U.S. Department of State

FY 2001 Country Commercial Guide: Japan

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CHAPTER I EXECUTIVE SUMMARY

This Country Commercial Guide (CCG) presents a comprehensive look at Japan's commercial environment, using economic, political and market analysis. The CCGs were established by recommendation of the Trade Promotion Coordinating Committee (TPCC), a multi-agency task force, to consolidate various reporting documents prepared for the U.S. business community. Country Commercial Guides are prepared annually at U.S. Embassies through the combined efforts of several U.S. Government agencies.

America's bilateral trade and economic relationship with Japan continues to be heavily influenced by the divergent economic performances that have prevailed in the two nations for most of the past decade. In 1999, strong consumption spurred by a robust U.S. economy, combined with a still halting economic recovery in Japan, helped generate a record U.S. trade deficit of $73.4 billion. With U.S. export growth flat in 1999, the increase in the deficit mirrored the $9 billion rise in U.S. imports from Japan in 1999. American imports from Japan in 1999 were a record $131 billion.

Even after a decade of weak economic performance, Japan's recovery remains sluggish and largely dependent upon massive government spending. Despite the adoption of a $172 billion stimulus package in November 1999, the ninth since 1992, Japan's economy has yet to exhibit clear evidence that a sustained recovery is underway. In 1999, the Japanese economy generated a growth rate of only 0.2 percent. Japan's economy continues to be hampered by problems in the financial sector, relatively high unemployment and excessive regulation. In addition, the burgeoning government budget deficit may limit further recourse to fiscal stimulus packages.

Still, a number of factors are beginning to generate positive trends. The Japanese Government's multi-year deregulation program, while modest, has eliminated a range of impediments to business activity. In addition, many Japanese corporations have been aggressively restructuring their businesses to reduce costs, improve profitability and enhance their competitiveness. Foreign investment into Japan, which more than tripled in 1999, is contributing to a more vibrant business environment.

As the world's second largest economy, and the consumer of $57 billion in U.S. exports in 1999, Japan remains a huge market for American goods and services. Significant opportunities continue to emerge for American firms, particularly as Japanese companies seek to become more competitive and begin to look beyond established domestic business relationships to lower cost foreign suppliers. While the difficult work of restructuring necessitated by excessive debt and over-regulation continues, Japan is making progress. With an economy that represents three-quarters of the Asian market, even in a slow or no growth situation, significant business opportunities exist and emerge on an ongoing basis.

The most competitive sectors for American companies remain in the high technology and service industries. The computer, software, semiconductor, pollution control and medical device sectors continue to generate enormous business opportunities for U.S. firms. On the telecommunications front, expanded internet use and a proliferation of "dot-com" start-ups have created a dynamic business environment in a sector critical to Japan's economic recovery.

A number of services industries also represent bright prospects for American firms. In addition to travel and tourism, architecture, construction and engineering services, which have traditionally been a strength of U.S. firms in Japan, new service opportunities are emerging. Financial and healthcare services are two areas where future business prospects for U.S. companies appear particularly promising.

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CHAPTER II ECONOMIC TRENDS AND OUTLOOK

A. MAJOR TRENDS AND OUTLOOK

Japan is the United States' largest non-NAFTA trading partner. It is also the world's second largest economy, with a gross domestic product (GDP) of roughly $4.3 trillion in 1999. Measured in dollar terms and at current exchange rates, that is roughly 45 percent of the United States' GDP, although fluctuations in the dollar/yen rate can change this figure significantly. Measured on the same basis, Japan's annual output is greater than that of Germany and France, combined. It is roughly four times the annual output of China, and 11 times that of India. U.S. exports to Japan were roughly equal to U.S. exports to Latin America (excluding Mexico) in 1999, and about four times the value of exports to China.

Although viewed as the first of Asia's economic miracles through most of the postwar era, Japan's economic growth was sluggish or negative in the 1990s. Following the end of the "bubble economy" that centered around Tokyo property markets in the late 1980s, the Japanese economy entered a period of stop-and-go economic and financial restructuring. The process of reform has been uneven during the past ten years, but it accelerated in response to financial sector difficulties and a deep and prolonged period of negative GDP growth in 1997-98. The government took aggressive steps to prop up the economy and repair ailing banks. Most recent in a series of stimulus packages, the GOJ adopted in November 1999 an □18 trillion yen ($172 billion) supplemental budget, including 8.7 trillion yen in new spending measures and 9.4 trillion yen in increased loan and loan-guarantee programs. These and earlier emergency measures put a floor under the recession and reestablished confidence in the financial system, but economic recovery remains hesitant, with a significant improvement in private consumption yet to appear.

The pressing need for Japanese firms to restructure and lower costs has been felt in terms of layoffs or reductions in salaries, wages, and bonuses -- which has in turn dampened private consumption and lowered import growth. At the same time, however, the push to find more cost-effective ways of doing business has led to a reexamination of traditional *keiretsu* and other buyer-supplier relationships. Manufacturers have begun to look for ways to bring in high-quality, low-cost components and materials from foreign suppliers. Should such developments continue, overseas suppliers will see new opportunities in some areas of the Japanese market, although they will be challenged to supply products at competitive prices.

The ongoing process of financial and corporate restructuring also means that opportunities for foreign direct and portfolio investment are on the rise. With banks focused on consolidation and balance sheet improvement, Japanese firms are increasingly looking overseas for investment capital. Further, consolidation and reorganization throughout the Japanese corporate sector has led to a wave of asset sales -- properties, plant and equipment, and subsidiary companies -- as firms seek to spin-off poorly performing or non-core elements of their operations. Some of the most noteworthy foreign investment deals over the past year occurred in the financial sector, where the dire condition of some institutions and the need to return nationalized assets to private hands led to a relaxation of long-standing barriers and negative attitudes toward foreign investment. Business tie-ups, joint ventures, and distribution affiliations between foreign and Japanese financial services providers have also accelerated as new opportunities arise in the context of the "Big Bang" financial deregulation initiative. Improvements in land and labor mobility have also raised new possibilities for greenfield investment, although entry costs for some industries still remain high. Foreign direct investment into Japan more than doubled in 1999, rising to $21 billion from $10.5 in 1998. In same period, Japanese direct investment abroad rose from $40.8 billion to $66.7 billion.

A key demographic trend with profound implications for Japan in years to come is the aging of its population. Because individual health care expenditures rise rapidly after the age of 60, the graying of Japan’s population will lead to a substantial rise in spending on health care over the next three decades. By 2025, the Ministry of Health and Welfare predicts that more than one in four Japanese will be 65 or older (up from about one in seven now). As a result of this demographic shift, fewer workers will have to support more retirees, and productivity per worker will have to climb to maintain national output. This will have implications for the pattern of demand, with greater opportunities in health care and retirement industries.

B. PRINCIPAL GROWTH SECTORS

Following the U.S.-Japan Framework Agreement of 1993, new opportunities developed for U.S. companies to sell to Japanese Government entities, especially in the fields of computers, telecommunications, medical equipment and construction services. In recent years, the Japanese Government has taken several measures to increase access for foreign suppliers to the government procurement market. They voluntarily expanded the number of agencies and lowered the threshold procurement amount covered under GATT rules. In addition, they revised the following procurement activities so that they now: 1) hold annual seminars to provide anticipated procurement information; 2) provide more transparency through public announcements; 3) provide advance notice of single tendering procedures; 4) provide separate announcements for procurement under GATT; 5) provide an on-line system for Internet access to all GOJ procurement announcements; 6) use the overall-greatest-value evaluation method for telecommunications and medical technology products over 800,000 SDR’s; and 7) use complaint review procedures. A wide range of construction projects are now open to competitive bidding. Construction tenders are regularly announced in the "Kensetsu Kogyo Shimbun/Kensetsu Tsushin Shimbun." Under the WTO Agreement, to which Japan is signatory, 47 prefectures and 12 government ordinance-designated cities have begun to improve opportunities for motivated U.S. companies to sell to Japanese local governments.

In broad terms, excluding agricultural products, we estimate that U.S. exports of durable and non-durable consumer goods to Japan in 1998 surpassed the $10 billion mark. More specifically, annual sales through Japanese mail order are estimated to be in the $20 billion range. Direct marketing, which grew at double-digit rates during the early 1990's, is slowing due to worsened economic conditions. Nonetheless, foreign mail order companies, with their strong brand appeal and distinct character in design and materials, will continue to do good business in Japan. U.S. Embassy-sponsored "American Catalog Houses," showcasing U.S. catalogs in Tokyo and Osaka, have been extremely successful promotional venues for U.S. products. This receptivity is a reflection of the fact that catalog sales, especially of imported products, are cost effective and convenient for the consumer. The numbers of double-income families and working single women are large and increasing in Japan.

Japan is the world's second largest market for information technology equipment and services (telecommunications, computers, peripherals, software, and multimedia) and is forecasted to be valued at $1.23 trillion by 2010. Fueling the current strong demand for telecommunications infrastructure is the Japanese government’s goal to connect all Japanese businesses, government offices, schools, and homes by 2010 through a "Fiber to the Home" project. Current investment in telecommunications infrastructure is $33 billion annually and by 2007 is forecast to reach a cumulative $500 billion. Japan's recent exponential growth in the market demand for networking, personal computers, Internet applications, wireless communications, and satellite communications is expected to continue through the turn of the century

Surveys have shown that Japanese houses are two to three times more expensive than equivalent American houses, and many Japanese people are not satisfied with either the quality or price of their current housing stock. In contrast, imported American-style homes are regarded as offering high quality, low cost and earthquake resistance. Hundreds of U.S. companies in the building materials, manufactured housing and home building industries are already working with Japanese companies to build American-style 2x4 platform frame construction homes in Japan, despite regulatory barriers affecting some materials that will take several years to resolve.

Over the next several years, a multitude of new opportunities will be seen in regional markets outside Tokyo as price-pressured key buyers show increased receptivity to foreign-supplied goods: in infrastructure buildup, as the tremendous economic growth of the late eighties brought a need for airports, information technology infrastructure and housing; in leisure, as the Japanese worker finds more time and money to spend off the job; in retirement communities and health care with the "greying" of Japanese society, as well as in meeting the needs of the handicapped; and in changing and broadening consumer tastes, as the Japanese consumer has become more cosmopolitan with greater exposure to foreign products. Major regional opportunities are described below.

Tokyo, Japan's sophisticated capital and the surrounding prefectures of Kanagawa, Saitama and Chiba, occupy the largest flat area in Japan called the Kanto Plain. Together, these four prefectures have a population of over 31 million, equivalent to the New York and Los Angeles metropolitan areas combined. Tokyo is the governmental, business, higher education, information, media, fashion and cultural center of Japan. Most major Japanese companies, trade associations and U.S. companies have their headquarters or major branches in Tokyo. Kanagawa, which includes the cities of Yokohama and Kawasaki, is by far the richest prefecture in Japan, with a per-capita income almost 50 percent above the Japanese average. A presence in Japan usually means a presence in Tokyo. Despite high rental costs, most U.S. companies locate in Tokyo because of the need to interface with their Japanese customers, to obtain market information and in many cases, to handle relations with Japanese Government ministries. Consumers in Tokyo are more likely to come into contact with foreign products, food and styles than elsewhere in Japan. Also, consumer styles and fashions emanate from Tokyo in avidly read magazines as well as the television networks. In addition to consumer goods, value-added food products, apparel, furniture and automobiles, good export prospects to the Tokyo area include medical products, computers, telecommunications hardware and software and business services.

"Kansai" is the six-prefecture region of west central Japan centering around the cities of Osaka, Kobe, Kyoto and Nara, with a combined population of over 20 million people. The traditional commercial center of Japan, the Kansai is an economic giant with a GRP (gross regional product) of over $750 billion, larger than Canada's. Kansai local governments (Hyogo and Osaka Prefectures, Kobe and Osaka Cities, in particular) have aggressive major development plans of over $400 billion, including massive land reclamation and building complexes for commercial, industrial and research facilities, including the Universal Studios Japan Project, a $1.4 billion theme park to be built on a 56-hectare site in Osaka's Konohana waterfront area, slated for a spring 2001 opening. A successful bid by Osaka's bid to host the 2008 Olympics would greatly accelerate the city's waterfront development. The addition of a second runway to Kansai International Airport (KIX), a multi-billion dollar project, is as large an under-taking as the initial airport. A domestic airport for Kobe, also on reclaimed land, is on track. The private sector will continue to invest heavily in the Kobe region to replace homes and commercial buildings destroyed or damaged in the January, 1995, Great Hanshin Earthquake, which has put Kobe at Japan's forefront for introducing and popularizing earthquake resistant, cost-effective 2 x 4 housing, imported from America.

Kansai offers many advantages to American companies looking to enter the Japanese market. Labor and housing costs are much lower than Tokyo's and the region affords superb transportation, communication and other infrastructure support. Added attractions include average office rental prices approximately 80 percent of Tokyo's; a pragmatic, non-bureaucratic business orientation (as the home of 10,000's of important Japanese companies and the center of Japan's textiles and apparel, sporting goods, pharmaceuticals and chemicals industries) and a willingness to innovate.

The Commercial Service Osaka-Kobe aggressively promotes and advocates for American companies, especially in major projects, procurement and housing, with annual regional shows, and, working closely with the American Chamber of Commerce Japan's Made-in-the-USA Committee, helps promote American products, services and tourism through big crowd events, American fairs in department and chain stores, trade shows, media events, speaker programs on commercial subjects, networking, key introductions and advocacy.

Strategically located midway between the Tokyo and Osaka metropolitan areas, the Chubu Region of Japan consists of nine prefectures (Aichi, Ishikawa, Fukui, Gifu, Nagano, Niigata, Shizuoka, Toyama, and Yamanashi) clustered together in the center of Honshu, Japan's largest island. Taken together, these nine prefectures have a total population of 21 million, making Chubu the third most populous region in the country. Most of the region's population and industry is concentrated along the Pacific coast, in an area known as the Tokai Region (Aichi, Gifu, Shizuoka, and Mie Prefectures).

Chubu 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, Daido Steel, Brother Industries, Makita, Denso Corporation, Yamazaki Mazak, INAX, Suzuki Motor, Yamaha, Noritake, NGK Insulators, and many others. Chubu's gross regional product is roughly the size of Canada's GDP. The region as a whole accounts for roughly 17 percent of Japan's GNP, 3 percent of World GNP, and roughly half of Japan's total trade surplus with the United States.

The political, economic, and transportation center of the region is the City of Nagoya and surrounding Aichi Prefecture. Aichi ranks first among all Japanese prefectures in terms of the monetary value of its product shipments. 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. The city government and the Nagoya Chamber of Commerce and Industry have been actively promoting foreign direct investment in the region. Dana Japan, Cabot Specialty Chemicals, TRW Steering Systems, Pfizer Pharmaceuticals, and PPG Industries are but a few of the many American firms that have set up manufacturing or distribution bases in and around Aichi. American retail giants Kinko's, Office Max, Toys' R Us, and The Sports Authority have also opened outlets in the area.

A major new commercial development, JR Central Towers, opened in downtown Nagoya in March 2000. The multi-million dollar project, which includes a 780 room Marriott hotel, has redefined Nagoya's skyline and injected new life into the city's hospitality and retail industries.

The Chubu Economic Federation has estimated that, over the next five years, approximately $70 billion per annum will be spent on various projects in the Chubu Region. This bodes well for cost-competitive U.S. firms that are active in the region. The largest opportunity of them all is the new $7.2 billion Central Japan International Airport, a 24-hour airport that will be built on a man-made island in Ise Bay. As of June 2000, American architectural design and engineering firms had already won work in nine airport tenders, including work on crucial areas such as the planning and basic design of the passenger terminal building and the planning of the information/security system. The new airport is scheduled to coincide with the opening of Expo Japan 2005, an environmental world's fair that is expected to attract 18 million visitors. Other major projects include construction of segments of the $ 32 billion Second Tomei-Meishin Expressway, a new six-lane freeway that will connect Tokyo and Kobe through Nagoya.

Through its close relationship with Chubu public and private sector entities, the Commercial Service in Nagoya works to uncover commercial opportunities for U.S. firms in a variety of sectors, from multiplex theaters and architectural design services to water quality monitors and electric power generating equipment.

