



JETRO Japan External Trade
Organization

INVEST JAPAN

Unlocking Japan: How JETRO Can Help

- Fred Taylor

As one of the world's largest economies, Japan holds great potential and opportunity for Australian companies who are considering expanding their presence outside of Australia. However, whilst Australian exports to Japan have been strong, Foreign Direct Investment (FDI) into Japan has only recently started gathering pace.

Historically, Australian companies have shied away from establishing an office in Japan: Costs, regulatory barriers, and problems in understanding the registration process are all factors as to why investment has been so low. However the Japan of now has changed considerably, and with current ideal investment conditions in both Australia and Japan, NOW is the time to consider establishing an office in Japan.

Today I will discuss setting up an office in Japan – the advantages, the myths, and the opportunities. Following from this, I will explain how JETRO can help soften the transition into Japan with the services we offer to Australian companies.

Bite-Sized: Why Japan?



In starting, why Japan? Why should you consider entering the Japanese market? Japan is Asia's largest economy, and is the 2nd largest economy in the World. In 2005, Japan's GDP made up 10% of the World's economy, second only to the United States (28%) (Source: "World Economic Outlook Database" April 2006: IMF), and thus the opportunities for your product in this market of 127 million people are enormous.

Additionally, Japan is a developed economy with sophisticated consumers, who demand a wide range of products. As per capita GDP is also high in Japan, (USD\$35,797 – World Economic Outlook Database: IMF), Japanese consumers are also quite adventurous with high purchasing power, and are amongst the world's most sophisticated consumers (Source: "The Global Competitiveness Report 2004-2005" World Economic Forum).

As you are reaching a market of 127 million people, "you only have to do alright in Japan to do well". What this means is that even securing a niche market in Japan can net excellent returns for your company. Also, Japan is a very diverse market, with opportunities for practically any product or service.

Japan has finally emerged from what is known as "the lost decade" – a long period of negative economic growth. For the past few years, Japan has posted growth of around 1%-3% - which, considering the size of Japan's economy, is excellent growth (Source: Financial Times "Japanese Business Confidence Improves – September 20 2007" "<http://www.ft.com/cms/s/0/42775062-6758-11dc-9443-0000779fd2ac.html>")

Japan: Australia's Largest Trading Partner

Potential FTA agreement

19.8% of Australia's exports

Also, in relation to Australia, we are fortunate to enjoy very close commercial relations with Japan. In fact, Japan has long been Australia's largest trading partner, and this year we also celebrate the 50th anniversary of the signing of "The Agreement of Commerce" between Australia and Japan (Source: *Australian Government in Japan – "Australia-Japan Commerce Agreement 1957"* <http://www.australia.or.jp/english/seifu/50/>).

Stemming from this, Australia and Japan are currently discussing a potential Free Trade Agreement (Source: *Department of Foreign Affairs and Trade "Australia-Japan FTA Negotiations -* <http://www.dfat.gov.au/geo/japan/fta/index.html>) , and Japan currently buys close to 20% of Australia's total exports (Source: *Department of Foreign Affairs and Trade "Japan Fact Sheet"* <http://www.dfat.gov.au/geo/fs/jap.pdf>)

Japan: Australia's Largest Trading Partner

Potential FTA Agreement

19.8% of Australia's Exports

Low Levels of Australian FDI

However even with our close relations with Japan, Australian Foreign Direct Investment into Japan has traditionally been very low. In fact, we estimate that only around 150-250 Australian companies have an office in Japan.

Whilst, as Sally Phillips – AUSTRADE Sapporo Senior Commissioner has pointed out, investment into Japan, particularly into property areas such as Niseko, has been growing. However, considering the trade links between us, we are looking to increase FDI into Japan even further.

As an economy, Japan's Foreign Direct Investment has always been traditionally low. In fact, FDI accounts for only around 2.8% of Japan's total GDP - compared to 22% in USA or 37% in the UK (Source: OECD – "Economic Survey of Japan 2006: Inward FDI" "http://www.oecd.org/document/47/0,3343,en_33873108_33873539_37130991_1_1_1_1,00.html"). And as I will explain shortly, the Japanese Government through JETRO is trying to change this.

The Advantages of an Office in Japan



The low percentage of Australian FDI into Japan is disappointing, as there are a number of advantages in establishing a physical presence in Japan.

The first, most obvious advantage is that YOU understand your product best. YOU know the specifications of the products, and YOU know how to best market it. Whilst you know, does your export agent? Can your agent market your product as effectively as you can? Or are they trying their hardest in promoting your product, or a competing product? An office in Japan will give you control over this.

Further, establishing an office allows you to keep a “finger on the pulse”. Particularly in areas such as property or ICT, a “man on the ground” will allow far faster access to industry trends and opportunities than if you had no presence at all.

