory edicts called "administrative guidance." The reach of the bureaucracy has been further extended by a plethora of organizations that perform semi-regulatory functions. Business in Japan maintains very close relations with the bureaucracy and politicians. Not only have Japanese elected officials depended on contributions from business, but major companies and industry associations also provide lucrative *amakudari* (literally "descent from heaven") post-government employment for senior bureaucrats.

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 and deregulation. In 2001, the bureaucracy was reorganized from 22 ministries and agencies to 13. A Cabinet Office was also established to coordinate policies and to provide staff support for Japan's leaders separate from the individual ministries. At the same time, the number of politicians posted to senior positions in the ministries was increased from an average of two or three to five, to strengthen the control of elected officials over the bureaucracy. The 2001 government reorganization — together with changes to political contribution laws, stricter guidelines on the use of administrative guidance, and increased criticism of *amakudari* employment practices — has somewhat eroded, but by no means eliminated, the bureaucracy's influence over the economy.

All foreign exchange transactions to and from Japan — including transfers of profits and dividends, interest, royalties and fees, repatriation of capital, and repayment of principal — are, in principle, freely permitted unless expressly prohibited. Formal controls on allocation of foreign exchange and most restrictions on foreign investment are gone. Nevertheless, the Japanese Government (GOJ) continues to play a significant role in promoting certain favored industries, and GOJ policy and regulatory practices continue to favor domestic producers over consumers. Nevertheless, due in part to government-sponsored structural reform programs that encouraged companies to restructure debt, cut costs and improve profitability, Japan has recently enjoyed its longest continuous period of economic growth in the post-war period.

While Japan's business system is different from that of the United States, American companies can successfully adapt. The American Chamber of Commerce in Japan (ACCJ) is the largest overseas AmCham in the world. Its members come from more than 1,300 companies, and its 60- plus committees and sub-committees are highly visible lobbyists for U.S. business interests. U.S. Embassy officers liaise with more than 20 of these committees, and work closely with the ACCJ on market access and investment issues. Some knotty regulatory barriers and discrimination still exist, and when a company cannot solve such problems by itself or through its legal advisers in Japan, the U.S. Government stands ready to help.

## **Infrastructure**

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. The National Police Agency has authorized subcontractors to issue parking tickets. This has decreased the morning commute in Tokyo by as much as one hour. Toll roads, however, are expensive. Japan's airports are among the most expensive in the world. Landing fees at the Narita and Haneda airports in Tokyo, are four times as expensive as New York or London. Japan's port practices are

generally opaque and inefficient by global standards; and import processing, while improving, remains relatively slow.

### **Agricultural Products Market**

The value of Japan's agricultural production has been falling since the mid-1980s, with key sectors seeing decreasing production in most years. Cereals, rice, dairy, beef and pork, and fruits and vegetables are all experiencing this decline to greater or lesser degrees. Rice remains Japan's major crop, but falling consumption has led to chronic surpluses. Japanese policy makers are concerned because Japan currently imports 61 percent of its food (on a calorie basis). Japan's self-sufficiency rate in food production is likely to further decrease since Japan's farm population is rapidly aging, with more than 70 percent of farmers over 60 years of age and few young people willing to go into farming. In addition, the average farm size is only about four acres and environmental regulations and landownership rules limit any economies of scale for Japanese agriculture.

To stem the decline in Japan's agricultural sector, the Government of Japan (GOJ) continues to provide high levels of domestic support and the government and farm cooperatives still have a powerful influence over farmers' production decisions. When Japan's Agriculture Basic Law was revised in 1999, the GOJ set the goal of achieving a food self-sufficiency rate of 45 percent by 2010. To achieve this, the Japanese Ministry of Agriculture, Forestry and Fisheries (MAFF) encouraged farmers to grow wheat and soybeans in place of rice, and introduce more market-oriented pricing policies for dairy, vegetable, and livestock products. However, MAFF has recognized that its goals for 2010 are unrealistic, given the decline in the Japanese agricultural sector over the past 10 years and has extended the deadline until 2015. After months of negotiations, Japan finally passed a rice reform program that will end its costly production adjustment program by 2009. The program will shift responsibility for production planning from MAFF to farm co-ops, increase subsidies to large farmers, and open domestic rice distribution to more players. In 2005, MAFF announced the outline of a new farm subsidy program that departs from the current commodity-specific support given to practically all farmers and launches direct payments targeting larger scale farmers. The new scheme began in 2007.