The Kyushu/Yamaguchi region, located in the southwestern part of Japan, is the nation's fourth economic center and has witnessed steady growth in the past several years. The region's GDP of $460 billion is larger than that of Korea, Australia and several other OECD countries. Regional dynamism lies in the development of its service sector and high-tech industries -- including the production of semiconductors and liquid crystal display panels and state-of-the-art automobile factories -- and in its shipbuilding industry, diversified research facilities and expanding Asian trade. Japan's commercial and research space-launching facilities are also based in southern Kyushu. Western Japan is also a leading center for cutting-edge research in fields such as nuclear fusion, robotics, ceramic materials and high-speed ocean transport carriers. Kyushu/Yamaguchi accounts for one-fifth of Japan's agricultural production. Particularly good business prospects in the region are found in areas such as electronics and computers, architecture, design and construction, 2X4 import housing and agricultural products.

The region's major projects include: Kyushu University Relocation Project, New JR Kyushu Nagasaki Station, Kyushu National Museum, the New Kitakyushu Airport, and the Fukuoka City International Conference Hall. In July 2000, the region hosted both the Finance and Foreign Ministers of the G-8 nations who were meeting immediately before the G-8 Summit in Okinawa.

Northern Japan --- Hokkaido and Tohoku ---- has a population of 15.6 million and GDP of approximately 514 billion dollars, which is only slightly smaller than the GDP of Canada (579 billion U.S. dollars). Hokkaido is Japan's northernmost island and is approximately 700 miles north of Tokyo. Sapporo, which has a population of 1.8 million, is the capital and largest city. The Tohoku region consists of six prefectures in northern Honshu, Japan's main island. Tohoku's economic and commercial center is Sendai, population one million, which is the capital of Miyagi Prefecture.

In 1999, northern Japan's direct imports from the U.S. were estimated at USD 2.1 billion. More than an additional billion dollars in U.S. imports to northern Japan entered Japan through Tokyo or Osaka and were shipped onward to northern Japan. High internal transport costs in Japan, which sometimes double shipping costs of products from the U.S. to northern Japan, have spurred the growth of direct imports from the U.S. to the seaports and airports in northern Japan. Container traffic from the United States is increasing at the ports of Tomakomai (near Sapporo), as well as Hachinohe (Aomori Prefecture) and Sendai. There are also increasing numbers of U.S.-origin containers arriving in northern Japan from Pusan, South Korea, where port and cargo handling charges are much lower than in Tokyo-Osaka region ports.

The region's well-developed infrastructure, highly skilled workers, low costs for land and buildings in comparison with the rest of Japan, and regional government incentives, have prompted increasing numbers of U.S. companies to view Hokkaido and Tohoku attractive locations for investment and overseas operations.

Home building products and interiors, packaged homes, personal computers, marine products, feed grains, and outdoor leisure goods are particularly promising import sectors in northern Japan.

Northern Japan's two main international airports -- Chitose (Sapporo) and Sendai -- have newly expanded passenger and cargo handling capacities and are eager to develop more international routes. Reflecting growing economic ties with the Russian Far East, there are regular commercial flights between Hokkaido and Sakhalin as major oil and natural gas projects come on line.

Okinawa prefecture, population 1.3 million, consists of the sub-tropical Ryukyu Islands 2.5 hours south of Tokyo by air. Okinawa's economy depends heavily on tourism, government public investment, services and construction. The Okinawan economy is also impacted by its role as home to a number of U.S. military installations and a major portion of the 50,000 American military personnel stationed in Japan.

The prefectural government has invested heavily in strengthening the tourism infrastructure and a number of additional high-quality resort hotels are being built. Okinawa offers U.S. suppliers potential business opportunities in architecture and interior furnishings for resort hotels and in related fields. Companies specializing in outdoor/leisure activities, including sporting goods, marinas, boating, diving and fishing equipment and related services may also find attractive business opportunities in Okinawa.

In addition, the southern islands of Miyako and Ishigaki are the sites of large tourism development projects and a new airport is scheduled to be built on Ishigaki. Partially in an effort to spur local economic development, the Japanese government selected Okinawa as the site for the summit of the G-8 nations, which took place in July 2000. Japan has also passed new legislation creating a new 'special free trade zone,' which offers certain tax and other benefits to foreign investors. Special multimedia and tourism development zones may soon follow. Okinawans are particularly receptive to the introduction of American products, due in large part to the U.S. military presence.

Japanese agricultural production is steadily contracting on a year-by-year basis, with key sectors seeing decreasing production in most years. Cereals, rice, dairy, beef and pork, and fruits and vegetables are all sharing this decline to greater or lesser degrees. Efficiency is hampered by the small and scattered nature of farm lands and by inordinately high input costs. Farmers are limited by the government and the cooperative system in their ability to make decisions regarding production, pricing and marketing. However, producers are increasingly using “fresh” and “natural” to sell their products to Japanese consumers who have deep concerns about the safety of imported products.

At the same time that local production is declining, access for imported agricultural products has never been better. Due to persistent negotiation by the United States and others throughout much of the 1980's and 1990's, Japan has eliminated many 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 been opened. Market access remains limited in a few key commodities, such as rice, tariffs remain high on high value added processed food products, and some problems remain in technical issues concerning food additives and phyto-sanitary barriers on fruits and vegetables. However, these exceptions aside, the Japanese market is, contrary to popular belief, substantially open to U.S. food and agricultural products.

The combination of this radically improved market access and declining domestic production has resulted in phenomenal export growth for American agriculture. The annual growth alone of U.S. farm exports to Japan has averaged $700 million during the 1990's, greater in size than all but 13 of our farm export markets. While exports have suffered a setback recently due to the shrinking economy and a strong dollar for most of the past two years, 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 much 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, pork, ice cream, broccoli, asparagus, frozen vegetables, wine, cherries, and processed snack foods. For additional information about U.S. Agricultural, food, fishery product exports to Japan and other countries, please see the Foreign Agricultural Service Homepage at http://www.fas.usda.gov.

C. GOVERNMENT ROLE IN THE ECONOMY

Japan's bureaucracy, created in 1868, predates Japan's first constitution. Power is concentrated in 12 ministries and 10 ministerial-sized agencies in downtown Tokyo. Virtually all major policies are decided by the ministries in Tokyo, while prefectures and municipal governments merely implement them. Their power over the Japanese economy comes from the thousands of required licenses, permits and approvals that tightly regulate business activity in Japan and by informal, but in practice virtually compulsory, edicts called "administrative guidance." The reach of the bureaucracy is further extended by a plethora of organizations that perform semi-regulatory functions.

Business in Japan traditionally has maintained very close relations with the bureaucracy and politicians. Japanese politicians have depended on contributions by big business. Big business also provides lucrative “amakudari” employment for high-level bureaucrats who retire from government service. Bureaucratic paternalism blocks new companies from entering the market and pushes up prices. Members of the Japanese National Diet have small staffs and traditionally rely on ministry officials for policy initiatives and the drafting of legislation.

Until 1980, the Japanese Government controlled access to the market by allocating foreign exchange and by allowing foreign investments depending on the amount of technology transfer to Japanese companies. The regulations are largely gone, but the Japanese Government continues to play a significant role in promoting domestic industry. The popular view is that the proper role of a national government is to lead industry into higher value-added manufacturing. While nods have been made in the direction of improving the average citizen's standard of living, GOJ policy and regulatory framework continue to favor domestic producers over consumers. This may translate into a "protective attitude" when it comes to foreign competition and the potential introduction of new products from the outside.

When the “bubble” burst in 1991, and the economy worsened, businesses began to call for deregulation of the economy in order to stimulate growth and to respond to foreign competition. At the same time, in response to a strengthening yen, companies began to move production off-shore in order to cut costs. This prompted fears of a hollowing-out of Japanese industry. Today, with a weakening yen, some companies have begun to move production back to Japan and are positioning themselves to be able to respond quickly to domestic and international market fluctuations. In areas where deregulation effectively took place, such as consumer goods, markets experienced explosive growth and imports reached previously unheard of highs. However, in areas like industrial goods deregulation efforts have been less visible. As the economy worsened recently, concerns about unemployment and further economic disruption have lessened the passion for bold deregulation.

While American companies do start at a disadvantage, it is increasingly possible to participate in the market after establishing a presence in Japan. The Japanese Government has removed most legal restrictions on exports to and foreign investment in Japan. The U.S. and Japanese governments continue to work on removing anti-competitive and exclusionary business practices and resolving market access problems through bilateral dialogue. Through the U.S.-Japan Framework for a New Partnership, signed by President Clinton and Prime Minister Murayama in July 1993, the U.S. has negotiated nearly three dozen sectoral trade agreements, many of which have resulted in significant increases in American exports.

Under the Enhanced Initiative on Deregulation and Competition Policy, started by President Clinton and Prime Minister Hashimoto in June 1997, the U.S. and Japanese governments have worked to cut regulations in sectors of key economic importance where U.S. firms are globally competitive -- telecommunications, medical equipment and pharmaceuticals, energy (including power generating and transmission equipment), housing and financial services. These discussions, which completed their third year in 2000, have had some success, but much more deregulation remains to be achieved.

While Japan’s business system is very different from the United States, American companies can successfully adapt and make it work for them. Roughly 220 of the U.S. Fortune 500 companies have a direct commercial presence in Japan, as do 45 of the 50 leading U.S. exporters. The 1,000-company, 3,000-member American Chamber of Commerce in Japan (ACCJ) is the largest overseas AmCham in the world, and its 40-plus committees and sub-committees are highly visible lobbyists for U.S. business interests. U.S. Embassy officers are liaison to over 20 of these committees, and work closely with the ACCJ on market access issues. Some knotty regulatory barriers and discrimination do 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.

D. BALANCE OF PAYMENTS SITUATION

Japan’s trade and current account surpluses are the largest in the world. Japan’s trade surplus grew slightly in 1999 to $123 billion, up from $122 billion in 1998 according to U.S. Embassy calculations based on official yen-based data. The current account surplus, however, decreased from $121 billion in 1998 to $107 billion in 1999.

E. INFRASTRUCTURE

Japan has a fully developed physical infrastructure of roads, highways, railroads, airports, harbors, warehouses and telecommunications for distribution of all types of goods and services. Japan is also engaged in a large expansion of public works projects both to enhance the business infrastructure and to help stimulate the economy.

However, there remain major problems with Japan's physical infrastructure which impede distribution of imports. Japan's port practices remain nontransparent and inefficient by global standards; and import processing, while improving, remains relatively slow. In part due to over-centralization in the major cities, high land prices and regulations restricting large stores, Japan's retail stores are small on average, lacking adequate shelf space. As a result, they require frequent stocking by wholesalers using small trucks that can navigate the narrow streets. Together with the demand by manufacturers of just-in-time parts and components delivery from subcontractors, this results in huge numbers of trucks on inadequate urban roads and highways during daytime business hours, slowing traffic to a crawl in major urban centers. In effect, a substantial portion of Japan's warehouses is the four-wheeled variety, using public land (the roads).

CHAPTER III POLITICAL ENVIRONMENT

A. NATURE OF POLITICAL RELATIONSHIP WITH THE U.S.

Japan enjoys strong and close political relations with the U.S. The political relationship, based in large part on the Mutual Security treaty, which underpins the U.S. security presence in the Far East, is characterized by cooperation on a broad variety of issues, from ensuring peace and security on the Korean peninsula to cooperation in the U.N. Security Council. Japan has supported U.S. policy in such areas as providing election assistance to Indonesia and funding a substantial portion of Bosnia reconstruction and Kosovo relief. In addition, the U.S. and Japan cooperate closely through the bilateral "Common Agenda" to tackle a range of global issues, particularly in the health, education, environment, and population fields.

B. MAJOR POLITICAL ISSUES AFFECTING BUSINESS CLIMATE

The Liberal Democratic Party (LDP) remains the largest and most influential political party in Japan, successfully installing party president Yoshio Mori as prime minister in early 2000 following the untimely death of Keizo Obuchi, also from the LDP. Still, lacking a majority in the Diet's Upper House, the LDP has had to join forces with the lay Buddhist Komeito and Conservative parties. Lower House elections in June 2000 did not deliver good news to this LDP-led coalition. All three parties suffered significant setbacks, although securing a stable majority of 271 of 480 seats. The largest opposition Democratic Party of Japan (DPJ) benefited the most from voter dissatisfaction with the status quo, particularly with the support of the over 50 percent of unaffiliated voters among the electorate. Finding ways to appeal to this "floating vote" promises to be a key preoccupation for politicians in the run-up to an Upper House election slated for summer 2001. Polls show that leading priorities for the Japanese public include economic recovery, healthcare and welfare reform, and fiscal and financial stabilization.

C. BRIEF SYNOPSIS OF POLITICAL SYSTEM, SCHEDULE FOR ELECTIONS AND ORIENTATION OF MAJOR POLITICAL PARTIES

Japan is a strong democracy, with a parliamentary form of government, in which basic human rights are well respected. Under the constitution and in practice, the Emperor's role is essentially symbolic. The head of government, the prime minister, is elected by both houses of the Diet, with the Lower House selection taking precedence in case of a split vote. Elections to the Lower House, the more powerful of the Diet's two chambers, are held at least once every four years. Upper House elections are held every three years, with half of the membership (each holding six-year terms) up for election each time. Most of Japan's political parties espouse moderate or conservative domestic and foreign policies.

CHAPTER IV MARKETING U.S. PRODUCTS AND SERVICES

A. DISTRIBUTION AND SALES CHANNELS

Japan's distribution system is complex, labor-intensive, and filled with seeming redundancy. It is also expensive and accounts for much of the differential between prices in Japan and the rest of the world. The 1990's were a difficult time for the distribution industry as consumer demand and official recognition of the need to make the economy more efficient precipitated a number of changes. Nevertheless, the traditional system endures and continues to be not merely a drag on the domestic economy, but a formidable barrier to imports of goods and services, as well.

Difficulties with Japanese distribution are partly socio-cultural in nature. Many Japanese are hesitant to disrupt longstanding relationships with suppliers -- even when a U.S. supplier can offer a superior product at a lower price. On the one hand, many retailers and wholesalers report that they fear retaliation from existing Japanese suppliers if they switch to new overseas sources. At the same time, they may also be concerned that a foreign supplier will not make timely shipments or may lack adequate after-sales service ability, for which Japanese expectations run very high. These doubts stem in part from a traditional reluctance to do business with strangers, who could introduce uncertainty into predictable, existing business relationships. A clearly demonstrated commitment to develop long-term relationships with Japanese business people is crucial to overcome this reluctance. An established presence in the market (if only through a knowledgeable and committed agent) is also a decided advantage in winning trust.

Traditionally, about half of all consumer purchases have been made at neighborhood "mom and pop" stores (with five or fewer employees), and these stores rarely carry imported goods. In fact, they often have strong ties to major domestic manufacturers, including financial accommodations, equity investments, and/or exclusive marketing arrangements. These small shops do not have sufficient space to maintain large inventories and rely on expensive small-lot, on-demand deliveries. The economic stagnation since the collapse of the “bubble” nearly ten years ago has taken a toll on small retailers. Their numbers are declining, as convenience stores, self-service discount stores, and "superstores" mushroom. The ascendance of more efficient retailers is also helping to reduce the layers in the distribution system and make imported goods more price competitive.

Imported consumer goods have been traditionally sold at larger outlets such as department stores and discount houses. The 1990’s have also witnessed dramatic growth in specialty retailers, notably foreign names. Hand-in-hand with this development, direct importing -- bypassing trading houses and as many other intermediaries as possible – has become increasingly popular as a way to reduce costs.

As larger retail outlets have spread in Japan, the regulation of “large stores” (those stores with over 500 square meters of sales space) has become ever more of a concern. On May 27, 1998, the Diet passed the Large-Scale Retail Store Location Law. This law became effective in the year 2000, and replaced the Large-Scale Retail Store Law. Whereas the previous law (administered by MITI on the basis of input from various concerned parties) focused on the competitive effects of large-store openings, the new law is intended to give local authorities the power to regulate new large stores on the basis of environmental considerations only. MITI has made clear its intent to assure that the environmental standards be used so that the new law will be applied with reasonable uniformity to all localities. The new law applies both to new store openings and to significant changes in the business operations of existing stores (such as an expansion of floor space or an extension of business hours). Many municipalities in Japan are taking advantage of the new law to draft ordinances that mandate parking space provisions and operating restrictions stricter than national norms or those recommended by MITI.

B. INFORMATION ON TYPICAL PRODUCT PRICING STRUCTURES

The pricing structure of imported goods in Japan varies according to the types of distribution channels and services that importers or wholesalers provide (e.g. inventory, advertisement cost, packaging cost, financing system, acceptance of unsold/returned goods, etc.)

The following table gives some typical selling prices for common consumer products at each stage of the distribution channel, with the retailer's price to consumers given as 100.