Finally, and most importantly, an office in Japan allows you to display commitment to the market. This is a hard concept to understand, however Japanese consumers consider trust as an important aspect of any business exchange, and the establishment of an office goes some way in building that trust. An office with a local contact number and a Japanese speaker will reveal volumes to potential Japanese customers about how dedicated you are to properly servicing the Japanese market.

Challenges: People Believe Japan is....

Too expensive!

Too protectionist!

Too hard!



Why has FDI remained consistently low, even with all of the advantages that come with having an office in Japan? Generally we tend to hear a lot of preconceptions about Japan, and Japan is too often put in the “too hard basket” without proper research. In particular, Japan is “Too expensive!” “Too protectionist!” and “Too Hard!” are comments we hear often about companies who are apprehensive about investing in Japan.

Ten years ago these certainly were problems for companies interested in investing in Japan, however I must stress that Japan’s economic and investment environment has changed considerably, which I will now explain.

Japan is (no longer) too Expensive!



Changes to the “Company Act”

Dramatically lower registration costs

Similar living costs to Australia

JETRO’s “Cost Calculator”

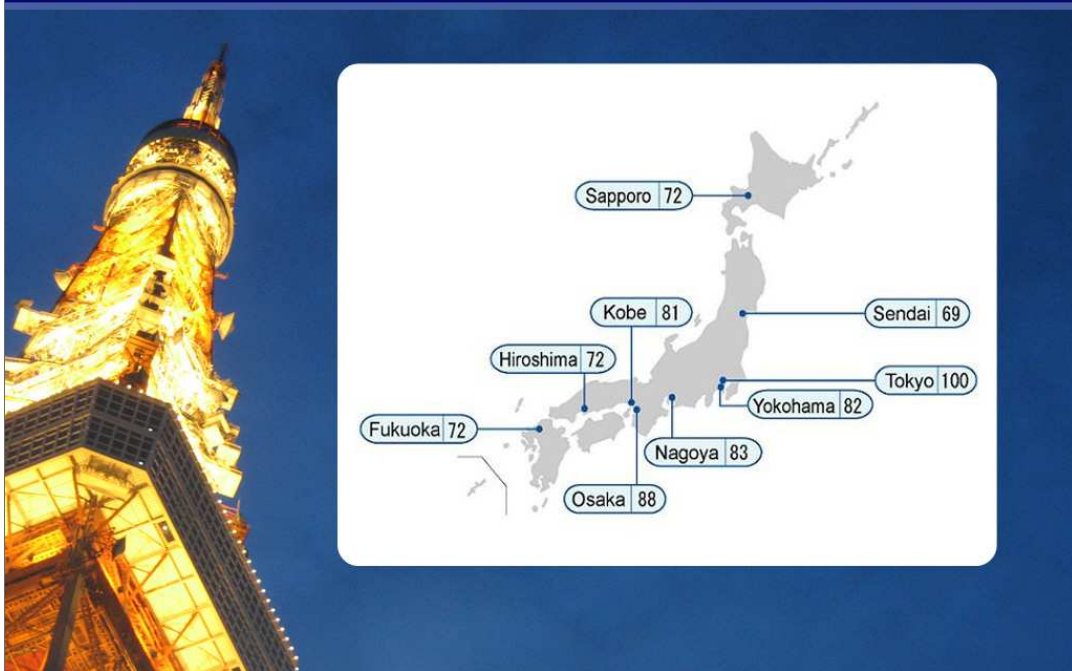
Believe it or not, but Japan can no longer be considered too expensive. In explaining this, vast changes from a Government level have occurred in Japan, all of which are aimed at easing the costs of registering a business in Japan. In particular, amendments have been made to the “Company Act” in Japan, making it far easier and less costly to establish a business in Japan (Source: JETRO “Reforms Under the New Company Law” Aug 2005 “http://www.jetro.go.jp/en/market/report/pdf/2005_45_u.pdf”).

In fact, registration expenses for a company in Japan are now at a similar level to that of Australia’s. Further, ironically one of the good things to come out of Japan’s “Lost Decade” - or prolonged period of economic recession, is that prices have fallen considerably through deflation.

In particular, property prices in Japan are at perfect levels for investment. Hence, a number of Australian property investment companies have been making headlines in the newspaper as they target property throughout Japan (Source: *The Age* – September 14 2007 “<http://www.theage.com.au/news/business/macquarie-office-trust-turns-to-japan/2007/09/13/1189276900684.html>”).

For a better understanding of costs, I highly recommend visiting JETRO’s website, which contains a wealth of information and estimates for companies interested in setting up in Japan (Source: JETRO – *Investing in Japan* “http://www.jetro.go.jp/en/invest/setting_up/modelcase/”).