Though domestic protection is still strong, market access has improved over the years via persistent negotiations in the WTO by the United States and others that forced Japan to eliminate some of the agricultural market access barriers for which it was once famous. Where earlier quotas and outright bans restricted the market for U.S. beef, citrus, fruit juice, cherries, apples and ice cream, all of these markets have now, to some degree been opened. However, access issues still hamper 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, strict inspection requirements on imported goods that include a new system for regulating maximum residue limits, and time-consuming approval processes for biotechnology products also hinder trade in agricultural products.

The combination of improved market access and declining domestic production resulted in excellent export growth for American agriculture through most of the 1990s, and made Japan our top overseas export market. In recent years, due in part to the ban on U.S. beef, Japan has slipped to the number three export market after Canada and Mexico. In

2007, about 11.5% of all U.S. agricultural, forestry and fishery products exports, valued at USD11.6 billion, were destined for Japan. While Japan is still a competitive environment for U.S. food products due to country's prolonged recession, tough third-country competition, and food safety and food image concerns, long-term prospects are excellent for the following reasons: (1) growing consumer demand for value plays to U.S. strengths (U.S. foods typically cost less than local products); (2) Japanese agriculture continues to decline, leading to increased dependence on imports for stable food supplies; and (3) continued westernization of the Japanese diet away from fish and rice toward meats, dairy products and other American staples. Export stars include wheat, soybeans, corn, pork, frozen corn and mixed vegetables, citrus, wine, cherries, and processed snack foods. For additional information about U.S. agricultural, food, forestry and fishery product exports to Japan and other countries, please see the Foreign Agricultural Service Homepage at: <http://www.fas.usda.gov/scriptsw/attacherep/default.asp>

### **Leading Economic Regions: Tokyo**

Japan's capital city Tokyo (population 12.6 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 34 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" — accounts for about one-third of Japan's total GDP.

Most major Japanese companies, trade associations, and foreign companies have their headquarters or major branches in Tokyo. Consumers in the capital are more likely to come into contact with foreign products, foods, and fashions than elsewhere in Japan, and consumer trends often originate in Tokyo. For U.S. firms, the major advantages of establishing a presence in Tokyo, despite the high cost of residential and office space, are the city's concentration of major companies and high-income consumers, proximity to the powerful central government regulatory agencies, and location at the hub of Japan's highly centralized transportation networks, including its two busiest airports: Narita and Haneda. In addition, major urban renewal schemes completed or underway in metropolitan Tokyo have contributed to lower land and business costs in recent years.

Attractive areas for U.S. exporters in the greater Tokyo area are environmental technologies, biotechnology, information and telecommunications technologies, medical equipment and welfare services, and the lifestyle market. In addition to local and regional activities in support of foreign enterprises, Japan's Ministry of Economy, Trade and Industry (METI) has selected four areas in Japan to receive additional national assistance for incentives and promotion of foreign direct investment in particular industries. These areas include the city of Yokohama in neighboring Kanagawa Prefecture (for IT and electronic components) and Chiba Prefecture (for biotechnology).

### **Hokkaido/Tohoku**

Two regions make up Northern Japan: Hokkaido and Tohoku. Together these regions have a combined population of 11 million and a Gross Regional Product (GRP) of approximately USD 376 billion. Hokkaido, located roughly 500 miles north of Tokyo, is Japan's northernmost island. Sapporo, Hokkaido's capital and largest city, has a

population of almost 2 million. The Tohoku region consists of six prefectures in northern Honshu, Japan's main island. The Commercial Service in Sapporo covers four of these prefectures: Aomori, Akita, Iwate, and Miyagi (in addition to Hokkaido). Sendai, Tohoku's economic and commercial center and the capital of Miyagi, has a population of just over 1 million. Recently, Sapporo topped the list of "the most attractive cities in Japan", based on a July 2007 survey by the Brand Research Institute. Three other cities in Hokkaido made the top 10: Hakodate (#4); Otaru (#5); and Furano (#8).

These regions comprise Japan's agricultural heartland, with dairy production and farming in Hokkaido and highly prized rice growing in Akita and Miyagi. With a GRP of USD181 billion, Hokkaido leads Japan in production of sugar beets, kidney beans, potatoes, wheat, soybeans, onions, pumpkins, carrots, radishes, milk, beef, and many other agricultural products. Hokkaido supplies 61.7% of Japan's wheat, 79.3% of its potatoes, and 46.6% of its milk. In addition, Hokkaido also provides 25% of Japan's fish catch. Hokkaido residents, however, are not predominantly farmers and fishermen. Only 5.2% of Hokkaido's 2.8 million jobs are in farming and only 1% are in fishing. Hokkaido's economy mostly depends on services (71.3% of the workforce) and construction (19%).