(Apparel)

FOB	Importer	Wholesaler	Retailer	Consumer
25	43	50	60	100

(Sports shoes)

CIF	Importer	Wholesaler	Retailer	Consumer
40	40-46	52	70	100

(Snowboards)

CIF	Importer	Wholesaler	Retailer	Consumer
15-49	30-56	45-63	60-70	100

Since Japanese consumers have become more price conscious, markups in the distribution stages have tended to become smaller. Also, there are some retailers who import products directly, in order to be able to offer lower retail prices. U.S. suppliers should understand that quantities that such retailers import tend to be small and that importers/wholesalers will usually not be interested in representing products which are directly imported by retailers.

C. USE OF AGENTS/DISTRIBUTORS; FINDING A PARTNER

Establishing a direct presence in Japan is the best way to penetrate the Japanese market, but can be a prohibitively expensive strategy to launch. The use of agents/distributors is a more realistic marketing strategy for the small/medium-sized U.S. firm, but this approach requires great care in the selection of the representative.

Distributors in Japan usually cover a specific territory or industry. Import agents are often appointed as sole agents for the entire country (although there is no statutory requirement that this be done). While in some cases exclusivity may be necessary to ensure a strong commitment by the Japanese agent towards expanding sales, a U.S. company should not be pressured into handing over control of the whole market if there is doubt as to the ability or willingness of the Japanese company to develop the entire market. Regional exclusivity, a limited term of representation, minimum sales, or qualitative indicators of sales efforts may be recommended in exclusive agency contracts.

While the Japanese Fair Trade Commission has guidelines applicable to exclusive agency contracts, there are no statutory damages required upon termination of an agency contract. However, replacing a Japanese agent or distributor is difficult in Japan if not handled extremely sensitively given the close-knit nature of business circles and the traditional wariness of foreign suppliers as lacking adequate commitment to Japanese business relationships.

A common mistake made by many U.S. firms is to try to use a list of importers as a basis for "cold calls" on prospective agents. The Japanese prefer to do business with someone only when they have been properly introduced and meet face-to-face. An introduction by a "go-between" typically serves to vouch for the reliability of both parties. This helps dispel reluctance on the Japanese side. 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 U.S. Department of Commerce and the U.S. Commercial Service in Japan (through the Agent/Distributor Service, direct introductions, etc.), U.S. state representative offices in Japan, JETRO, or even Japanese government ministries.

A U.S. company 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

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. A U.S. company should probably avoid a distributor that targets only limited, high-price niches; is compromised by strong ties to one particular industry group ("keiretsu"); fails to compete directly with established Japanese products; or is not prepared to pursue volume sales for the U.S. exporter.

To attract a Japanese business partner, a U.S. exporter must present an image of dependability, innovation, superior quality, competitiveness, and a commitment to building personal relationships. A U.S. company should show that it is well regarded in its industry; that it has researched the market; that it is prepared to respond to cultural requirements (e.g., by preparing high-quality marketing materials in Japanese on the company and its products); and that it responds promptly to all inquiries from Japan. Frequent communication by fax or phone is crucial, and regular visits to Japan are a must.

D. FRANCHISING

The franchising industry in Japan has reached a mature cycle as brand marketing through the internet has grown in popularity. Originally developed in the fast food area, and having moved into other service sectors, U.S. franchising became highly visible in the Japanese market under familiar names such as McDonald's and Kentucky Fried Chicken.

Historically, successful franchises depended heavily on the long-term investment capability and marketing expertise of a Japanese partner. Most U.S. franchisers usually did not try to recruit actual shop operators in Japan directly from the United States. Instead, U.S. firms concentrated efforts on finding a master franchisee. The master franchise holder then became responsible for the actual recruitment of Japanese franchisees.

With the advent of the internet, Japanese businesses that want to build markets on brand awareness now allocate more of their investments and resources into internet B2B and B2C direct marketing ventures rather than historical franchise models.

E. DIRECT MARKETING

Direct Marketing/Ecommerce - B2C and B2B

Direct marketing, which includes both business-to-consumer (B-to-C) and business-to-business (B-to-B) direct selling, and includes mail order, telemarketing, direct response television, network sales, as well as the ecommerce support infrastructure, is an attractive sales method for suppliers attempting to reach the Japanese consumer while bypassing traditional distribution channels. And with more women in the workforce and increasing demands on everyone's time, demand for shopping through the mail or by telephone has grown tremendously in Japan in recent years. But even more importantly, with increasing internet bandwidth and accepted ecommerce practices, direct marketing, modest by U.S. standards, is growing noticeably. Relationship marketing will also need to show parallel growth in these markets. The Japanese customer demands top quality for products and is meticulous about packaging and the condition of contents on arrival.

Shopping from foreign catalogs (generally referred to as "personal importing") surged in the mid-1990's as a combination of novelty, the weak dollar, and an appreciation of the richness of foreign offerings unleashed a torrent of overseas catalog shopping. Although customer service and returns challenged those firms which did not have in-country representation, many U.S. companies enjoyed enormous expansion of orders from Japan. Unfortunately, the strengthening of the dollar, the plunge in consumer confidence, and the passing of the "fad" component of the boom have caused the market to cool considerably since 1996. Nevertheless, we believe that there is still plenty of opportunity for catalog and internet suppliers who can offer the Japanese consumer value for money – and responsive customer service. It should be noted that mailing lists are relatively scarce, and that organizations that do have them are loath to share them. Language and shipping times are also crucial issues to overcome. U.S. companies aiming to enter this market should be prepared to make an investment in service and what is generally referred to as direct marketing infrastructure. A representative in Japan can act as a liaison with the U.S. supplier to handle receipt of claims, customs clearance, public relations and the preparation of a Japanese-language catalog. Warehousing and delivery can also be managed by a local representative.

TV shopping (DRTV) and the "infomercial" industry have also grown greatly over the last few years, opening up new opportunities for American and other foreign products to market directly to consumers over broadband channels. It is thought that there will be an explosion of demand for infomercial content and other DRTV programming as hundreds of new commercial satellite (SC) channels come online over the next few years.

According to Japan's Ministry of International Trade and Industry (MITI), the market value of e-commerce in 1998 was $49 million for business to consumer (B to C) and $69 billion for business to business (B to B). The market is expected to grow at least eight-fold for B to B and fifty-fold for B to C by 2003. Key factors influencing market expansion included increased Japanese language content over the Internet, increasingly inexpensive but powerful PCs, reduced ISP and telecommunication rates, and improved security functions over the Internet. Best prospects include software for encryption, firewall, other security functions, and multimedia.

The breakdown of the e-commerce market is as follows:

B to C: The market size for B to C in Japan in 1998 ($50 million) represents only 0.02% of total Japanese household consumption (in comparison, the U.S. figure of $1.7 billion, or 0.4% of consumption, is 35 times larger in absolute terms). According to industry sources, the B to C market is expected to expand to $25 billion by 2003 with the most rapid growth in 2001 to 2002 as a result of improvement in internet technologies and growth in the number of the households using the Internet. By 2003, experts predict that travel services will account for as much as 28 percent of B to C activity.

B to B: Japanese companies in all industries have begun to realize that doing business over the Internet is timesaving and cost-effective. The Japanese B to B market in 1998 was about $69 billion, with major segments including electronics, information products, automobiles, and auto parts. The market is expected to grow eightfold to around $550 billion by 2003. Some industry experts anticipate that as much as 80 percent of all company procurements will be done through e-commerce in five to seven years.

F. JOINT VENTURES/LICENSING

American companies with limited resources or a short investment horizon may wish to consider product licensing as a means of entering the market. The direct costs of finding an appropriate Japanese licensee are small compared to other forms of market entry. Once a suitable agreement is reached, a licensing fee and royalties are low-cost, low-maintenance income for the U.S. company.

However, U.S. companies should note that licensing represents a minimal form of participation in the Japanese market. Whether a company should license its technology depends upon several factors. First, a U.S. company should consider its long-term plans for the Japanese and other Asian markets. Licensing necessarily means a loss of control over market strategy, and perhaps "opportunity costs." Second, U.S. licensors should understand the strength of their company’s patent protection in Japan. Japan uses a "first to file" patent system, and this has ominous implications should a licensee explore becoming a competitor. Finally, the degree to which the U.S. firm must disclose trade secrets or proprietary information is a key consideration. A Japanese licensee’s interest or enthusiasm for the U.S. technology is a direct reflection of the licensee’s assessment of the product’s competitiveness and sales expectations in a technologically sophisticated market. Thus a U.S. company’s long-term interest may lie in another form of marketing entry, even if it carries higher costs and longer payback periods.

A licensor also sacrifices potential returns from manufacturing and marketing efficiencies. While Japan is a high-cost country for marketing, it is also a large market over which to spread the costs of marketing, even for relatively specialized technology. Even after adapting a product for the Japanese market, U.S. manufacturers may realize better profit margins and market penetration by selling their own product, as opposed to through a licensee.

Harder to quantify are the costs of managing or -- in some instances -- "policing" the licensing agreement. In the worst cases, a licensee will improve upon or modify the U.S. product or technology, patent it as its own, and become a competitor in Japan, the U.S. or third countries.

It is also possible that the Japanese licensee could under-report sales in order to remit lower royalty payments to the U.S. company. The final drawback of licensing is that it provides the U.S. company with very little information or practical experience in the market. As a market, Japan is a very demanding training ground. American companies can apply their lessons learned to other markets, as well as improve the quality of their product or technology through direct contact with the market.

The pitfalls of licensing mentioned above account for its declining popularity in some industries. However, it may still be the best path for products with short life cycles where short-term income generation is desirable. Despite the warnings above, it makes business sense in industry sectors where the costs of entry are prohibitively high, or there are political sensitivities (such as defense-related equipment).

The key to a successful licensing agreement is a Japanese partner whose goals match those of the U.S. company. A strong licensee will have something to bring to the partnership as well. Perhaps the ideal license agreement will provide for an exchange of technology and know-how to strengthen both partners. It is essential that the U.S. licensor maintain close and frequent contact with the licensee, including visiting Japan regularly. A local representative, other than the licensee, can provide additional perspective on the market, and help represent both support and accountability to the licensee. Royalties paid by the Japanese licensee to the U.S. licensor are subject to a 20 percent withholding tax, which may be reduced to 10 percent if the necessary documentation is filed under the provisions of U.S. - Japan tax treaties.

According to Japan's Foreign Exchange and Foreign Trade Control Law, a foreign company granting a license to an independent Japanese corporation, a wholly-owned subsidiary, or a joint venture corporation that involves manufacturing in Japan must notify the Ministry of Finance through the Bank of Japan within 15 days of the execution of the licensing agreement. In addition, notification must be made in advance of the execution of the licensing agreement in cases involving the transfer of specially regulated and/or designated technologies.

Special restrictions apply to designated technologies. If the license agreement is exclusive, extends beyond one year, and the licensee is a competitor with a ten percent or greater market share, and/or is ranked third or higher in the respective Japanese industry, notification must also be given to the Japanese Fair Trade Commissions (JFTC). Additionally, the export of any form of technical data from the U.S. abroad is subject to U.S. export control laws. In this case, a thorough review of the U.S. Department of Commerce's Export Administration Regulations (EART) should precede the signing of any licensing agreement.

Joint ventures remain a popular form of selling to Japan. Its advantages include access to local market information and conditions, a stronger market presence, technology development, and gaining immediate access to a distribution system and customers. Most joint ventures take the form of a separate or third company established between an American and Japanese company, with any range of agreements covering shared functions, personnel, management, and ownership. In most cases, the Japanese partner has control over marketing and distribution functions. American companies must be prepared to share ownership, control, and of course profits, with its Japanese joint venture partner, and therefore issues of communication, trust, and common business interest are absolutely crucial.

Joint venture partnerships that involve technology transfer or license agreements with Japanese partners have the same pitfalls as a direct license agreement. The value of the joint venture may diminish as either party becomes less dependent on the other's marketing prowess, customer base, or technological innovations. American companies should also understand that many large trading companies have a large "ready-made" pool of existing customer relationships. This produces a rapid increase in initial sales, but once its "share" of the market is tapped, the Japanese partner often has little interest in prospecting for new customers, unless the product has extraordinary technological or price advantages. American companies should take the same precautions about divulging proprietary know-how in a joint venture as apply to license agreements.

A joint venture in Japan can be an unincorporated, contractual joint venture or an entity created by the acquisition of stock of an existing corporation. More typically, a JV is the incorporation either in the U.S., or more commonly in Japan, of a new company in which the Japanese and U.S. corporation mutually decided upon management control and the roles and responsibilities of each party. The Ministry of Finance (through the Bank of Japan) must be notified of the establishment of any joint venture. In addition, if the joint venture is intended to last more than one year, the joint venture agreement must be submitted to the Japanese Fair Trade Commission for review within thirty days of its execution.

G. STEPS TO ESTABLISHING AN OFFICE

Establishing a presence and an office in Japan, despite high office rents and personnel costs, has become a less expensive undertaking given a drop in office rents. However, according to recent office surveys, the new supply of office space in central Tokyo has decreased, leading to firmer rent prices. And the new office supply in other large cities in Japan has also dropped.

Without a doubt, the least cost option for establishing a presence in Japan is through the internet. The U.S. Commercial Service in Japan provides an "Online Trade Center" where an U.S. company can market its products and services visually and benefit from recruitment and advertising by the U.S. Trade Center in Tokyo. This site may be visited at http://www.csjapan.doc.gov.

A U.S. company that wishes to collect information and/or facilitate contacts in Japan may wish to establish a representative office. This liaison office can obtain market data and other information and provide necessary promotional and service support. A representative office is not subject to Japanese taxes and it is not necessary to obtain special approval. However, a representative office must not involve itself in commercial transactions or generate income, therefore it can not handle orders directly. The liaison office may provide guidance and support to an agent and manage all marketing activities except for the actual sale.

A branch office of a U.S. company can engage in trading, manufacturing, retailing, services, or other business. A branch office may take and fill orders and carry out a full marketing program, including arranging for advertising, recruiting a sales force and performing all necessary promotional activities. A branch is liable for payment of Japanese taxes. The branch must appoint a resident representative in Japan and must register with the Legal Affairs Bureau of the Ministry of Justice. In addition, the establishment of a branch office is considered a direct investment under the Foreign Exchange and Foreign Trade Control Law requiring reporting to the Ministry of Finance through the Bank of Japan within 15 days after the establishment of the branch office. As with joint ventures, for certain designated sectors, Ministry of Finance notification must be made prior to the establishment of the branch office; and investment in designated sectors such as broadcasting or telecommunications may be restricted or prohibited.

An alternative to a branch office is a wholly owned corporation. As in the above options, certain sectors are restricted. Setting up a wholly-owned subsidiary will involve more time and expense, but it can offer an effective means to guarantee better protection for proprietary information, obtain credit and penetrate markets which have subtle but substantial barriers to imports. Moreover, there is a perception in Japan that a company with subsidiaries is both more committed and more substantial. This perception can serve as a powerful selling point.

A fourth approach is to pool resources of several firms having complementary product lines. Such a group might establish a marketing association, consortium, or jointly-owned export management company, and set up a sales and service branch or subsidiary office in Japan. The financial crunch affecting many Japanese companies now provide U.S. companies with excellent opportunities to establish, expand or purchase businesses in Japan.

U.S. companies should also carefully examine the Japanese Ministry of International Trade & Industry's (MITI) programs for promoting imports and foreign investment into Japan including; loan programs through the Japan Bank for International Cooperation and the Development Bank of Japan; the entry-level business support programs being provided by JETRO and the Foreign Investment in Japan Development Corporation (FIND). It should be noted that JETRO set up six Business Support Centers to offer various assistance to new-to-market foreign firms in their initial market development activities. The centers are located in Tokyo, Yokohama, Nagoya, Osaka, Kobe and Fukuoka. Fully equipped mini offices are available free of charge on a temporary basis. They provide not only free office space, but counseling, business library, data base terminals, conference halls, etc.

Further Readings:

"A Guide to Investment in Japan"
"Setting Up Enterprises in Japan, 4th edition"
"The Japan Start-up Handbook"
Available from the Japan External Trade Organization (JETRO) website
www.jetro.go.jp/ir/e/japan/pandc/pandc.html
JETRO New York FAX: 219-997-0464

H. SELLING FACTORS/TECHNIQUES

Personal contact with customers is very important. A visiting U.S. representative or resident agent in Japan should accompany a Japanese agent or distributor on visits to existing or potential Japanese customers. Making sales calls demonstrates commitment to the market and is also an excellent way to obtain market feedback.

Too many Japanese-American business relationships sour after a successful honeymoon period. A common mistake made by U.S. companies in Japan is failure to provide adequate support for their Japanese business partner after initial successes. It is important to prevent a distributor from implementing a conservative, low-volume, high-markup marketing strategy that will protect their own interests while leaving the U.S. product's full sales potential undeveloped.