Japan: Regional Cost Comparison



Further, areas outside of Tokyo should not be disregarded when searching for a business location. As displayed on the chart above, using Tokyo as a base city, cities outside of the capital are considerably cheaper than within Tokyo itself. Whilst Tokyo is the capital, having your business outside of the capital is not a disadvantage. In fact, Japan itself is a very well-integrated country, and transport between the major cities is quick and efficient. As an example, it is possible to use the “bullet trains” to travel in three hours from Tokyo to Osaka.

Japan is (no longer) too Protectionist!

Active effort to ease industry regulations

Investment restrictions generally only remain in “sensitive” industries

Consult with JETRO for more information



In addition to expenses, regulations and barriers have often been labeled as challenges for companies investing in Japan. However, the protectionist landscape of Japan is something that has also changed dramatically.

As a result of OECD and WTO efforts, the “lost decade” and various social pressures, the Japanese Government has realized the importance of further globalizing the Japanese economy. In light of this, the government has simplified many of the frustrating regulations which hindered investment before, and have taken steps to lower a large number of the tariff barriers on products across the board.

Now, generally investment regulations are restricted to industries listed under the OECD-protected industry list; which includes investment restrictions on industries such as broadcasting, nuclear power, and airlines to name a few. Outside of this, regulations on investment are still present in a few “sensitive” Japanese industries, including leather as an example. However for the majority of industries, the regulations foreign companies face are now no different to those of native Japanese companies.

In terms of tariffs, similar steps by the Japanese government have been taken. However tariffs do still remain, especially in a number of agricultural industries. On the whole however, Japanese tariffs have fallen greatly as a result of WTO trade talks and OECD measures. In fact, in industry, Japan has an average tariff rate of 3.6%, compared with Australia’s 10.6%. In agriculture, the story is a little different, as Japan has an average tariff of 11.7% on agriculture, compared to Australia’s tariff average of 3.3%. (Source: OECD “Review of Tariffs – Synthesis Report” 1999)

Lastly, JETRO can offer support and advice on any potential regulations your product will face, and we’d be happy to hear from you if you need more information.

Japan is too Hard!



Finally, one of the biggest stigma of all regarding investment into Japan is that Japan is simply too hard! Where does one go to find (in English) information on registration? What accounting practice should I use? How do I find staff?

One of the best comments I have heard which surmises the situation is that investing in Japan is like reading the Tokyo subway map! However fortunately help is at hand.

How JETRO Can Help



Investing in Japan does not have to be this confusing.

JETRO can help. As part of our “Invest Japan Project”, JETRO can offer step-by-step guidance on every aspect of establishing your business in Japan. Starting with an initial consultation meeting in Australia, we will then be able to guide you through the necessary market information you will need in establishing an office, along with the regulations for your products or services.

Further, in Japan itself JETRO is able to provide support on all aspects of establishing your office.

What is JETRO?

Japan External Trade Organization



Semi-Government organization

70+ offices worldwide

Offices in Sydney & Melbourne

Assisted over 5000 companies enter Japan

Before I fully detail JETRO's services, I will take a brief moment to explain JETRO itself. JETRO stands for the Japan External Trade Organization, and is a semi-government organization focusing on trade promotion.

JETRO currently has over 70 offices worldwide, and is one of the largest external trade organizations in the World. In Australia, JETRO is represented in both Sydney and Melbourne, and has had a presence in Australia since 1960.

JETRO Worldwide have helped over 5000 companies around the world enter the Japanese market. With that, no other consulting firm comes close to the experience JETRO can provide for your business.

JETRO Services: How We Can Help

Consultation in Australia

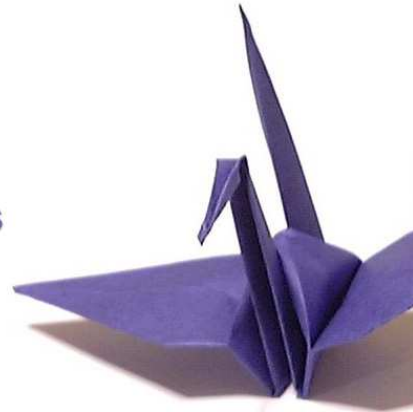
Market regulations

Market trends

Company structures

Residency requirements

Costs



In highlighting JETRO's services, it is best to break them down into two levels: consultation in Australia and consultation in Japan.

In Australia, we are able to provide information for companies who are considering the Japanese market, but have not committed to expanding into Japan. Our services include one-to-one consultation with us on market regulations, market trends and other factors pertaining setting up in Japan. We are also happy to discuss the type of company structure you should consider, along with residency requirements and potential costs.

JETRO Bizmatching Programs

**JETRO BIOLINK
FORUM**

**JETRO BIZMATCH
@CEATEC JAPAN**

**International Nanotechnology
BIZMATCH @nano tech 2007**

Events

One on One meetings

Interpretation

Networking receptions

Publication and promotion



In addition to consultation, in Australia we also administer three JETRO bizmatching events – The JETRO Biolink Forum, the JETRO Bizmatch @ CEATEC Japan, and the International Nanotechnology Bizmatch @ Nano Tech 2007. These programs are an excellent way for companies to find a potential business partner in Japan.