In 2006, Northern Japan's direct imports from the United States amounted to approximately USD 1.8 billion. Another USD 1 billion+ in U.S. imports to Northern Japan entered Japan via Tokyo, Yokohama, or Osaka before being transshipped to their final destination in the north. These transshipment costs — and high transportation costs in Japan, in general — can add significantly to the costs of shipping products from the United States to seaports and airports in Northern Japan. As a result, container traffic from the United States is increasing at the ports in Ishikari and Tomakomai (both convenient to Sapporo) and Hachinohe (in Aomori Prefecture) and Sendai, as a way to reduce transportation costs. In addition, increasing numbers of U.S. containers are arriving in Northern Japan through the port of Pusan, South Korea, which has a special docking agreement with the port of Ishikari. Pusan's port and cargo handling charges are much lower than in those in Tokyo, Yokohama, and Osaka. The construction of the new Hokkaido Shinkansen (bullet train) began in May 2005. The local business community expects that this development will produce significant economic benefits.

Northern Japan's two main international airports, Chitose (Sapporo) and Sendai, have good passenger and cargo handling capacities and are eager to develop more international routes. Growing economic ties with the Russian Far East and the prospect of future development in Russia's oil and gas sector have led to regular commercial flights between Hokkaido and Sakhalin.

Hokkaido continues to draw an increasing number of tourists, particularly from neighboring Asian countries. Taiwan leads with over 276,800 visitors to Hokkaido in 2005. Visitors from Korea, Hong Kong, and China are increasing as well. The number of tourists from Australia, attracted to the world-class ski resort area of Niseko, has also grown tremendously in recent years. This trend, beginning in 2004, has led to seasonal direct flights between Cairns and Sapporo: Australian visitors increased from 3,700 in 2000 to 22,950 in 2006. JETRO estimates that the economic impact from this overall increase in visitors generated USD 99 million and created nearly 600 new jobs during the period from 2003 to 2005. The rise in the number of visitors, however, has also contributed to the highest land price increase rate in Japan (37.5% in the Niseko region in 2007).

Northern Japan's well-developed infrastructure, highly skilled workers, and relatively low real estate costs (despite the recent price hike in Niseko), combined with city and regional government investment incentives, have prompted many U.S. companies to view Hokkaido and Tohoku as attractive locations for investment and overseas operations. Recent Foreign Direct Investment (FDI) to the region includes: a USD 42 million distribution center in Hokkaido slated to open in 2008 backed by Chicago-based LaSalle Investment Management; Costco's sixth store in Japan to open in Sapporo in January 2008; and two major hotel chains, the Hilton Corporation, investing in Niseko, and Starwood Hotel & Resorts, investing in Sendai, to open new hotels in 2008 and 2010.

In export opportunities for U.S. firms, home building materials and interiors, packaged homes, sporting and outdoor goods and equipment, marine products, pharmaceuticals and medical equipment continue to be particularly promising sectors in Northern Japan. In recent years, bio-ventures have been concentrating in Hokkaido, where the current number of bio-ventures is nearly 60. Ranking second in number in Japan, such bio-ventures (supported by the government) have been working in such fields as DNA synthesis, diagnostic devices and agents, and nutritional supplements. In addition to Hokkaido University in Sapporo, which plays an important role in biotechnology, Tohoku University in Sendai is also an important regional research hub. With its U.S. office in San Francisco, Tohoku University is promoting the strategic application of research and exploring collaboration with international organizations. Technology transfers and licensing is certainly an area of growing opportunities.

### **Central Japan**

Strategically located midway between the Tokyo and Osaka metropolitan areas, the Central Japan Region of Japan (known in Japan as the Chūbu Region) consists of nine prefectures — Aichi, Fukui, Gifu, Ishikawa, Mie, Nagano, Shizuoka, Toyama, and Yamanashi — clustered together in the center of Honshu, Japan's largest island (note: the division of prefectures into regions is purely informal, and some prefectures are also claimed by other regions). Taken together, these nine prefectures have a total population of 21 million, making Central Japan the third most populous region in the country. Most of the region's population and industry is concentrated along the Pacific coast, in the Tokai area (Aichi, Gifu, Shizuoka, and Mie Prefectures).