Part of selling in Japan is knowing how to negotiate and maintain relationships with Japanese. Japanese language skills can be invaluable, as can a thorough background in Japanese culture and etiquette. It is important to be honest and direct, while avoiding appearing overbearing.

Initial contacts between Japanese firms are usually formal and made at the executive level, while more detailed negotiations are often carried out at the working level. Typically, the first meeting is to get acquainted, establish the broad interest of the calling party, and to allow both sides an opportunity to "size each other up." A series of meetings with a large number of Japanese company representatives is common. Business negotiations may proceed slowly, as the Japanese side may prefer no agreement to being criticized later for making a mistake.

While many Japanese business executives speak some English, a skilled and well-briefed interpreter, while expensive, often prevents communication problems. Though some U.S. firms do business in Japan without a signed contract, written contracts between U.S. and Japanese firms have become a universally accepted practice in Japan. They satisfy tax, customs and other legal requirements. Japanese companies prefer short, general contracts, while U.S. companies prefer to spell out rights and obligations in detail. A contract should be viewed as part of a greater effort to create an understanding of mutual obligations and expectations, rather than a tool in case of a lawsuit.

I. ADVERTISING AND TRADE PROMOTION

Because many products from the United States fit a cultural or industrial environment which may not exist in Japan, consumer education of the product's purpose, use, features and quality may be necessary. However, not all companies can afford to place ads in Japan's five major national daily newspapers or place commercials on Japanese television (all of which accept advertisements or commercials for either national or regional coverage). Regional and local newspapers and television stations, based in prefectural capitals, and sports daily newspapers, are less expensive and might make sense for a product with strong distribution in a specific region. A more affordable option for small- to medium-size or new-to-market U.S. companies may be advertising in some of Japan's 2,250 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 may be the most cost-effective advertising option. While Japan has relatively few radio stations (Tokyo, for example, has only four AM and six FM commercial stations), radio advertising potential may be worth investigating.

Much of Japan's broadcast and print media do not deal with advertisers directly but go through Japan's top five advertising agencies: Dentsu Inc., Hakuhodo Inc., Tokyu Agency International Inc., Daiko Advertising Inc. and Asatsu Inc. In general, "mood" or "image" advertising is generally thought to sell better in Japan. Hard-sell, "wordy" messages and comparative or combative advertising may be considered in bad taste and be counter- productive.

Transit advertising should not be overlooked in Japan, where railroads are the primary means of transportation for commuters in major cities, carrying over 21 billion passengers annually. Transit advertisements are located either inside commuter rail cars or buses, or in stations. Ads inside trains and buses include hanging flyers, framed posters and stickers. The major ad companies control ad space, as with the other media. Another common means of introducing, promoting and selling consumer products is to take part in large crowd events, such as regional import bazaars or American festivals at shopping centers. These events can be a cost-effective means to reach masses of consumers with a product message, as well as providing a means of sampling and selling product to first time customers. Industry specific trade shows, such as for fishing equipment or outdoor products, may include days open to the general public, thus providing another means of reaching a target consumer audience.

Advertising and promotions should be part of a coordinated strategy, usually in cooperation with an advertising and/or PR firm. Great advertising in the right popular magazine to reach target consumers is a waste of money if not coordinated with a program to get the product into distribution where those consumers can purchase it. Advertising/PR firms can also help clients get free or low cost publicity, something which the U.S. Commerce Department's Commercial Service in Japan can also help provide for companies which participate in events it sponsors. Since 1997, a growing number of American firms have taken advantage of the strong Japanese interest in, and the high popularity of, the American lifestyle by sponsoring an advertisement in “Lifestyle USA.” The U.S. Embassy-supported, private-sector funded magazine. “Lifestyle USA” features Japanese-language articles on American cultural, lifestyle, and commercial subjects, such as a 60-page feature on Hollywood’s magic, the story behind the movies, especially special effects, in the 1999 edition. Sold in bookstores, the Embassy and consulates get thousands of “Lifestyle USA’s” to Japanese business contacts.

It is key for US exporters of all kinds of goods and services to get onto the Japanese trade event circuit -- not only in Tokyo -- but in the huge regional economies and industrial centers, where 65 percent of Japan's over 1,000 international conferences, seminars and trade shows take place. These events are being attended more and more by regulatory officials and decision-makers from throughout the Asian region.

American companies should also consider U.S. Department of Commerce, individual U.S. state, or industrial organization-sponsored trade shows and trade missions. Companies can also organize their own events at the U.S. Trade Center in Tokyo. Other available U.S. Government facilities such as U.S. Consulate multi-purpose rooms in Osaka, Nagoya, Fukuoka and Sapporo can sometimes be used for trade promotions, seminars, meetings and receptions. However, commercial use is generally restricted to states, associations, committees, and other uses for U.S. export or tourism promotion, where more than a single American company benefits. Interested companies should inquire directly with the consulate(s) of interest.

J. PRICING PRODUCT

Economic conditions and fluctuations in the yen exchange rate in Japan over the last decade have helped make a product's price a more significant factor for the Japanese consumer. Consumers still find a product's attributes and quality important, and most are still willing to pay more for superior quality. However, the idea of a "bargain" and considerations of "value for money" are steadily gaining popularity.

An ability to compete on price alone has opened new doors for U.S. products over the past few years. In fact, this has helped prove to many Japanese that affordable U.S. products are in fact of quality similar to, or in some cases higher than, Japanese goods. However, landed cost is not the only consideration for a U.S. firm interested in exporting to Japan. Distribution mark-ups in Japan often cause imported products to be priced at levels that suddenly become uncompetitive with comparable Japanese products. Shipping costs, for example, between the port of Osaka and Tokyo are said to be three times higher than shipping costs from the West Coast of the United States to Osaka.

Japanese manufacturers of products such as consumer goods traditionally set prices for each level of the distribution channel and enforce compliance using complicated rebate systems. This kind of "price maintenance" has come under pressure from consumers who are demanding lower prices and from manufacturers who themselves find the rebate system burdensome. As distribution in Japan continues to be deregulated, as a result of outside forces or from internal pressures, costs should come down and distributors should gain additional flexibility in selecting and purchasing items. In the meantime, U.S. exporters should consider yen fluctuation and internal distribution costs in their product pricing, and in developing sales strategies in Japan.

K. SALES SERVICE/CUSTOMER SUPPORT

Product service and customer support before, during and after the sale are important in Japan. This would include the establishment of solid business relationships with Japanese partner early in the relationship. Every effort should be made to answer technical questions in detail and ensure delivery dates and other issues regarding shipments of products are clear. Misunderstandings, lack of communication and misinterpretations of language, as well as differing business practices, often lead to misperceptions in these areas.

Arrival times for shipments and the condition they arrive in are critical. Shipments should arrive at the agreed time, and should be well packed and undamaged upon arrival. Missed deadlines and damaged goods through poor shipping practices can lead to lost business in Japan. Many successful U.S. companies doing business in Japan have established some kind of presence locally to handle sales and to provide customer support and service. In some cases, local agents or distributors provide this support.

L. SELLING TO THE GOVERNMENT

On January 1, 1996, Japan implemented a new "Agreement on Government Procurement" in an effort to expand opportunities for foreign firms and increase international competition in government procurement in Japan. The new agreement extends 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 of the 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 have a value not less than the thresholds (denominated in special drawing rights or "SDRs") specified by the agreement, and include the procurement of products and services by purchase, lease, or rental by the agencies and organizations subject to the agreement. Under the agreement, the specified threshold for procurement by central government entities is 13 SDR (except for construction and architectural, engineering and other technical services). As a voluntary measure, Japan issued SDR thresholds beyond those specified in the agreement, e.g., 10 SDR for procurement by central government entities (again, except for construction and architectural, engineering and other technical services). For sub-central government entities, with the same exceptions as above, Japan's threshold is 20 SDR.

There are three types of government tendering procedures in Japan covered by the new 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 a case when open tendering is not necessary because there is only a small number of suppliers that could participate (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 price advantage. Limited (single) tenders award contracts without open competition. Limited tenders are used in a variety of cases (e.g., where products could not 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 procurements of extreme urgency).

Open tender and selective tender invitations are published in Japan's official (central) government procurement gazette, called the "Kanpo," or in an equivalent regional level publication, or other local publication. The procuring entity publishes the invitation to tender at least 50 days (40 days is required by the agreement) 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 twenty 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 contain the requirements to be designated to participate in the tender. It is important to read the tender notice carefully (the English-language text is mixed in with the Japanese language text), and most companies find it useful to directly contact the procuring entity with any specific questions before a tender is submitted. Japan's Ministry of Foreign Affairs hosts a Government Procurement Seminar every April where central government procuring entities explain their procurement plans for the fiscal year. Individual ministries sometimes follow this with their own seminars as well. Notice of these meetings can also be found in the Kanpo gazette. U.S. suppliers can also find information about Japanese government procurement at JETRO's web site at (http://www.jetro.go.jp/cgi-bin/gov/govinte.cgi).

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 place by the closing date and time specified in the tender notice. Although a 5% guarantee fee is stipulated, payment of the fee 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 agreement, Japan has established a mechanism to process complaints about procurements by entities other than sub-central government entities. Complaints by qualified bidders may be filed with the Secretariat of the Board in the Office for Government Procurement Challenge System (CHANS), Coordination Bureau, Economic Planning Agency (http://www.epa.go.jp/access/english/chans_main_e.html).

M. PROTECTING YOUR PRODUCT FROM IPR INFRINGEMENT

Protection of intellectual property rights should be an integral part of every U.S. exporter's basic market strategy in Japan. It is necessary to file separate applications to register patents and trademarks in Japan to obtain protection, but prior patent filing in the United States can provide certain advantages if applications are then filed promptly in Japan. A U.S. patent or trademark attorney can provide advice, but it will be necessary to hire a Japanese attorney (bengoshi) or patent practitioner (benrishi), preferably one with an established relationship with the U.S. exporter's U.S. attorney, to prosecute the patent or trademark application. While there is no requirement of copyright registration in order to receive copyright production for a published work, a voluntary copyright registration system is maintained by the Agency for Cultural Affairs. However, U.S. copyrights and sound recordings are recognized in Japan by international treaty. U.S.-produced semiconductor chip design-layouts are protected under a special law if registered with the Industrial Property Cooperation Center.

Obtaining and protecting patent and trademark rights in Japan can be time consuming and costly. While the process to safeguard such rights might seem prohibitive, lack of protection would permit competitors in Japan to copy your product or production process, even if you have a US patent or trademark. Even when intellectual property rights have been acquired, pirating of technology and designs can occur in Japan, as it could in almost any country. Each company in a trading or licensing agreement should understand clearly what its rights and obligations are with respect to the intellectual property rights owned, acquired or subsequently developed by the other. Such a clear understanding helps to create a good rapport based on mutual trust, thereby ensuring the success of the trading or licensing agreement.

Unlike U.S. patent law, patents are granted to the first to file an application for a particular invention, rather than to the first to invent. Although, in 1995 Japan began accepting filings in English (followed by a translation). Companies should ensure that translations of their applications are perfect. Significant negative ramifications may result from errors in translation. Prompt filing in Japan is important because 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 would preclude the grant of a patent on the application. Also unlike the United States, where examination of patent applications is automatic, an applicant must request examination of his patent application in Japan within seven years of filing.

As is true in many countries of the world, but not in the United States, all patent applications are published 18 months after filing. If, during the examination, the Japanese Patent Office (JPO) finds no impediment to the grant of a patent for a particular invention, it publishes the patent application a second time, including any changes that have been made during the examination. Under a recent amendment to the Patent Law, parties may contest the terms of a patent grant immediately after issuance by the Patent Office, rather than prior to registration as had been the previous practice. The patent is granted and valid for 20 years from the date the application is filed.

It takes a long time to obtain a patent in Japan -- as long as four to five years, compared to roughly 18 months in the United States. An applicant can request accelerated examination; this procedure is infrequently used as it has substantial associated costs. However, companies filing patent applications in several countries may wish to request an accelerated examination. During the examination period, limited effective legal protection exists.

Japan's Trademark Law protects trademarks and service marks. As is the case with patent applications, a resident agent (usually a lawyer or patent agent) must prosecute the trademark application. As with the processing of patent applications, Japan's trademark registration process is slow, although processing times have been improving recently. It takes an average of 2.8 years to process a trademark registration in Japan, compared with an average of 13 months in the United States. Any company planning on doing business in Japan should file for trademark registration as early as practical.

Japan's Patent Law also allows registration of utility models, a form of minor patent with an 8-year term of protection. A separate Design Law allows exclusive protection of design rights, giving 15 years of protection.

The only protection available for a trademark in Japan prior to registration is under the Japanese Unfair Competition Law. Under this law, 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 the unauthorized user. Copying of American trademarks, particularly in the fields of sporting goods and clothing, occurs frequently and some smaller unscrupulous companies will file trademark registration applications for a U.S. brand trademark which they believe will become popular in Japan. Thus, American companies, are advised to file for a trademark as early as possible when developing a new product, even if it has not yet hit the Japanese market. The alternative to such a filing is to litigate under the Unfair Competition Law or at the JPO.

Japan enacted amendments to the Unfair Competition Law in 1990 which provide some measure of protection from theft of trade secrets such as know how, customer lists, sales manuals and experimental data. The law, which was amended completely in 1993, provides for injunctions against wrongful use, acquisition, or disclosure of a trade secret by any person who knew or should have known that the information in question was misappropriated. A problem with judicial procedure remains despite a 1996 amendment, and makes civil enforcement of rights without the loss of the trade secret difficult.

A number of policy changes affecting Japan's IPR environment have recently been, or soon will be, implemented. In 1999, a revised patent law was passed by Japan's Diet that was designed to make it easier for plaintiffs to prove patent infringement in court. Starting October 1, 2000, the period between when a patent is applied for and must be pursued by an applicant will decrease from seven to three years. In the summer of 2000, the JPO is expected to publish draft guidelines addressing business method patents and patents for electronic commerce. U.S. firms wishing to track progress on these issues, or obtain more information regarding patent and trademark matters, may wish to visit the Japan Patent Office website: www.jpo-miti.go.jp.

N. NEED FOR A LOCAL ATTORNEY

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. Patents and trademarks must be filed through a Japanese agent, which should be a licensed attorney or patent practitioner.

O. PERFORMING DUE DILIGENCE/CHECKING BONA FIDES OF BANKS/AGENTS/CUSTOMERS

In recent years, Japanese industry has been shaken by a record number of bankruptcies. Japanese commerce has also witnessed an unprecedented number of mergers and acquisitions.

This rapid pace of industrial restructuring has created some increased level of risk for American companies selling in Japan.

The U.S. Embassy in Tokyo has seen an increase in the number of trade dispute cases of all kinds. It has become more common for small- and medium-sized Japanese trading companies to run into payments problems. Importers, wholesalers and distributors without real estate assets may find it more 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 with excessive debt may also experience problems obtaining finance.

As a result, American companies are well advised to perform due diligence procedures and check the bona fides of their Japanese agents and/or customers. A number of commercial agencies provide this type of service. For a list of information providers, please see "credit reporting firms" at http://www.csjapan.doc.gov/resource/index.html.

CHAPTER V LEADING SECTORS FOR U.S. EXPORTS AND INVESTMENT

A. BEST PROSPECTS FOR NON-AGRICULTURAL GOODS AND SERVICES

RANK	CODE	TITLE
1.	ELC	Electronic Components
2.	CSF	Computer Software
3.	MED	Medical Equipment and Devices
4.	TRA	Travel and Tourism
5.	CPT	Computers and Computer Peripherals
6.	DRG	Pharmaceuticals
7.	FOD	Health Foods Centering on Dietary Supplements
8.	TEL	Telecommunications Equipment
9.	BLD	Building Products
10.	AUT	Automobiles
11.	MFI	Marine Products
12.	APS	Auto Parts & Accessories

12.	ELP	Electrical Power Equipment
14.	ACE	Official Development Assistance
15.	POL	Pollution Control Equipment and Services
16.	APP	Apparel
17.	ACE	Architectural/Construction/Engineering Services
18.	BLD	Plumbing Products/Food Disposers
19.	FUR	SOHO (Small Office/Home Office) Products and Services
20.	MED	High Technology Home Healthcare Equipment Market
20.	MTL	Machine Tools
22.	SPT	Sporting Goods
23.	TXP	Textile Products
24.	HCG,GCG,FUR	Home Fashion
25.	FOD	Food Processing Machinery
26.	BLD	Flat Glass
n/a	TES	Telecommunication Services
n/a	EDS	Education/Training Services
n/a	FLM	Broadband Services including Cable TV Services

Note: The Yen/Dollar exchange rates used to calculate dollar figures for the best prospects for non-agricultural goods and services were: 131 yen in 1998, 114 yen in 1999 and 107 yen in 2000.