These bizmatching events run alongside three major industry forums in Japan, and are an opportunity for Australian companies to meet one-to-one with Japanese companies interested in their product or technology. In essence, JETRO on your behalf promotes your company and products to interested Japanese companies, and arranges meetings with interested parties.

Also as part of the event are networking receptions, free interpretation, and seminars on the Japanese market.

As I speak, we currently have five Australian ICT firms participating in the Bizmatching Program at CEATEC Japan – one of Asia's largest ICT exhibitions. We have arranged meetings on their behalf with companies like Hitachi and NEC, which normally would be unattainable as the links between them do not exist.

JETRO Invitation Programs

Industry-based programs

Networking with Japanese companies & Government

Factory tours

Japan market seminars

Free accommodation & flights



Finally, JETRO also facilitates Industry-Based Invitation Programs. Invitation programs are an excellent means for Australian firms to gain a “first hand” look at their industry in Japan, and involve networking with relevant companies and government authorities, along with factory tours and discussions with personnel in Japanese companies.

JETRO also provides Japan market seminars on investment in your industry, and best of all, participation on the program is free for one participant.

In 2007 JETRO organized invitation programs for the optical industry, the food-related machinery industry, and the ICT industry. We have currently finalised participation in the food-related machinery program for an Australian food machinery manufacturer, and we hope that the program is beneficial for their setup process.

JETRO IBSC Centres

“Incubation centre”

Temporary office space

Consulting services

Free of charge



Moving on, JETRO’s biggest service is the JETRO IBSC Centers – or the JETRO Invest Japan Business Support Centers in Japan. In six locations throughout Japan, the centers are designed for companies who have committed to the Japanese market, and are looking for more detailed advice on establishing an office in Japan.

It is best to consider the IBSC’s as an incubation centre for foreign firms. As part of the service, JETRO offers temporary office space up to 100 days in these centers, with access to meeting facilities, computers, telephones and data connections included. Office space usage does not have to be consecutive, so you are free to come and depart as you please.

Further, within the same facilities, companies are able to book meetings with our investment advisors on any aspect of the setup process in Japan. JETRO has a wide range of industry-specific advisors who can give invaluable information on your market, along with the best strategy for your investment plan.

Best of all, JETRO does not charge for access to the IBSC centers.

JETRO IBSC Centres - Advisory Services



Going back to my train slide earlier, these are just some of the services that JETRO can help in supporting your move to Japan. At each step along the line, JETRO is able to offer advisors who specialize in each specific area of the investment process.

Not included in the above include information on HR, visas, and places for residence in Japan.

JETRO IBSC - How Much?



And how much will it cost to access these services? To show that the Japanese Government is dead serious about attracting investment to Japan, all of JETRO's services are FREE. We simply require registration of your company with our services – which is both confidential non-binding, for access to JETRO's services.

JETRO Case Study - Impact Investing

Finance software company

Established an office in Japan
to better service customers

Using Tokyo base as a launchpad
into Asia



 Impact Investing



Finally, I would like to highlight one company who has used JETRO's services to successfully establish an office in Japan. Impact Investing is a Sydney based software company with offices in Canada, US, UK and of course now Japan.

Their software is designed for fund managers to access real time information for port folio analysis and risk management. Like most cases JETRO receives, impact investing initially serviced their first Japanese customer from Australia, but felt that they needed a stronger local presence in Japan to better serve their customers.

In addition to this, impact investing also recognized the potential of their market – Japan is the world's second-largest equity market. They also saw Japan as the financial hub for Asia, and are now using their Tokyo base as a launch pad into other Asian markets.

Impact started by focusing on servicing foreign companies in Japan, and now through word of mouth have penetrated into local companies. Impact Investing have understood the importance of building trust and relationships in Japan, and have leveraged their office as a means of gaining experience and credibility in Japan when compared to their competitors.

Don't Miss The Train!



In closing, with the ideal investment conditions currently being enjoyed in Japan, I would like to stress one major point – Don't miss the train! With the current favorable exchange rate, economic recovery, and the strong economic links between Australia and Japan, now is the time to consider an office in Japan.

You do not have to tackle the Japanese market alone. Outside of JETRO, Austrade have 50 staff based throughout Japan, and have immense knowledge on every aspect of the Japanese market. Within Australia, organizations like the QJCCI (Queensland-Japan Chamber of Commerce and Industry), AJBA (Australia-Japan Business Association) and JETRO have dedicated support networks already established. If you have not joined already, I would consider approaching these organizations for more information.



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Organization

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If you would like any more information on any aspect of my presentation, feel free to contact me at the details above. Thank you for your attention.