Central Japan is the manufacturing heartland of Japan and an export powerhouse. Supported by well-developed infrastructure and advanced manufacturing technology, the region is home to world-class Japanese manufacturers. Toyota Motor Corporation is the symbol of the region's global manufacturers in the transportation equipment sector.

Suzuki Motor, Yamaha, Honda and Mitsubishi have their headquarters or main plants in the region. World-class auto parts manufacturers such as Denso and Aishin AW are also based in the region. The Aerospace sector is also very dynamic, led by Mitsubishi, Kawasaki, and Fuji Heavy Industries, all of which are major suppliers for Boeing and other aerospace firms and play key roles in Boeing 787 Dreamliner production. World-leading machine tools manufacturers such as Yamazaki Mazak and Okuma are major exporters and important supports to regional manufacturing. In Mie prefecture, just outside Nagoya, Sharp's flagship Kameyama liquid crystal panel factory represents a high-technology concentration with factories of Toshiba, Fujitsu and Toppan. Among the

many other global players in the region are Daido Steel, Brother Industries, Makita, Noritake, and NGK Insulators.

Led by these globally active manufacturers, Central Japan is known as the region with perhaps the most vigorous economy in Japan. The region as a whole accounts for about 18 percent of Japan's GDP (roughly equivalent in size to the economy of India or Brazil) and more than half of Japan's total trade surplus with the United States. Aichi Prefecture, the political, economic, and transportation center of the region, has ranked first among all Japanese prefectures in the value of its product shipments for 28 consecutive years. Indicative of the strong regional economy, the ratio of labor demand to supply for Aichi is a remarkable 1.81 jobs available for every job applicant, against the 0.98 national average for Japan (December 2007).

The Nagoya Station neighborhood in downtown Nagoya, the capital of Aichi prefecture, symbolizes the region's flourishing economy. In January 2007 Toyota Motor transferred its international sales operations from Tokyo to the 47-story Midland Square building near Nagoya Station, further centralizing its management in the Nagoya area. Other property highlights in the Nagoya Station area include the opening of the 40-story Lucent Tower and 33-story Aquatown in 2007, followed by the 36-story Spiral Tower in 2008. Over the next five years, a major mixed development complex, including offices, residences, and a conference center is planned for the Sasashima area adjacent to Nagoya station. Other areas of metropolitan Nagoya have similar development projects underway.

Reflecting the region's strong economy, Central Japan-region residents, traditionally profiled as frugal, are emerging as affluent consumers with high disposable income. Leading brands have opened flagships stores in downtown Nagoya including Tiffany, Harry Winston, Coach, Prada, the Gap, Apple Computers, and Hermes. Nagoya is one of Japan's premier industrial and technological centers as well as a huge market in its own right. Despite being a major economic center, the city is well known for its high quality of life and competitive business costs. Housing costs and office rents are substantially below those found in Tokyo or Osaka. However, in contrast to the lively global activities of regional manufacturers, Central Japan has fewer foreign companies than other regions. The ratio of foreign companies in the Tokai area is mere 1.2% compared with Tokyo (6.9%) and Kansai (2.3%). Assisted by METI and JETRO, metropolitan Nagoya's three prefectures — Aichi, Mie and Gifu — along with various cities and chambers of commerce have been actively promoting inbound foreign direct investment through the "Greater Nagoya Initiative." Dana Japan, Cabot Microelectronics, TRW Steering Systems, Pfizer Pharmaceuticals, Borg Warner Dow Chemical, and PPG Industries are examples of American firms that have set up manufacturing or distribution bases in and around Nagoya.

Through its close relationship with Central Japan public and private sector entities, the Commercial Service in Nagoya (CS Nagoya) works to uncover commercial opportunities for U.S. firms in a variety of sectors. CS Nagoya believes that particularly good prospects exist for U.S. firms in auto, auto parts, motorcycle, aerospace, manufacturing equipment and systems, intelligent transportation systems (ITS), environmental remediation, and business aviation.

## **Kansai**

Kansai is the name given to the nine-prefecture region of western-central Japan, consisting of Osaka, Hyogo, Kyoto, Shiga, Nara, Wakayama, Mie, Fukui, and Tokushima. The Kansai region is Japan's second-largest industrial, financial, commercial and population center after the greater Tokyo area (Kanto). Located about halfway between Tokyo and the southern tip of Honshu, Japan's largest island, it is the birthplace of many of the country's largest trading companies and banks, and headquarters to a number of Japan's leading corporations including Nintendo, Kyocera, Sharp and Panasonic.