1. Electronic Components (ELC)

The Japanese electronics components market is the world's second largest and one of the most attractive for U.S. suppliers. The most promising subsector is semiconductors, which accounts for 70% of the total Japanese electronic components market. Total market demand for electronic components in Japan is expected to grow 12% annually through 2002. Much of the new demand for electronic components will be for semiconductors and liquid crystal display panels. The market for passive electronic components excluding semiconductors is expected to show steady growth only in selected consumer electronics and industrial applications.

The market for U.S. application-specific semiconductors in the PC, computer-peripheral, multimedia, computer networking, and telecom subsectors is growing rapidly. The continued expansion of communications networks and the Internet will provide broad product growth for all chip sectors including digital signal processors, standard cells, DRAMs, microprocessors, flash, telecom and mixed-signals. However, continued market access efforts by both U.S. suppliers and Japanese semiconductor users are essential. The Japanese semiconductor market is an area in which the U.S. Government monitors market access for foreign and U.S. semiconductor products. The current U.S. market share in the Japanese semiconductor market is approximately 30% (total foreign semiconductor share was 34% in the 4th quarter of 1998). The Japanese semiconductor market is expected to grow 13-15% annually. Major local competitors include NEC, Hitachi, Fujitsu, Toshiba, Matsushita, Mitsubishi, Sony, Sharp, Sanyo, Oki, Epson, and ROHM.

(Millions of U.S. dollars)

	1998	1999	2000
A. Total market size	33,483	45,493	52,300
B. Total local production	72,030	87,828	96,500
C. Total exports	62,454	70,421	78,600
D. Total imports	23,907	28,086	34,400
E. Imports from the U.S.	9,100	11,170	13,700

Notes: The above statistics are unofficial US&FCS estimates. Import figures from the U.S. include Japanese semiconductor companies' import products which were made in the U.S.

2. Computer Software (CSF)

The Japanese computer software market has been growing rapidly, in step with the rapid growth of the domestic PC market, growth in open systems, and the rise of large-scale computer networking. Japan's domestic software industry is very modest, with most software still oriented around mainframe or proprietary technologies. The vast majority of imported software in Japan is U.S.-origin, particularly in the PC market. All major U.S. independent software suppliers such as Microsoft, Lotus, Oracle, Novell, Informix, Symantec and Netscape have made strong inroads into the Japanese market.

Demand for ready-made software, such as application software packages, is expected to grow steadily. In particular, strong demand for PC software products for Internet applications is expected to continue for at least the next three years. The number of Internet users in 1999 was

20 million and is expected to double by 2002. PC software now accounts for approximately 40% of the entire software market. Demand for customized software for large and mid-range computers and workstations is expected to experience slow growth of 5-7% annually through 2002. By comparison, packaged software, including application software, will show annual growth of over 20% during this period. The total market is expected to grow steadily, approximately 10-12% annually over the next five years. The most promising subsector of computer software is PC packaged software and CD-ROM software including Internet applications.

(Millions of U.S. dollars)

	1998	1999	2000
A. Total market size	11,200	12,370	13,750
B. Total local production	8,110	7,950	7,900
C. Total exports	1,230	1,100	1,050
D. Total imports	4,320	5,520	6,900
E. Imports from the U.S.	3,270	4,050	4,900

Notes: 1) Excludes software service market. 2) Total exports include game software from Japan.
3) The above statistics are unofficial US&FCS estimates.

3. Medical Equipment and Devices (MED)

The medical equipment sector represents one of the most successful markets for American companies in Japan. Second only to the United States in size, Japan's medical device sector is one of the few areas in which the U.S. has consistently maintained a substantial trade surplus with Japan, typically exceeding $1 billion annually. American firms hold a dominant position in the Japanese market among foreign producers, accounting for two-thirds of all imports. The U.S. share of the overall Japanese medical device market has increased from 20% in the early 1990s to one-quarter of the market presently. American firms accounted for roughly $4.5 billion of Japan's $18 billion device market in 1999.

Increased sales of U.S. medical devices in recent years can be largely attributed to rapid technological innovation within the industry. Deregulation measures undertaken by the Japanese Government, and strongly encouraged by the United States, have also contributed to growth in sales of internationally competitive medical devices. Although substantial barriers to the timely introduction of new medical technologies into Japan remain, a number of policy modifications recently implemented by Japan's Ministry of Health and Welfare (MHW) have eased some market entry hurdles. These steps included an expansion in the number of products for which foreign clinical data is accepted in the product approval process, which has been a key concern of U.S. industry.

Overall, Japan's market for medical devices is expected to exhibit slow growth in 2001. This is attributable primarily to government efforts to control healthcare spending. While a strong emphasis on cost containment will continue for the foreseeable future, this will be counter-balanced by the needs of Japan's rapidly aging population and the construction of a large number of new facilities for nursing home care and assisted living. Areas of projected stronger demand include products used in providing home health care services and medical information systems for telemedicine. American firms will also continue to see bright sales prospects in areas they currently dominate. This will remain especially true in the more technologically sophisticated product categories such as pacemakers, advanced interventional cardiology products, artificial implants and digital imaging equipment.

Still, there are signs that demand, even for the most advanced medical devices, may be tempered by Japanese Governments efforts to control healthcare expenditures. The impact of these cost cutting efforts are evidenced in recent policy initiatives taken with regard to several categories of innovative medical devices. Every two years, the Ministry of Health and Welfare revises the reimbursement prices for medical devices and products covered under the national health insurance system. During the most recent biennial price revision, undertaken in April 2000, an average price reduction of 4.5% was implemented for three major product categories (arterial (PTCA) catheters, pacemakers and orthopedic implants), where U.S. firms hold roughly 75% of the market. In October 2000, Japan will implement changes to the system by which these three categories of medical devices are priced. American firms are concerned that the new system will discourage product innovation by pricing devices incorporating incremental, but medically significant changes, at the same level as older, less sophisticated technology.

On a more positive note, market demand for some imported durable medical equipment may benefit as a result of a recent change in rules affecting purchases by municipal governments. For procurements funded by the central government, local governments in Japan now possess the authority to utilize the Overall Greatest Value Method (OGVM). This allows procurement decisions to be made based upon selecting the medical equipment that provides the best overall value. Previously, procurement rules required selection of the lowest cost supplier meeting the bid specifications. Given their market leadership in developing the most sophisticated medical devices, where higher initial product costs are often offset by long-term cost savings, American firms should be key beneficiaries of this change.

(Millions of Dollars)

	1998	1999	2000
A. Total market size	15,400	18,300	20,100
B. Total local production	11,500	13,700	15,000
C. Total exports	2,500	3,000	3,300
D. Total imports	6,400	7,600	8,400

E. Imports from the U.S.	4,000	4,200	5,000

Note: The above statistics are unofficial estimates.

4. Travel and Tourism (TRA)

In 1999, the number of Japanese outbound travelers was 16.4 million. The U.S. is the number one destination for outbound Japanese travelers, which receives almost one-third, or 4.83 million, of all such travelers. Japan ranked third after Canada and Mexico in number of travelers to the United States. The top three overseas destinations for the Japanese outbound traveler in 1999 were, in descending order, the United States, Korea and China. Europe is a strong competitor in terms of long distance destinations. The total market for Japan's international travel and transport to the U.S. was $13.6 billion, the largest of any single country. With a modest recovery of the Japanese economy, the number of Japanese travelers to America is expected to gradually increase in 2000.

Currently Japanese travel companies face a serious challenge in maintaining their businesses in the face of a dynamic business environment characterized by economic recession, fierce price competition, changing travel styles of Japanese tourists, and the marketing of travel products over the Internet. With a flood of travel-related information products on the Internet, Japanese travelers have become very sophisticated consumers, with a wide range of expectations for their travel. In addition to the serving popular destinations such as the theme parks of California and Florida, cosmopolitan cities and Hawaii and Guam, Japanese travel companies are required to create innovative travel products in order to keep up with changing demand by their customers. In this environment, Japanese travel companies are more flexible and eager to seek and keep good business relationships with U.S. travel suppliers.

The travel segments which are growing rapidly are wedding/honeymoon couples, middle-aged and elderly people, family travel (couples with young children) and FIT (free independent travel). Overseas school trips for junior high and high school students also have a high potential.

(Millions of U.S. Dollars)

	1998	1999	2000
Total outbound market	35,250	40,943	45,803
Outbound to the U.S.	13,762	13,623	14,304

(Millions)

Number of outbound travelers	15.8	16.4	17.2
Number of outbound travelers to U.S.	4.89	4.83	5.07

(The above statistics are unofficial estimates.)

5. Computers and Computer Peripherals (CPT)

Japan is the second largest market in the world for information technology products and services after the United States. The Japanese IT industry has grown remarkably over the last decade despite an overall stagnant Japanese economy. Total market demand for all computers in Japan is expected to grow approximately 12% annually through 2002. While demand for large mainframe computers is slowly declining, that for mid-range computers and workstation systems and servers -- including web-servers and database–servers -– is growing rapidly.

Personal computers and PC peripherals have been key drivers and now comprise one of the largest industries in the Japanese economy. Demand for PC's, PC servers, and PC peripherals grew approximately 15 percent annually in each of the last five years, and PC shipments in Japan reached 10 million units in 1999. Japan's PC boom has been, and will continue to be, driven by strong demand for the Internet by both corporate and individual consumers. Unit sales are expected to increase to 12 million in 2000. Nearly four million PC's were sold for home-use in 1999. Home penetration of PC's in Japan, currently at 35 percent, will reach over 40 percent by 2001. The PC market share for U.S.-affiliated companies was approximately 40% in 1999. Competition, however, is severe and Japanese firms are increasingly focused on servers and computer networking systems -- an area in which U.S. suppliers currently have a leading market position. The commercial market for all computers accounts for 85% of the total market, with government sales accounting for the remaining 15%.

Access to the government market for U.S. computers and supercomputers remains a thorny issue. Most Japanese government purchase orders go to major Japanese computer and supercomputer makers. The most promising sub-sectors in the computer market for U.S. firms are PC's, PC peripherals, PC servers, client-servers, workstations, and computer networking systems. Major local competitors include NEC, Fujitsu, Hitachi, Toshiba, Mitsubishi, Sharp and Sony.

(Millions of U.S. Dollars)	1998	1999	2000
A. Total market size	38,645	49,298	55,150
B. Total local production	44,476	55,263	59,813
C. Total exports	15,627	18,421	18,682
D. Total imports	9,796	12,456	14,019
E. Imports from the U.S.	2,385	3,070	3,598

Note: The above statistics are unofficial US&FCS estimates

6. Pharmaceuticals (DRG)

Japan represents the largest international market for American pharmaceutical firms. Drug sales have historically accounted for more than 25 percent of the country's total medical expenditures incurred by the nationalized health insurance (NHI) system. A major factor that will influence future demand in this sector will be Japanese Government efforts to reduce the high proportion of the national healthcare budget devoted to drug purchases. The Japanese Government has sought to achieve this goal by cutting drug prices and implementing changes to a reimbursement system that has traditionally encouraged over-prescription of drugs.

In April 2000, Japan's Ministry of Health and Welfare (MHW) cut the average price of the 11,000 drugs reimbursed by the NHI system by seven percent. This follows an average nine percent cut undertaken during the previous biennial price revision in 1998. Despite a strong downward trend on drug prices brought about by the combined impact of large consecutive price cuts, U.S. firms continue to achieve high sales volumes in Japan. In fact, trade figures that show annual American exports of $800-900 million, vastly understate the U.S. presence in the Japanese market. Most American companies possess large domestic production facilities and have also developed extensive licensing agreements for the marketing of products by Japanese firms. As a result, sales in Japan by U.S. drugs firms (direct exports, local production and drugs produced under license) total roughly $10 billion annually. Overall, the U.S. market share is about 18 percent. The total foreign share is around 40 percent.

Despite the success that has been achieved in the Japanese market, U.S. firms remain concerned with the mechanism by which drug prices are established. American and European firms have been encouraging adoption of a pricing system in Japan that more adequately rewards innovation and is more predictable and fair. Despite calls for change, the Ministry of Health and Welfare has postponed any major drug pricing reforms until 2002. Over the next two years, MHW plans to develop new rules for drug pricing calculation methods affecting innovative, generic, "me-too" and orphan drugs. The general effect of the reform is expected to reduce reimbursement for many of the "me-too" drugs produced by Japanese companies. U.S. producers of new drugs are concerned with how MHW's new rules will reward innovative products that require lengthy and costly research and developed efforts.

Several other recent policy changes undertaken by MHW, focused on product approval procedures, are expected to clearly benefit foreign drug firms operating in Japan. These measures include: 1) acceptance of foreign clinical data that meet International Conference of Harmonization and Japanese Good Clinical Practice (GCP) standards; 2) reform of the Central Pharmaceutical Council, MHW's chief advisory council, to allow for more frequent interaction with policy-makers by industry representatives; 3) revocation of the requirement for the publication or presentation of clinical data as a prerequisite to a drug's introduction to market; (4) and most importantly, a reduction in the application review processing time for new drugs from 18 months to 12 months, beginning in April 2000.

(Millions of Dollars)

	1998	1999	2000

A. Total market size	47,000	52,400	54,900
B. Total local production	44,600	49,700	52,000
C. Total exports	1,900	2,300	2,400
D. Total imports	4,300	5,000	5,300
E. Imports from the U.S.	800	810	970

Note: The above statistics are unofficial estimates.

7. Health Foods Centering on Dietary Supplements (FOD)

As in the United States, dietary supplements have experienced substantial growth in popularity in Japan in recent years. The current size of Japan's market for nutritional supplements and health foods is approximately $6.7 billion. Of this figure, an estimated 40% is composed of vitamins, mineral and herbs. The single largest selling supplement in Japan is vitamin C, with annual sales approaching $500 million. An additional 53 supplement products each have annual sales exceeding 2 billion yen, or $18.6 million.

Despite its large nutritional products market, with annual sales equal to one-quarter of the U.S. market, Japan's nutritional supplements sector remains relatively under-developed. High Japanese supplement prices, currently averaging 3-4 times U.S. levels, mask a much lower per capita consumption rate in Japan. Currently, Americans consume nutritional supplements at per capita volumes 7-9 times greater than the Japanese public, suggesting that there remains substantial room for the Japanese market to expand.

One factor that has inhibited Japan's consumption rates is the manner in which nutritional supplements are sold. Approximately two-thirds of these items are sold through non-retail methods. Direct marketing and mail order being two major sales channels. This dependence on non-traditional marketing techniques is partially the result of a loophole in Japan's generally restrictive regulatory environment. Many nutritional supplement products sold commercially in the United States are still not approved for sale in Japan. However, individuals in Japan can import quantities for personal use via mail or as personal baggage upon returning to Japan from foreign travel. The expanded use of the internet in Japan in recent years has contributed to accelerated sales of these products via mail order.

In an effort to expand commercial/retail marketing opportunities for these products, U.S. industry, in cooperation with the U.S. Government, has pressed for deregulation of the dietary supplements sector. These efforts resulted in important progress in the Spring of 2000, when Japan's Ministry of Health and Welfare announced deregulation measures affecting two important components of the supplements market. One measure removed shape and dosage limitations on a number of vitamins and minerals. The second policy change shifted the regulatory authority governing the sale of 34 herbs from the more restrictive rules covering pharmaceuticals to less cumbersome regulations affecting food products. Both measures should result in important new marketing opportunities for U.S. firms.

(Millions of Dollars)

	1998	1999	2000
A. Total market size	4,960	5,420	6,729
B. Total local production	3,720	4,065	5,046
C. Total exports	49	54	59
D. Total imports	1,289	1,409	1,742
E. Imports from the U.S.	428	468	608

Note: The above statistics are unofficial estimates.

8. Telecommunications Equipment (TEL)

Demand in Japan for telecommunications equipment (excluding fiber optic cable) was estimated at $29.7 billion in 1999. The number of Internet users in Japan was estimated to have exceeded 27 million by the end of 1999, and is expected to reach 77 million within five years. The Internet is estimated to have penetrated into19 percent of Japanese households and 88 percent of businesses, with the rate of diffusion continuing to accelerate.

However, in Japan it is crucial to use the right indicators to measure Internet use. Reflecting the Japanese preference for mobile communications, the number of fixed line subscribers to NTT East and NTT West has been decreasing over the past two years, and stood at about 55 million at the end of 1999. In contrast, the number of mobile phone users has grown exponentially, finally exceeding the number of fixed line subscribers for the first time at the end of 1999. On June 1, 2000, there were approximately 58.6 million mobile phone users in Japan.

The number of high-speed digital domestic leased circuits exceeded the number of ordinary low-speed leased circuits in 1998, reflecting the current trend of volume shifting from voice to data. As for international leased circuits, medium- and high-speed transmission circuits account for 85 percent of all circuits.

KDD's 100Gbps Japan Information Highway (JIH) optical fiber submarine cable for interfacing international high-speed networks came into operation in April 1998. Japan's major telecom carriers such as NTT, PowerNets Japan, Japan Telecom and DDI are planning to establish DWDM network for the upcoming broadband network age.

Japan has a National Information Infrastructure (NII) plan to connect all homes, offices, schools, and government entities with a fiber optic network by 2005. Japanese companies in industries most dependent on telecommunications -- such as banking, securities, retail distribution, and construction -- are also under most pressure to reduce their costs of operations. WTO liberalization commitments, technological advances, and increased user opposition to traditional, limited, high-priced business options are driving the Government of Japan to deregulate, liberalize, and react more quickly to the demands of the market.

(Millions of U.S. dollars)

	1998	1999	2000
A. Total market size	24,561	27,935	29,763
B. Total local production	26,598	30,133	32,105
C. Total exports	5,434	5,984	6,376
D. Total imports	3,397	3,786	4,034
E. Imports from the U.S.	1,915	2,077	2,213

Notes: 1) 2000 statistics are unofficial estimates
2) Source for B, C, D, and E figures for 1998 and 1999:
CIAJ (Communications Industry Association of Japan)

9. Building Products (BLD)

The total Japanese residential and commercial building products market has been declining because of the Japan's prolonged economic slump. However, the market decline appears to have hit bottom in 1999, beginning a slow recovery in 2000. The Government of Japan (GOJ) has been enacting various economic stimulus measures such as public works projects and an expanded tax incentive program for homebuyers. These measures will help the Japanese building products market to recover, although this recovery may be slow.

Total housing starts hit 1.71 million in 1990, the third highest number in Japan's history, but dropped 19.7% in 1991. From 1992 to 1995, housing starts stabilized in the 1.4 - 1.5 million range. In 1996, the total increased 11.8% but declined again by 15.6% in 1997 and 13.6% in 1998. Starts increased 1.4% to 1.21 million in 1999. The trend toward a housing market recovery should continue through 2000 into the next few years.

In combination with a housing market recovery, the Building Standard Law (BSL) of Japan was revised from a prescriptive to performance-based certification standard system in June 2000, opening up more opportunities for competitive new products. The new BSL should make it easier to sell U.S. residential building products in Japan. Because of the slow housing market, exports of U.S. residential building products to Japan declined significantly in 1998. However, because of the market recovery and deregulation, U.S. residential building material exports to Japan likely hit bottom in 1999 and will increase marginally in 2000.

Over the long term, there is good potential for the sale of U.S. building products in Japan. The 2x4 housing market, which accounts for a major portion of the sales of U.S. housing products, was only 6.3% of the total housing market in 1999. Thus, there is still a sizable and largely untapped market potential if U.S. companies target the non-2x4 sectors. In addition, the Japanese remodeling market may grow significantly, generating opportunities for U.S. companies to expand business within this market segment.

Major exporting regions competing with the United States are Canada, the countries of East Asia, and Scandinavia. Since most Japanese companies are not familiar with imported building products, it is important for manufacturers and exporters to provide information on how to use their products as well as after sales service.

(Millions of Dollars)

	1998	1999	2000
A. Total market size	117,700	135,900	145,600
B. Total local production	110,100	126,500	135,500
C. Total exports	900	900	900
D. Total imports	8,500	10,300	11,000
E. Imports from the U.S.	1,700	1,600	1,700

Note: The above statistics include residential and commercial building products and are unofficial estimates.

10. Automobiles (AUT)

Japan is the second largest motor vehicle market in the world, but the persistent recession has adversely affected Japan's market for automobiles, and has dealt a serious sales blow to Japan's domestic automakers to varying degrees. Thanks to strong overseas demand for their products, Toyota and Honda have weathered the storm relatively well, while most of the rest have been forced to restructure their operations and seek foreign equity participation in their companies. For years, Ford has owned a significant stake in Mazda Motors while GM has invested in Isuzu and Suzuki. But recently, there has been a wave of mergers and tie-ups between the global automakers, including Renault's investment in Nissan, Daimler-Chrysler's purchase of a stake in Mitsubishi, and GM's investment in Fuji Heavy, maker of Subaru.

Japan no longer imposes tariffs or quotas on automobile imports, but there are a number of regulatory restrictions on imports as well as differences in language, culture, business practices, and legal systems that have been recognized as non-tariff barriers. Foreign car companies continue to face severe challenges in the Japanese automobile market. In 1999, more than half of America's $73 billion bilateral trade deficit with Japan was due to the imbalance in trade in autos and auto parts. In vehicles alone, the trade deficit was $28.2 billion in 1999, up 17% from $24.1 billion in 1998.

(Millions of U.S. Dollars)

	1998	1999	2000 (estimate)
Total market size	90,382	100,314	107,000
Total local production	149,673	163,015	170,000
Total exports	67,449	72,632	73,000
Total imports	8,158	9,931	10,000
Imports from the U.S.	1,853	2,137	2,200

(The above statistics are unofficial estimates based on number of units x average unit price as provided by the Japan Automobile Dealers Association.)

11. Marine Products (MFI)

The Japanese domestic fisheries harvest has continued to decrease since 1994 at an annual rate of 3.5 percent. The 1998 total landed quantities (combined wild and farmed harvests) were 6.7 million metric tons (MT) compared with 8.1 million MT in 1998. Japanese marine product imports continued to increase in 1999 to 3.4 million MT, a rise of 10.1 percent. The import value also increased from $13 billion in 1998 to $15 billion in 1999. Japanese imports of U.S. fishery products increased 2.5% in tonnage and 22.1% in value from 361,739 MT ($1.3 billion) in 1998 to 370,614 MT ($1.5 billion), due primarily to a good salmon harvest in Alaska. Japan imports from the U.S. a wide variety of fishery products, from relatively low-priced frozen fish to high-valued items such as fresh sea urchin roe and bluefin tuna.

American species which exhibited notably increased sales to Japan from 1998 to 1999 included, ikura salmon eggs ($60.9 million, up 43%); prepared or preserved crabs (but not in cans) ($3.3 million, up 65%); brined salmon fillets ($2.1 million, up 75%); frozen American lobster ($1.6 million, up 128%); and fresh finfish, n.e.s., ($3.8 million, up 26%).

(Millions of Dollars)

	1998	1999	2000
A. Total market size	27630	31383	32984

B. Total local production	15498	17370	18507
C. Total exports	1163	1244	1365
D. Total imports	13295	15257	15842
E. Imports from the U.S.	1375	1745	1805

Note: The above statistics are unofficial estimates.

12. Auto Parts & Accessories (APS)

According to the Japan Auto Parts Industry Association, auto parts production during Japan's fiscal year 1998 (April 1998 through March 1999) was 12.46 trillion yen ($118.7 billion at 105 yen/dollar), down 5.8 percent from 13.22 trillion yen ($125.9 billion at 109 yen/dollar) the previous year. This decline reflects Japan's stagnant economy and reduced automobile production. It is anticipated that Japan's auto parts production will level off or increase slightly when figures are published for 1999. Because of Japan's status as the world's second largest auto producing country, and the world's second largest market for automobiles, the auto parts industry is one of Japan's largest and most important. Automobile parts and equipment imports make up only about 2.8 percent of the total market, but U.S. auto parts manufacturers do have a dominant share of the Japanese imported auto parts market (about 36 percent in 1998). Deregulation of Japan's auto parts market resulting from U.S. government pressure, competitive market forces and the measures called for in the U.S.-Japan 1995 "Framework Agreement" are opening up opportunities for U.S. auto parts and equipment suppliers in both the OEM and after-market sectors. However, stiff competition and other significant barriers remain. Japan's current economic slump has also slowed the sales of both domestic and foreign auto parts sales.

(Millions of U.S. Dollars)

	JFY1998	JFY1999 (estimate)	JFY2000 (estimate)
Total market size	105,080	108,000	113,400
Total local production	126,862	130,000	136,500
Total exports	24,590	25,000	26,250
Total imports	2,808	3,000	3,150
Imports from the U.S	1,021	1,100	1,155

(The above statistics are unofficial estimates based on data received from the Japan Automobile Parts Industry Association.)

13. Electrical Power Equipment (ELP)

The Japanese electric power supply system has existed for the past fifty years by relying on regional monopolies controlled by ten electric power companies. In 1996, the wholesale market for electricity was first liberalized and independent power producers started appearing. Subsequently, on March 21, 2000, approximately 30 percent of the market for retail sales of electricity was opened to competition. The effects of this liberalization will be reviewed after a three-year time frame. With the introduction of competition in the Japanese power generation market, the price of electrical power equipment was reduced sharply. The ten electric power companies, not to mention new independent power producers, have been eagerly looking for competitively priced, efficient equipment. Demand for electricity on a long-term basis is forecast to grow at a rate of 1.2 to 2.1 percent per annum. Although the electric power companies have been reducing their investment for want of a clearer demand potential, the electrical power equipment market is sufficiently large to attract the interest of competitive U.S. manufacturers.

(Millions of U.S. Dollars)

	1998	1999	2000
Total market size	19,200	20,100	21,400
Total local production	20,698	21,668	23,039
Total exports	2,650	2,774	2,953
Total imports	1,152	1,206	1,284
Imports from U.S.	806	844	899

Note: The above statistics are unofficial estimates.

14. Official Development Assistance (AEC)

The Ministry of Foreign Affairs, Ministry of Finance, Ministry of International Trade and Industry, and the Economic Planning Agency are the controlling agencies behind Japan's ODA (Overseas Development Assistance) programs. The Japan Bank for International Cooperation (JBIC) and the Japan International Cooperation Agency (JICA) provide the implementation services to carry out ODA strategies. JBIC extends yen loan programs, while JICA carries out grant aid programs.

ODA is extended to almost all underdeveloped countries, with Asian countries receiving the greatest assistance. ODA programs consist of diverse development programs, including social infrastructure, economic infrastructure, production, multi-sector assistance, commodity aid, emergency assistance, and disaster relief. Grant aid programs are mostly tied, while yen loan programs are generally untied. Yen loan programs are, therefore, the best prospective field, offering more accessible business opportunities to U.S. firms. In yen loan programs, architectural design and civil-engineering consulting firms, general contractors, specialty contractors (e.g., power, water, sewage, waste, and transportation) and specialty consulting firms (airports, seaports, roads, bridges, tunnels, and environment) can identify numerous business opportunities. To effectively participate in yen loan projects, U.S. firms should familiarize themselves with the JBIC procurement guidelines, as well as customary business practices used with yen loan projects.

For further details, see the "ODA Handbook" prepared by the U.S. Department of Commerce: www.ita.doc.gov/region/japan/odahand/html. Participation of third-country competitors is estimated at 70% - 80% of total yen loan values. Competition with local firms is typically severe.

Yen Loan Market
(Millions of U.S. Dollars: Commitments Basis)

	1998	1999	2000
A. Total Yen Loans	8,400	9,300	9,300*
B. Local Sales by Local Firms	N/A	N/A	N/A
C. Overseas Sales by Local Firms	2,500*	2,800*	3,300*
D. Sales by Foreign Owned Firms	5,900*	6,500*	6,000*
E. Sales by U.S.-owed Firms	460*	520*	560*

Note:
(1) Figures are based on JBIC annual reports and relevant ODA data compiled by the Ministry of Foreign Affairs.
(2) The figures with an asterisk are CS Tokyo estimates.
(3) CS Tokyo estimated sales by U.S. firms on both cases where U.S. firms acted as prime contractors or subcontractors for Yen loan projects.

15. Pollution Control Equipment and Services (POL)

Facing increasing domestic and foreign pressure for Japan to move towards a pollution-free society based on "sustainable development," the Japanese national government, as well as local municipalities, are adopting stricter environmental laws and regulations. Large- to medium-size Japanese firms are now considering environmental factors in their decisions regarding product manufacturing and distribution. Also, the Government of Japan is allocating an increased portion of its huge public work budget to improve basic infrastructure for environmental protection and pollution abatement. The environmental protection market has been less affected by the prolonged recession than other industrial sectors.

Accordingly, the Japanese market for environmental protection and pollution control is expected to expand steadily with a wide array of industries expressing their interest in participating in the environmental market. While the nation has a well-known reputation for "end-of-pipe" pollution control technology, it is deficient in almost all matters of environmental remediation engineering. This extends to a need for more advancement in the development of cost-effective solutions for newly arisen contamination issues. Therefore, the sales potential for the state-of-the-art U.S. equipment and analytical services, such as those for restoration of contaminated soil and groundwater, as well as dioxin emission controls, remain quite good.

(Millions of Dollars)

	1998	1999	2000
A. Total market size	112,519	134,079	148,140
B. Total local production	112,588	134,711	148,888
C. Total exports	564	947	1,121
D. Total imports	191	316	374
E. Imports from the U.S.	115	190	224

Note: The above statistics are unofficial estimates.

16. Apparel (APP)

Apparel is one industry sector in which Japan has a trade deficit, and apparel imports hold almost 40% of the total Japanese apparel market. The United States is the forth-largest apparel supplying country following China, Italy and Korea. With the Japanese economy showing signs of recovery, apparel sales at department stores have been improving and some retailers are doing extremely well. Apparel imports from the United States in 1999 dropped slightly by 0.3%. American fashion, particularly casual clothes, continues to hold wide appeal in Japan.

The Office of Textiles and Apparel of the U.S. Department of Commerce and the Commercial Service Japan (CS Japan) have staged the U.S. Apparel Show in Japan every year for the last 19 years, featuring mainly casual wear. The last U.S. Apparel Show held in January 2000, within the International Fashion Fair, was very successful with immediate sales of $4.6 million. This show should continue to thrive as an effective vehicle for introducing American-made casual fashion into Japan.

The following statistics include only knitted and woven apparel.

(Millions of Dollars)

	1998	1999	2000
A. Total Market size (at wholesale)	33,192.4	36,426.1	40,627.8
B. Total Local Production	20,343.5	22,201.8	23,654.2
C. Total Export	182.1	205.6	215.0
D. Total Import	12,848.8	14,224.4	16,973.6
E. Imports from U.S.	420.8	468.1	498.7

Note: The above statistics are unofficial estimates.

17. Architectural/Construction/Engineering Services (ACE)

Total construction investment in Japanese Fiscal Year (JFY) 1999 is estimated at 70 trillion yen (approximately US $614 billion), of which 47% was public investment and 53% was private investment. Japan's construction market is the second largest in the world, following the United States. American architectural design firms, civil-engineering consulting firms, general contractors, and specialty consulting firms (e.g., airports, hospitals, facilities for elderly citizens, landscaping, and interior design) have ample opportunity to demonstrate their expertise in the Japanese market. Concerning public projects, the Government of Japan published the Construction Action Plan to streamline Japan's public procurement procedures in order to facilitate foreign firms' participation in Japan's public construction work. Action Plan measures are based on open and competitive procurement procedures, and project information is more easily accessible compared with ordinary public projects. The Commercial Service of the U.S. Embassy in Tokyo believes therefore that Action Plan projects will continue to offer the best sales prospects. Total value of Action Plan projects in JFY 1999 is estimated at US $16 billion. For JFY 2000 and beyond, the same level of Action Plan procurement is expected. Recently, Action Plan entities have begun to study U.S. advanced technologies, including PM, CM, VE and PFI (Private Finance Initiative) to upgrade production efficiency at public work sites. Under these circumstances, competition with Korean and EU construction firms will become harsh.

Japan's Construction Market
(Millions of U.S. Dollars)

	1998	1999	2000
A. Total Construction Market	537,000	614,000	630,000*
B. Local Sales by Local Firms	536,800*	613,700*	629,650*

C. Overseas Sales by Local Firms	1,000	1,200	1,400
D. Sales by Foreign Owned Firms	200*	300*	350*
E. Sales by U.S.-owed Firms	180*	220*	250*

Note:
(1) Total Construction Market (A) is the sum of overall construction investment cost including construction materials and construction machinery cost, but excluding land acquisition cost. (Source: Ministry of Construction)
(2) Overseas Sales of Local Firms (C) were estimated on the basis of the data provided by the Overseas Construction Association of Japan Inc.
(3) Figures with an asterisk are CS Tokyo estimates. Sales by U.S.-owned firms include private and public contracts, including subcontracting contracts as well as construction materials and machinery supplies.