The Kansai region has a richly varied topography and covers an area with a radius of approximately 150 km (95 miles). While occupying only 11% of Japan's total land area, the Kansai has a population of some 24 million people (19% of Japan's total), concentrated primarily in the cities of Osaka, Kobe and Kyoto. As the traditional commercial center of Japan, Kansai is an economic giant, with traditional industries of digital consumer electronics, electronic components, pharmaceuticals, chemicals, the textile and apparel industry and sporting goods also led by cutting edge new industries such as biotechnology, nanotechnology, robotics and photovoltaic power technology. In FY 2004, Kansai's GRP (Gross Regional Product) was 93.8 trillion yen (USD 868 billion at USD 1=108 yen). If considered a country in its own right, the Kansai would rank as the 10th largest economy in the world, following Canada.

The Kansai region has a very efficient and comprehensive transportation infrastructure. In August 2007, Kansai International Airport (KIX), the only 24-hour airport operating in Japan, opened its new 4000 meter second runway. As a result, KIX set a new record in the number of international flights for the third year in a row, particularly to Asian cities. As of December 2007, KIX had 795 international flights and 427 domestic flights per week connecting the Kansai region to 70 destinations in 31 countries and 15 domestic cities. The number of air cargo flights also increased and now exceeds 211 per week. The U.S. cargo airline ABX Air started service in cooperation with All Nippon Airways (ANA), Japan's largest airline in June, 2007 and Polar Air Cargo will start service in February of 2008. Osaka City's Itami Airport and the newly opened Kobe Airport also serve regions throughout Japan. In addition, the three international ports within Osaka Bay, Osaka, Kobe and Amagasaki, were recently integrated into the single, New Hanshin Port, as part of the Port Regulation and Customs Law, which passed in December of 2007. As a result, the port tax burden for foreign vessels calling on multiple ports in the area will be slashed by about 15% and will serve to further strengthen Kansai's logistical competitiveness. The regional rail network is extremely comprehensive and includes Shinkansen, or "Bullet Train" service that connects Osaka, Kobe, and Kyoto to destinations throughout Japan.

Kansai's historical ties to trade and commerce offer many advantages to American companies looking to enter the Japanese market. The region's superb transportation, communication and infrastructure links are supported by a progressive, entrepreneurial business climate. As a result, innovative new products ranging from the world's first blue LED (light emitting diode) to instant noodles have found their start in the Kansai. Consumers in the Kansai, who have a reputation for being particularly choosy and demanding, have helped make the region a key test market for new products in Japan. Proctor and Gamble, among other large consumer goods companies, consider the area an ideal place to do product testing and market acceptability studies.

To help companies tap into this vibrant economy, the region is expanding the number of conventions it hosts. In 2005, Kansai hosted 777 international conferences, which was approximately 30% of the 2,859 conventions held in Japan. Lower prices than Tokyo also provide an incentive for firms to conduct business in the Kansai area. Although currently ranked as the 8th most expensive city in the world, the region's land and office rental prices are still 30% less expensive than Tokyo. Lower labor and housing costs also benefit companies who have operations in the Kansai. As of 2006, approximately 280 foreign-affiliated large companies maintained their Japanese headquarters in the region. Of this total, 49% are European and 34% are American. Nearly 42% of these companies are in manufacturing industries such as chemicals, pharmaceuticals, general machinery medical-device, and electric machinery. The remaining companies are primarily engaged in the information technology services industry and the wholesale of machinery and chemicals.

Although the number of public work projects planned by local governments have dropped during the past several years, private sector capital spending in the Kinki region (excluding Mie, Fukui and Tokushima prefectures) in FY07 surged by an estimated 20.6% from the previous year to 2,346.9 billion yen. This marks the sharpest increase in spending since 1980 and represents the largest growth rate among the nine regions of Japan. This trend is being driven by investments in the manufacturing sector, which grew by 27.2% in 2007, the fourth straight year of double-digit increases. In 2006, the number of major factories newly established in the region was 271, a 16.3% increase from the previous year. Of this total, 115 factories were established in Hyogo prefecture and represented the most new factory construction of any prefecture in Japan. This steep growth was exemplified by projects such as Panasonic's construction of the world's largest plasma display plant in Amagasaki-city, a new blast furnace constructed in Wakayama by Sumitomo Metal Industries and Kobe Steel's major overhaul of their own blast furnace in Kobe City.

Responding to the continued worldwide growth of consumer digital appliances, Panasonic and Sharp are now in the process of constructing two additional massive flat-panel display manufacturing plants in the Kansai region. This is in addition to their huge 2004 and 2005 plant investments. Panasonic is now constructing a third plasma display panel (PDP) factory on the seacoast in Amagasaki. Sharp has also started construction of what will be the world's largest LCD flat panel display factory in Sakai City (southern Osaka) and is scheduled to begin operation in 2010. In order to streamline production, Corning Inc., a major U.S. manufacturer of LCD glass substrate, will construct its own factory next to the new Sharp plant. Sharp will also build a solar battery plant at the same location, which is expected to be the largest of its kind in the world. In total, new investment in the Osaka Bay area related to new LCD/PDP factory construction is estimated to be 2 trillion yen (USD 18.7 billion at USD 1=107 yen).

Additional investments of note in the region include: Panasonic/Matsushita's intention to build by 2010 a new LCD panel plant in Himeji City, Hyogo prefecture; Sanyo's retrofit and conversion of its general production plant in Shiga prefecture into a new HT solar cell modules factory in 2007; and Sanyo's plans to build a new lithium-ion battery factory in Kaizuka-city, Osaka in 2008. All said, the manufacturing sector continues to show strong signs of strength in the Kansai region. This is not only due to strong worldwide demand, but also to preferential tax incentives and Kansai-based companies refocusing their R&D and manufacturing investments locally and in the region.

The Kansai is a primary region for education and R&D activities in Japan. Institutions of higher learning (two-year junior colleges and four-year universities) are highly concentrated in the Kansai, which accounts for about 20% of the national total. The region also hosts more than 1000 national, prefectural, university and private research facilities. This historical strength of R&D, in addition to excellent collaboration among local governments, universities and business communities, is what led RIKEN (the former Japanese Government-affiliated Institute of Physical and Chemical Research) and the central government to choose Kobe as the site for a next-generation supercomputer. Construction will begin in early 2008 with the facilities expected to be operational in 2011. The total budget for this project, which aims to develop the world's fastest computer in terms of processing capability, is 115.4 billion yen (USD 1.1 billion at USD 1=107 yen).

In April 2004, as part of an urban redevelopment project in the Greater Osaka-area, the Japanese government adopted a plan to form an industrial center for the development of robots that assist with daily life. As part of this effort, public-private collaboration is under way to redevelop a site north of JR Osaka Station (Umeda Kita Yard) into an international center for intellectual creation (Knowledge Capital), including robotic technology. Carnegie Mellon University of Pittsburgh, PA, one of the world's leading academic institutions in information science, opened its Entertainment Technology Center (ETC) campus in Osaka-city in February, 2008, and will focus its core curriculum on the development of entertainment technologies such as imaging devices, video-game machines and game software. The ETC plans to conduct joint projects with local businesses and Osaka University, and to relocate to the Umeda Kita Yard development in 2011. Carnegie Mellon also offers a unique Information Security graduate degree program at its CyLab facility in Kobe, which graduates American-standard Information Security IT professionals.

Because of its geographical and historical ties to the Asian continent, trade with Asia is particularly large in the Kansai region. The Osaka Customs Office, which covers Toyama, Ishikawa, Shiga, Kyoto, Nara, Osaka, and Wakayama Prefectures, reported 15,243 billion yen (USD 131 billion USD 1=116.31 yen) in exports and 12.112 trillion yen (USD 104.1 billion) in imports in 2006. These figures represented 12.7% and 13.9% increases respectively over 2005. Exports to Asia accounted for 59.3%, while imports from this region accounted for 57% of the totals. Exports to the U.S. were 15.7% percent of the total, while imports from the U.S. represented 9.1% of all imports with a value of USD 9.48 billion. Imports from the U.S. increased by 7.4% in 2006. Data from the first 6 months of 2007 showed a slight increase in imports from the U.S. to the Kansai while imports from Asia and the EU grew by 7 % and 15% respectively. The region is on track for another excellent year with November 2007 data indicating a 9.5% growth in exports and 8.7% growth in imports over comparable November 2006 statistics.