18. Plumbing Products/Food Disposers (BLD)

Like the Japanese construction industry, the Japanese plumbing products market had been hurt by the long-lasting economic downturn. Before the recession, the Japanese plumbing product market was relatively stable at approximately 100 billion yen annually (USD 910 million). However, the current market size is about 30% below this figure. Faucets and other valves are thought to constitute about half of the market. Industry observers foresee the plumbing products market returning to the 100 billion yen level once Japan's recession has ended.

A number of factors (including government regulations, in particular) used to effectively shield domestic manufacturers from foreign competition. In 1997, the Ministry of Health and Welfare (MHW) revised the 1957 Japan Water Works Law (WWL). The measures taken by MHW largely removed regulatory barriers to foreign plumbing products. Three years after MHW's deregulation initiatives, the Japanese market finally started to respond to these regulatory changes. Japanese importers and large end-users such as prefabricated homebuilders started to seek out new and high quality US plumbing products.

In March 2000, the Japanese Ministry of Construction (MOC) confirmed that the agency does not have regulatory authority over the use of food disposers. Japanese municipal governments, which operate sewage systems in Japan, used to limit sales of U.S. food disposers because of possible adverse effects on municipal sewage systems. The U.S. food disposer industry is preparing to provide Japanese municipal governments with engineering data that supports the position that there are no significant adverse effects on the municipal sewage systems. This advocacy may open up the $60 million market for American-made food disposers.

(Millions of Dollars)

	1998	1999	2000

A. Total market size	650	600	670
B. Total local production	700	650	700
C. Total exports	90	100	90
D. Total imports	40	50	60
E. Imports from the U.S.	30	40	50

Note: The above statistics are unofficial estimates.

19. SOHO (Small Office/Home Office) Products and Services (FUR)

In recent years, with the increasing penetration of the Internet, greater attention in Japan has focused upon enhancing the capabilities of persons employed in alternative work environments. As a result, marketing opportunities catering to the needs of small business offices and home offices (SOHO) has expanded. Broadening the range of work that can be completed in these non-traditional environments, and developing tele-communting or "telework" capabilities, offers the potential to cut commuting time and costs (including mental ones), as well as allowing for flexible work styles. Business opportunities created by expanded use of "telework" methods, include marketing to employees of large companies working at home or satellite offices. These SOHO services can include all office and information technology services necessary to support people working from home or small offices. The development of communication technology and computer networking is encouraging both employers and employees to look into the transfer and decentralization of work from traditional offices to small and home offices.

Additional factors that support the growth of SOHO marketing opportunities are corporate restructuring, downsizing and outsourcing as measures for dealing with the economic recession. Furthermore, Japan is expecting a serious labor shortage due to a steadily decreasing birth rate. While in the U.S. there are reportedly over 40 million teleworkers, industry sources estimate that there will be 3.5 million teleworkers in Japan in 2001.

Several factors indicate future growth of this sub-market in Japan: (a) The development of communication and network technology. This is encouraging some regional governments to promote knowledge-based industries with the slowdown of active manufacturing industries. Also, consumers are increasingly incorporating personal computers and information networks into their private lifestyle; (b) Decreasing birth rate and a rapidly graying population in Japan, is encouraging more women and elderly citizens to remain in the labor force, (c) Corporate restructuring and downsizing which prompts business-minded employees to start their own business, and (d) Increasing demand for outsourcing as a result of corporate pursuit of efficient management.

(Millions of Dollars)

	1998	1999	2000
A. Total market size	4232	4456	4900
B. Total local production	4148	4323	4655
C. Total exports	NA	NA	NA
D. Total imports	84	133	245
E. Imports from the U.S.	4	6	10

Note: The above statistics are unofficial estimates.

20. High Technology Home Healthcare Equipment Market (MED)

Japan's population is aging more rapidly than that of any other major developed nation. By the year 2025, the percentage of persons in Japan over the age of 65 will have increased from the current level of 16 percent to 25 percent. Put another way, the number of bed-ridden or seriously ill Japanese is expected to increase from 2.8 million at present, to over 5 million by 2025. This dramatic demographic change will have a profound impact on Japan's healthcare system. One major anticipated development will be a significant expansion in the demand for home healthcare equipment and services.

The aging of Japan's population will compound pressure that is already building to reduce hospitalization costs, which currently consume almost half of Japan's national healthcare budget each year. While the average hospitalization period in the United States is approximately one week, in Japan it is 35-40 days. Some sources suggest that average hospitalization period for Japanese over the age of 65 exceeds two months. Efforts are already underway to encourage a shift in treatment of patients from hospitals to long-term care and nursing facilities. In April 2000, Japan's Ministry of Health and Welfare adopted a new long-term healthcare policy designed to expand non-hospital alternatives for care for the aged.

The pressing need for Japan to develop greater capabilities for providing care at home should spur development of market opportunities in the home healthcare sector. Japan's current capabilities in two sub-sectors of this field provide an illustration of the undeveloped market potential. In the field of home infusion therapy (HIT), used to deliver drugs and nutrition intravenously, the American market is estimated by one market research firm to be valued at approximately $8 billion. In Japan the market size is only about $3.75 million. According to an industry expert, as of 2000, there were 31,000 Japanese patients in need of HIT treatments, but only 1,500 - 2,000 patients receiving such care. In a second home care field, home oxygen therapy (HOT), the U.S. market is valued a approximately $4.6 billion. The size of the corresponding Japanese market is only about $120 million.

Given the long-term prospects for substantial expansion of Japan's home healthcare market, combined with a strong U.S. home healthcare equipment industry, prospects for increased American exports in this sector appear quite promising.

Market Size of High Technology Home Healthcare Equipment (HIT & HOT)

(Millions of Dollars)

	1998	1999	2000
A. Total market size	84	105	124
B. Total local production	34	42	50
C. Total exports	0	0	0
D. Total imports	50	63	74
E. Imports from the U.S.	50	63	70

Note: The above statistics are unofficial estimates.

20. Machine Tools (MTL)

Machine tools include machines for turning, gear processing, milling, and grinding, as well as machining centers, laser operated machines, electronic distance measurement, dry etching and other machine tools. Of these, dry etching machines represented the largest market for imports into Japan in 1999, while imports of electronic distance machines also showed a year on year increase. Otherwise, due to the lingering Japanese recession, the machine tools market in Japan witnessed slack demand last year. Overall Japanese domestic production of machine tools sagged 16% in 1999, over the previous year, for a total value of 850 billion yen. Domestic demand plunged sharply with overseas shipments also falling in yen terms. Overall orders placed with Japan's nine major machine tool manufacturers plunged a further 42.3% in May 1999 as compared to the same period in 1998. These figures reflect Japan's stagnant domestic economy and weak demand following years of intensive investment in industrial facilities. By contrast, machine tools imported to Japan from the U.S. in 1999 increased 13% over the previous year. This strong showing reflects American machine tool dominance in laser-operated machinery and dry etching machinery used in the semiconductor industry. American makers have the largest share of the Japanese market for imported machine tools, followed by products from Germany, Switzerland and Thailand. As Japan's economy begins to recover, and with Japanese factory equipment showing signs of age in certain sectors, the market for machine tools should experience modest growth.

(Millions of U.S. Dollars)

	1998	1999	2000
(Estimate)			

A. Total market size	3,205	2,676	2,729
B. Total local production	7,718	7,452	7,601
C. Total exports	5,016	5,335	5,442
D. Total imports	503	559	570
E. Imports from the U.S.	257	335	342

(The above statistics are unofficial estimates based on data received from the Japan Machine Tools Importers Association, the Ministry of International Trade and Industry and the Ministry of Finance.)

22. Sporting goods (SPT)

The Japanese sporting goods market (at wholesale) shrank by approximately 4.3% in 1999 because of the soft economy. Major reasons for the decrease included: 1) an end to Japan's lure-fishing boom, resulting in the recreational fishing equipment market shrinking by over 10%, 2) the snowboard boom had abated, 3) the golf market has still not recovered from the a decline brought about by the Japan's extended recession. As a result, the Japanese sporting goods market is expected to remain stagnant in 2000. On a positive note, the oversupplied winter (ski and snowboard) sports market has improved, especially for the ski market

Sporting goods represent one of the few sectors where the U.S. enjoys a large trade surplus with Japan. Japanese imports of sporting goods in 1999 decreased by 10.4%, with purchases from U.S. declining by 22.5%. Some of the decline in imports from the U.S. may be the result of expanded overseas production by U.S. manufacturers. Also, China remains a strong competitor in the sporting goods market.

(Millions of U.S. Dollars)

	1998	1999	2000
A. Total Market size (at wholesale)	8,488.8	9,350.8	9,863.2
B. Local Production	6,882.9	7,863.8	7,265.8
C. Total Export	334.7	380.7	425.0
D. Total Import	1,865.6	1,941.9	2,172.4
E. Imports from U.S.	459.8	431.4	436.6

(The above statistics are unofficial estimates.)

23. Textile Products (TXP)

The total Japanese interior textile products market has been declining because of the weakness of the Japanese economy over the last several years. However, the market decline may have hit bottom in 1999, and is expected to rebound in 2000. The Government of Japan has been taking various economic stimulus measures such as an expanded tax incentive program for homebuyers. These measures will help the Japanese housing market, which should have a positive influence on the Japanese textile products market.

Statistical analysis suggests that the Japanese interior textile products market is closely tied with Japan's new housing starts. This is because consumers often purchase curtains, carpets and other textile products when they buy or build a new home. For example, annual housing starts in Japan declined 15.6% in 1997 and 14.5% in 1998, while the total interior textile market declined 4% in 1997 and 13% in 1998.

Housing starts increased 1.4% to 1.21 million in 1999 and are continuing a slow but steady recovery in 2000. We believe that this trend should continue over the next few years. The increase in housing starts will stimulate the Japanese interior textile market to grow slowly in 2000.

Because of the current difficult market conditions in Japan, the total imports of textile products as well as imports from the U.S. declined by 5.2% and 25.9% respectively in 1999 in terms of Japanese yen. Since the total market is estimated to grow, total imports and the imports from the U.S. are also estimated to grow in 2000.

Major exporting nations competing with the United States are European countries in the high-end market, and Asian countries such as China in the low-end market. There are no significant regulatory barriers that hamper U.S. exports to Japan except for flame retardancy regulations. American manufacturers may find it necessary to modify their products for the Japanese market since U.S. textile products sometimes are of different patterns, colors, and sizes.

(Millions of Dollars)

	1998	1999	2000
A. Total market size	3,426	3,858	4,131
B. Total local production	2,524	2,876	3,080
C. Total exports	27	30	32
D. Total imports	929	1,011	1,083
E. Imports from the U.S.	58	49	52

24. Home Fashion (HCG, GCG, FUR)

The Japanese home fashion market totals $2.5 billion. With more than 8 million children of Japanese baby boomers starting their own homes and approximately 750,000 newly wed couples each year in Japan, the home fashion market should experience strong demand for the next several years. Japanese consumers exhibit active and growing interest in coordinated home fashion, including decorative accessories and housewares. Home fashion products encompass a broad range of products, ranging from housewares, decorative accessories to bathroom and personal care items. With the support of young and mature consumers with comfortable disposable income, the so-called home fashion market with lifestyle themes is flourishing in Japan. In addition to domestic retailers such as FranFran, Muji and Sazaby's, foreign stores like the British Conran Shop and Swedish ILLMS are drawing fashion-sensitive Japanese consumers. While Japanese living standards have greatly improved, Japanese home fashion lags behind the U.S. and Europe. U.S. housewares can contribute to the upgrading of housewares in 40 million Japanese households.

(Millions of Dollars)

	1998	1999	2000
A. Total market size	2,300	2,500	2,637
B. Total local production	2,070	2,250	2,362
C. Total exports	negligible	negligible	negligible
D. Total imports	230	250	275
E. Imports from the U.S.	3	3	4

Note: The above statistics are unofficial estimates.

25. Food Processing Machinery (FOD)

Japan's food processing machinery industry faces requirements for new equipment needed to meet the Japanese peoples' growing appetite for international foods, as well as consumers' demand for lower prices, health conscious choices, and exacting standards of quality. Due to slack domestic demand and a sharp drop off in Japanese machinery exports to Asian markets, Japan's production of food processing machinery fell five percent in 1998. Japanese exports picked up in 1999, but Japan's prolonged recession continued to depress demand at home. This resulted in a further decline in Japanese production and imports of food processing machinery in 1999. Last year, Japan's overall production of food processing machinery totaled 475 billion yen as compared to 489 billion in 1998. Overall food processing machinery imports declined somewhat last year, but helped by a stronger yen, U.S. imports rose somewhat. Dairy processing machinery showed the strongest growth of any sector in this industry for the second year running, posting a production increase of about 18% in 1999 as compared to the previous year.

(Millions of U.S. Dollars)

	1998	1999	2000 (estimate)
A. Total market size	3,754	4,152	4,235
B. Total local production	3,737	4,167	4,250
C. Total exports	88	108	110
D. Total imports	105	93	95
E. Imports from the U.S.	17	25	26

(The above statistics are unofficial estimates based on data receive from the Japan Food Machinery Industry Association.)

26. Flat Glass (BLD)

Since 1997, the Japanese flat glass market had been markedly shrinking. However, small signs indicating a slight recovery were noted during the 2^{nd} and 3^{rd} quarters of JFY 1999. Demand from the construction and auto industries, which account for 90 percent of the market, are both showing signs of improvements.

The Japanese Government introduced tax incentive measures for homebuyers that helped to expand single family and condominium sales. In 1999, new housing starts increased 1.4 % to 1.215 million units and during the first quarter of 2000, new housing starts further improved to 4.4 %. The commercial construction segment also started to show small improvements. In 1999, new (none-residential) building construction projects was 6.% less than the previous year's figure. However, in the first quarter of 2000 it increased 6.3% (compared to the first quarter of 1999).

In 1999, the demand in the automobile segment still remained at the same level as in 1998. However, sport utility vehicles (SUVs) showed a small increase, 1.4 % compared to the previous year's figure. It is expected that the economic recovery in 2000 may help increase demand in the auto industry. Even though the demand indicated slight improvement, prices still remained at a very low level. The Japanese economy is still too weak to buoy prices to previous levels.

At the end of 1999, the US-Japan Flat Glass Agreement expired, leaving substantial structural barriers remaining in the market. However, severe price competition may accelerate changes with Japanese users interested in more competitive pricing (and better quality) combined with high value-added products. These are areas in which U.S. flat glass manufacturers may have advantages.

(Millions of dollars)

	1998	1999	2000
A. Total market size	1,750	1,750	2,000
B. Total local production	1,780	1,780	2,020
C. Total exports	200	200	180
D. Total imports	160	160	160
E. Imports from the U.S.	90	90	90

n/a Telecommunication services (TES)

In line with agreements reached at the WTO in February 1997, bills to revise the Telecommunications Business Law and Radio Law were passed by the Diet in June 1997. The new law removed all limitations on foreign investment in Type-I telecommunications carriers, including those for radio station licenses, with the exception of NTT. The revised clauses were enforced in February 1998. Very shortly thereafter, MCI WorldCom was granted a Type-I license to become the first telecom carrier owned by a foreign entity.

Telecommunication service providers include Type I (facility-based) and Type II (no self-owned infrastructure, or facility leasing) businesses. In 1999, 1,218 companies began operations in Japan as telecommunications service providers, about a 35 percent increase over the previous year. Of those 1,218 service providers, 249 were Type I businesses. This number represented a 40 percent increase in one year. As of March 1st, 2000, the total number of Type I and Type II service providers were 252 and 7,522 respectively.

Japan's telecommunications service market is expected to continue to expand as a result of innovative technologies such as IP-based technologies, increasing data traffic, as well as continued measured deregulation efforts by the Japanese government. However, new entrants to this market face NTT's high local interconnection rate. NTT's rate is more than five times higher than certain U.S. local rates, and more than double the interconnection rates charged in the UK and France. New entrants who must pay these high rates are severely disadvantaged in competing with NTT. The structure of NTT's interconnection charges is anti-competitive as well. The U.S. government is calling on the Japanese government to reduce NTT's competition-distorting interconnection rates.