The U.S. Commercial Service in Osaka-Kobe (CS Osaka) provides an extensive array of products and services designed to help U.S. companies capitalize on opportunities in Japan. The office has national responsibility for the sporting goods, apparel, textiles, and residential construction materials sectors and regional responsibility for the medical, biotechnology, environmental, tourism and high-tech industries. Working closely with the American Chamber of Commerce in Japan (ACCCJ) and other local multipliers, CS Osaka helps promote American products, services and tourism through the organization of targeted events, U.S. pavilions at trade fairs, market research on emerging

commercial opportunities, business counseling, networking, partnership searches, key introductions, and advocacy. For more information about the opportunities in the Kansai for U.S. firms, visit our Commercial Service Japan website at [www.buyusa.gov/japan/en](http://www.buyusa.gov/japan/en).

### **Kyushu/Yamaguchi Region**

The Kyushu/Yamaguchi Region of southwestern Japan consists of seven prefectures on Kyushu Island (Fukuoka, Oita, Saga, Nagasaki, Kumamoto, Miyazaki, and Kagoshima) and Yamaguchi prefecture on the southern tip of Honshu, with a combined population of over 15 million. The region's USD 463 billion economy constitutes Japan's fourth largest economic center, representing about 10 percent of national GDP – comparable in size to the Netherlands. This region is traditionally known as Japan's gateway to Asia and enjoys extensive historical, cultural, and trade ties with continental Asia, particularly South Korea, Taiwan and mainland China. The United States remains an important trading partner, but trade with Asia is predominant and Kyushu is becoming increasingly integrated into the East Asian regional economy.

Kyushu has a strong agricultural sector, producing about 20% of Japan's agricultural output, and ranks first in Japan in livestock output. But its dynamism stems from a diversified economy that includes many high-tech industries. Dubbed Japan's "Silicon Island," Kyushu accounts for 25% of Japan's total production of semiconductors. American companies like Texas Instruments and Teradyne have facilities here. Northern Kyushu also boasts about 10% of Japan's automobile output, with Toyota, Nissan, and Daihatsu operating state-of-the-art final assembly facilities, and Honda has an advanced motorcycle plant in the region. Kyushu is emerging as a key player in Japan's solar panel production, accounting for more than 5% of production in 2006 with new plants coming on line in 2007 from Honda Soltec, Yoka Sol and Mitsubishi Heavy Industry. Kyushu is also home to Japan's leading shipbuilding production, Japan's two space-launch facilities, and Yaskawa Electric, one of the world's leading robotics manufacturers. The southern prefecture of Kagoshima is home to Japan's two space launch facilities at Uchinoura and Tanegashima. Other important industries include steel manufacturing, shipbuilding, and tourism.

With a population of 1.4 million, Fukuoka City is the economic, educational, and cultural center of Kyushu. In 2006, Newsweek International selected Fukuoka City as one of the "World's 10 Hottest Cities." 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. Living expenses (including housing) and office rents are lower than in Japan's other large metropolitan areas. The city enjoys excellent transportation infrastructure, including Kyushu's principal international airport, high-speed ferry service to South Korea, and the southern terminus for Japan's "Shinkansen" (bullet train) network. (In the spring of 2011 Kagoshima will become the southern terminus of Japan's bullet train network when the Kyushu Shinkansen line extending south from Fukuoka is completed, cutting travel time from Fukuoka's Hakata Terminal to only 80 minutes. The service will link Fukuoka and Kumamoto in about 30 minutes.)

The Economic/Commercial Section of the U.S. Consulate in Fukuoka has been actively assisting U.S. businesses and promoting their interests in the region for over 40 years. The Consulate believes many sectors of the Kyushu/Yamaguchi economy offer promising opportunities. With its long history of openness to foreign influences, the

Fukuoka area has an established reputation as a useful test market for new consumer products, services, and retail concepts before they are expanded to wider areas of Japan. Familiar retail names, such as Toys 'R' Us, Costco, Starbucks, and The Gap, maintain an active market presence. Major American 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. In recent years U.S.-based investment funds have made major acquisitions of hotels and related leisure facilities in Kyushu. Another sector of growing interest is environmental products and services. In particular, Kitakyushu City in Fukuoka prefecture, a historical center of heavy industry, is seeking to become a regional leader in environmental remediation and recycling. Good U.S. export prospects exist in many other sectors, including building materials, medical equipment, and health care products.

## **Okinawa**

Okinawa Prefecture has a population of 1.37 million and a GPP (Gross Prefectural Product) of approximately USD 30.6 billion (3.6 trillion yen at USD 1=117.76 yen). By Japanese standards, Okinawa's market is relatively small but there are still significant opportunities for U.S. businesses. American companies are aided by the fact that, due to their history, Okinawans tend to be open to imported goods and are already familiar with many American products. Okinawa also has the youngest workforce in Japan, a workforce that is well educated and, thanks to a robust birthrate, is actually still growing. In addition, Okinawa also has the lowest wages and commercial property rents in Japan and offers a wide a range of subsidies and tax incentives for potential investors and employers (see below for details).

The two largest sectors of the local economy are construction and tourism, areas in which U.S. companies excel. One large-scale public investment project in the works is the "Okinawa Institute of Science and Technology (OIST)," a project that the prefectural government hopes will play a major role in the economic and social development of Okinawa in the coming years. In FY 2008, the Japanese Government approved approximately USD 91.2 million to construct one administrative building and two laboratory complexes for the project. The facility is expected to be totally completed and fully functional by FY 2012. American companies are expected to be competitive in bidding for the design of both on and off campus facilities and in sales of scientific equipment required to outfit the research laboratories.

Among other projects currently underway is a plan to build a new airport on the nearby island of Ishigaki. American involvement in the actual construction phase of this project is admittedly problematic, but the project is still expected to offer business opportunities to U.S. firms involved in the design of terminal buildings. Meanwhile, in another large airport project, the Okinawa Prefectural Government (OPG) has finished the public involvement survey for expansion of Naha International Airport and the government of Japan will finalize the outline for this project in 2008. Again, American companies are expected to be very competitive in bidding for various portions of this project. Additionally, the U.S. Naval Hospital Okinawa, which is the largest overseas hospital in the U.S. Navy system and currently located at Camp Lester, is in the process of moving to nearby Camp Foster. This project, which is being resisted by Ginowan City authorities, is expected to offer business opportunities to U.S. firms involved in medical equipment and supplies.

The number of tourists visiting Okinawa continues to grow steadily. In 2007, a record 5.87 million people visited the island. In order to exploit the steadily increasing numbers of tourists visiting Okinawa, foreign and domestic companies from outside of Okinawa have begun taking an active interest in investing in the island's tourism industry. According to a recent survey by The Okinawa Development Finance Corporation (a governmental financial institution), 24 new hotels are set to add 3,954 rooms to the island's capacity over the next five years. The total investment amount for these projects is 125.7 billion yen (about USD 1.06 billion), a figure that is more than double the amount of the previous five years combined.

Additionally, there are also efforts underway on the island to create a gaming industry in Okinawa. In particular, the Okinawa Association of Corporate Executive and other economical organization have been discussing the development of a casino resort in Okinawa. Whether or not this comes to pass, Okinawa continues to offer American firms potential business opportunities in connection with first-class resort hotels and hotel operations, marine sports, outdoor equipment and related services.

In addition to regular tourism, Okinawa continues to develop into a retirement center for Japan's baby boomers -- a trend that may also offer attractive business opportunities to U.S. companies. Increasing numbers of retirees are expected to either permanently move to the island or make long seasonal trips to Okinawa in order to take advantage of the warm climate, beautiful beaches, great food and friendly people. As with any aging population, this group will require its own special infrastructure and U.S. companies may benefit.

Okinawa Prefecture is also promoting policies that encourage the introduction of FDI. For example, Okinawa has established Japan's first Special Free Trade Zone and is offering various tax incentives, including exemptions from national and local taxes, to those companies who locate in this zone. In addition, Okinawa has also established a separate Information and Communications Industry Promotion Zone and a Financial Businesses Promotion Zone that offer similar benefits and include subsidies to promote the employment of Okinawan youth and support measures to reduce the cost of domestic and overseas communications.

One sector that has benefited from this additional support has been Okinawa-based call centers. Since 1990, the OPG's efforts have spurred the creation of 51 call centers and another 111 IT-related companies. Together, these companies employ close to 14,700 people, 11,400 of whom work in call centers and 3,300 in IT. Participating companies include companies affiliated with American firms such as IBM, American Home Insurance (AIG), AIU, CITIBANK, Cisco Systems and Oracle.

To further promote IT related industry in Okinawa, the Japanese Government has approved approximately USD 7 million to establish an advanced IT Park. The OPG has designated a 10 hectare core area for this in the Okinawa Special Free Trade Zone located in Uruma City and the project is expected to be completed in 2010. This new facility is projected to add an additional 8,000 jobs.