(Millions of U.S. Dollars)

	1998	1999	2000

Total market size (Sales Volume)	113,100	145,200	155,400

Notes: Source for figures for 1998 and 1999: MPT.
2000 statistics are unofficial estimates.

n/a Education/Training Services (EDS)

The number of Japanese students studying abroad decreased in 1998. This was the first annual decline since 1991. However, Japanese interest in studying abroad remains strong, and the number of students going abroad increased in 1999, thanks in part to the appreciation of the yen. European countries are becoming increasingly popular as study abroad destinations. However, non-English speaking countries account for only small percentage of such study. The number of students going to the U.K. grew from 11,063 in 1991, to 25,026 or 13.4% of the total study abroad destinations in 1999. The United States is still by far the number one destination, attracting 44.5% of all students going overseas.

According to a private sector survey, the ratio of working women among those who study abroad increased from 27.2% to 35.4% in the past decade. This group is expected to grow further. Working women tend to opt for longer programs, including attending accredited colleges. The number of elderly people going abroad to study is small at present. However, there is a strong interest within Japan's rapidly aging population for such ventures. As a result, this demographic group is expected to grow to be a sizable market in a few years time if appropriate programs are offered.

Outbound trips of the Japanese (in thousand)

	1998	1999	2000*
All departures	15,806 (-5.9%)	16,358 (+3.5%)	17,000+
Departing with purpose to study	181 (-3.4%)	187 (+3.2%)	190
to study in USA	79 (-4.9%)	83 (+5.2%)	87

*2000 figures are rough estimate.

n/a Broadband Services Including Cable TV Services (FLM)

Telecom service charges incurred by households and offices are declining as lower price services become more widely available. It is expected that much of the "savings" realized from lower service charges will be spent on high-speed digital information services. At the same time, the added value of packaged media will be replaced by digital network-based distribution.

Communication services currently accounts for nearly 40% of the typical Japanese household services budget, with TV services accounting for about a 20% share of these expenditures. Decreases in package content media leaves a balance that is about $60 per month per household. Much of this balance could be the potential market for broadband content services–a total market size of around $30 billion.

Cable TV's potential for becoming an information channel to private homes is being closely watched and realignment of the broadcasting industry, including foreign-affiliated firms, is likely to accelerate. The digitalization of broadcasting has enabled multiple channels and helped improve image quality. CS digital TV was broadcasting in Japan with more than 300 channels by the end of 1998. With the development of Cable TV, Japan's Ministry of Posts and Telecommunications forecasts that by 2010 about 60% of Japanese households will subscribe to cable TV, and about 80% will subscribe to satellite broadcasting service. As a result, there is a great demand for good program content.

With the Japanese audience's love of American films/video's and other entertainment programs, U.S. TV programs should have excellent prospects in the emerging Japanese TV broadcasting program market. At present, Japanese TV programs in general are geared for younger age groups. However, if we consider the rapid aging of the Japanese and that elderly people tend to spend more time watching TV, programs for senior citizens should experience an increase demand. While terrestrial and BS TV stations have been strong, development of cable TV and other media, including interactive internet media, has been relatively slow. As of March 1998, 6.7 million households subscribed to cable TV, which was a 34.4 percent increase from the previous year.

Pursuant to the basic accord on telecommunications of the WTO, the Japanese government decided in 1998 to abolish rules restricting foreign investment in cable TV companies that provide Class 1 telecom services. At the end of fiscal year 1998, 66 cable TV operators had been approved for Type 1 operation. Services include private applications such as home security, and data and voice transmission services. Of the 28 cable TV operators offering internet connection services at the beginning of 1999, 24 had been in the business for less than one year. Japan's cable TV infrastructure reaches over 21 million households. Over the medium term, there is a strong likelihood of cable TV infrastructure being utilized as an access network in Japan for households wanting interactive broadband services.

B. BEST PROSPECTS FOR AGRICULTURAL PRODUCTS (UNRANKED)

1. Unranked - Rice (FOD)

Japan's rice market was opened to imports under the Uruguay Round Agreement. Then, on April 1, 1999, the Government of Japan implemented rice tariffication. Under this system, in addition to Japan's minimum access and SBS commitments, Japan is allowing additional rice imports, subject to a tariff of 351.17 yen per kilogram. However, due to the high tariff level, volumes imported outside of minimum access and SBS are expected to be very limited. Although no official trade data is available for rice imported outside minimum access, actual imports are forecast to be very small.

Under the terms of the Uruguay Round Agreement, the tariff will be reduced slightly to 341 yen per kilogram beginning JFY 2000 (April 1, 2000).

Overall, U.S. rice accounted for 47.9 percent of total imports in JFY 99. Under the Simultaneous-Buy-Sell (SBS) portion, the U.S. accounted for 30.7 percent of total sales, up slightly from the year before. Due to improved quality and competitive prices, Chinese rice has increased market share at the expense of U.S. sales under the SBS tender system since JFY1998.

Under the new import regime, minimum access rice imports will increase by only 0.4 percent every year amounting to 7.2 percent of total domestic consumption in 2000. Japan is forecast to import 644,000 MT (milled basis) in 1999 and 682,000 MT in 2000. In March 2000 the GOJ entered final discussions to establish a food self-sufficiency target at 45 percent on a caloric basis for Japanese JFY2010.

Major local and third-country competitors: Japan
Australia
Thailand
China

(1,000 Metric Tons)

	1998	1999	2000*
A. Total market size	12,357	11,866	11,702
B. Total local production	8,154	8,349	8,300
C. Total exports	340	144	160
D. Total imports	634	650	680
E. Imports from the U.S.	250	312	330

* The U.S. Department of Agriculture forecast
(The above statistics are unofficial estimates.)

2. Unranked - Beef (FOD)

Japan's total beef imports in 1999 reached a record 965,000 MT (carcass- weight basis), up 1 percent from the year before. The growth in import demand in 1999 was largely driven by continued strong HRI/HMR demand, particularly from fast food beef bowl chains, hamburger steaks at family restaurants, 'yakiniku - Korean style barbecue' at Korean style barbecue chains and beef barbecue lunch box sold at takeout lunch box chains and convenience store chains, including inexpensive frozen beef parts like short plate, brisket and clod.

The U.S. is the largest foreign supplier of beef to Japan, accounting for 49 percent of total import volume in 1999, slightly above the import share of Australia. Imports of U.S. beef totaled 323,000 MT (product-weight basis), slightly above the level of 1998. Selective meat purchases by Japanese consumers, who are increasingly value-conscious in part due to the stagnant economy, drove demand for less-expensive beef parts that benefitted U.S. exporters. Beef market prospects in 2000 will hinge on the continued recovery of Japan's economy

Major local and Third Country Competitors: Japan
Australia

(1,000 Metric Tons - CWE)

	1998	1999	2000*
A. Total Market Size	1,612	1,630	1,642
B. Total Local Production	530	540	530
C. Total Exports	0	0	0
D. Total Imports	951	965	957
E. Imports from the U.S.	457	461	457

*USDA forecast
(The above statistics are unofficial estimates.)

3. Unranked - Frozen Vegetables (FOD)

Japan's frozen vegetable imports are growing at a steady rate. Improved technology continues to provide higher quality products; domestic production of fresh inputs declines. In 1999, total imports were valued at USD 843 million, up significantly from 1998. Imports from the U.S. are dominated by frozen potatoes and frozen sweet corn, but other frozen vegetables, such as frozen mixed vegetables should also do well. China is a strong price competitor, but quality problems constrain growth.

List of most promising subsectors within the sector, along with estimated 1999 total market size of each subsector (USD millions):

Frozen Potatoes USD 318
Frozen Sweet Corn USD 82
Frozen Mixed Vegetable USD 78

Major local and third-country competitors: Japan
China
Taiwan
New Zealand

(Millions of U.S. Dollars)

	1997	1998	1999
A. Total market size	925	1001	1037
B. Total local production	200	195	194
C. Total exports	0	0	0
D. Total imports	725	806	843
E. Imports from the U.S.	299	330	324

4. Unranked - Pork (FOD)

Japanese pork imports in 1999 were at 850,000 MT (carcass weight basis), up 18 percent from 1998 due to strong demand for frozen pork, lower domestic supplies, and strong demand for chilled table pork. Imports of U.S. pork are forecast to rise 4 percent in 1999 to 166,000 MT (product-weight basis), but Danish imports are expected to exceed this volume at 169,000 MT due to strong demand for frozen parts. Competition in the chilled pork sector will intensify in 2000, though U.S. product is positioned to capture the leading market share of chilled imports. Overall imports in 2000 are expected to slightly fall due to softened demand from pork processors and households.

Major local and third-country competitors: Japan
Taiwan
Denmark

(1,000 Metric Tons–CWE basis)

	1998	1999	2000*
A. Total market size	2,196	2,236	2,196
B. Total local production	1,285	1,280	1,275
C. Total exports	0	0	0
D. Total imports	721	850	821

E. Imports from the U.S.	229	237	236

*USDA forecast
(The above statistics are unofficial estimates).

C. SIGNIFICANT INVESTMENT OPPORTUNITIES

Several years ago, the high cost of doing business in Japan, the strong yen, and a highly regulated market led many U.S. financial services firms to reduce their presence in the market. That trend has turned around since Japan initiated deregulation in the financial sector, effective as of April 1, 1998, deregulation has significantly liberalized financial services and is providing excellent investment opportunities for U.S. suppliers of financial services. Although the yen has not returned to the favorable levels of the “bubble” days, it is a significant contributing factor for very favorable investment opportunities. This is evident not only in the financial service sector, but also in all service industries and others that do not require heavy capital investment in factories or manufacturing facilities. U.S. software suppliers are continuing to find the investment climate optimal and are seeking appropriate opportunities. U.S. suppliers of services to these investors, including firms offering office design and interior renovation services for offices in older buildings, are experiencing increased sales opportunities. Japan's current credit crunch continues, and will lead to new opportunities for investment in the manufacturing sector. Depending upon the power of the yen, ongoing deregulation in various sectors of Japan's market should spur U.S. and other foreign investment. The Government of Japan will liberalize the retail power sector over the next several years. Deregulation in this sector should create good opportunities for U.S. investment in facilities for independent power production.

CHAPTER VI TRADE REGULATIONS, CUSTOMS AND STANDARDS

A. TRADE BARRIERS, INCLUDING TARIFF AND NON-TARIFF BARRIERS

According to the Japan Tariff Association, the average applied tariff in Japan is one of the lowest in the world. There are notable exceptions including leather goods and many agricultural products. Also, import duties on certain processed foods and manufactured goods remain relatively high. However, import duties on many agricultural items continue to decrease, and tariffs in many major sectors, such as autos and auto parts, software, computers, and industrial machinery are zero.

Japan in known to have a multitude of means by which foreign products are either kept out or delayed entry into the domestic Japanese market. The range of tactics runs from overt political and economic actions to differences in business culture and traditions. The latter are often rooted in Japanese values that make them unassailable in any practical manner. Since to attempt to change the practice risks being perceived as attacking the culture. Within this range are a variety of non-tariff barriers, including:

establishing standards unique to Japan (formal, informal, de facto, or otherwise);

a requirement 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 operating without oversight;

cross stock holding and interconnection of business interests among Japanese companies that disadvantages suppliers outside of the 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.

For any firm that attempts to overcome these non-tariff barriers, the tools available depend on the industry, the product or service's competitiveness, and the creativity and determination of the firm's management. In addition, it is important to note that these non-tariff barriers do not exist in a market free of competition. Japan is a large and sophisticated market, and the competition can be fierce. A fair number of companies have benefited or failed simply as a result of timing. However, the vast majority of successful foreign companies have had to evaluate and adjust their initial market strategy as their understanding of the market, the rules of the Japanese "system," and their ability to accomodate those rules increased.

B. CUSTOMS REGULATIONS

Tariff duties are assessed on the CIF value at ad valorem or specific rates, and in a few cases, are charged a combination of both. Japan's Ministry of Finance maintains a website that describes import clearance, customs, provides contact information and other information in detail and in English (http://www.mof.go.jp Click "For English," "Links," "Japan Customs").

Japanese customs regulations, like those of the United States, can be cumbersome, difficult to understand, and sometimes frustrating, but they are largely mechanical. Nearly all customs difficulties arise from first-time applications. Japanese customs officials are generally very helpful explaining procedures and regulations, and once these are understood and followed, difficulties are minor and rare.

Certain products are prohibited import into Japan. These include narcotics, firearms, counterfeit currency, pornography, and products that violate intellectual property laws. In addition, a large number of products (including those related to health such as medical products, pharmaceuticals, agriculture products, chemicals and explosives) have restrictions of some form governing sale or use and must be evaluated for import suitability before shipment to Japan.

C. TARIFF RATES

The Customs and Tariff Bureau of Japan's Ministry of Finance administer tariffs. As a member of the Harmonized System Convention, Japan share the same trade classification system as the United States (limited to six-digit code). Japan's tariff schedule has four columns of applicable rates: general, WTO, preferential, and temporary. Goods from the United States are charged WTO rates unless a lesser "temporary" rate exists. Japan's preferential systems of tariffs grants lower or duty-free rates to products imported from developing countries.

A simplified tariff system for low-value imported freight valued at less than 100,000 yen, 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. Japanese Customs can provide an advance ruling on tariff classification and duty rates.

D. IMPORT TAXES INCLUDING VALUE ADDED TAXES, PURCHASE TAXES, UPLIFTS AND SURCHARGES, AND LOCAL TAXES

In addition to customs duty, a five percent consumption tax (general excise tax) is levied on all goods sold in Japan. Payment is required at the time of import declaration. The consumption tax is assessed on the CIF value of the product plus the import duty. Duties and consumption tax are payable when making an import declaration at the time of customs clearance by the importer. The Import Declaration Form (Customs Form C 5020) is filled out by the importer and is used as both an import declaration and tax payment declaration form. Packages are exempt from duty and the consumption tax if they contain items with a value of 10,000 yen or less. Certain specific products are exceptions to this rule, such as leather goods, and some knit products.

The Japanese government grants tax credits and other tax incentives to Japanese manufacturers as an incentive to increase imports. The tax credits are calculated as five percent of the amount a manufacturer increases its imports of eligible manufactured goods in a given year (products that are duty free). Importers can defer taxes on certain profits.

E. IMPORT LICENSE REQUIREMENTS

Most goods now qualify as "freely importable," and do not require an import license. The only exception is for those commodities that fall under import quota. In these cases, the Japanese importer must apply for license approval. Rice, wheat, rice flour and leather are among the few products for which import quotas remain.

F. TEMPORARY GOODS ENTRY REQUIREMENTS

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 for in advance by contacting a local office of the United States Council for International Business (http://www.uscib.org/) or its New York office at Phone: 212-354-4480.

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 in Japan only when the fair/event is held at a bonded exhibition site. These bonded articles are required to be re-exported after the event, 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 name of the trade show or exhibition site, including exhibition booth number (if known), on shipping documents.

G. SPECIAL IMPORT/EXPORT REQUIREMENTS AND CERTIFICATIONS

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 on each item in the shipment. The packing list should include the exact contents of each container, the gross and net weights of each package, and all container measurements using metric sizes.

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.

H. LABELING REQUIREMENTS

Correct packing, marking, and labeling are critical to smooth customs clearance in Japan. Straw packing materials are prohibited. As noted above, the Japanese Measurement Law requires that all imported products and shipping documents show metric weights and measures. For most products there is no requirement for country of origin labeling; however, some categories such as beverages and foods do require such labeling. However, if labels indicating origin are 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.

Items that are required by Japanese law to bear labels cover four product categories: textiles, electrical appliances and apparatuses, plastic products and miscellaneous household/consumer goods. Because all these regulations apply specifically to individual products, it is important to work with a prospective agent/importer to ensure your product meets the requirements, if applicable. In general, most labeling laws are not required at the customs clearance stage, but at the point of sale. Consequently, it is most common for Japanese importers to affix a label before or after clearing customs.

I. PROHIBITED IMPORTS

Japan strictly prohibits entry of narcotics and related utensils, firearms, firearm parts and ammunition, counterfeit or imitation money, obscene materials, or goods that violate intellectual property rights. The use of chemicals and other additives in foods and cosmetics is severely restricted by regulations that follow a "positive list" approach. Restricted items include but are not limited to certain agricultural and meat products, endangered species and products such as ivory, animal parts and fur whose international trade is banned by international treaty, and more than two months' supply of medicines and cosmetics for personal use.

J. WARRANTY AND NON-WARRANTY REPAIRS

The warranty and non-warranty repairs vary by product and manufacturer in Japan. In general, the warranty coverage for consumer electrical appliances is one year, and one to five years for auto parts. Japanese machine tool manufacturers set the minimum warranty period at one year. However, since there is a two-year warranty for electrical machinery, the machine tool industry is contemplating lengthening the warranty period to two years. Some manufacturers have a two-year warranty for their own machines. There are no government regulations regarding warranty period. Warranty minimums, if they exist, are generally set by the local Japanese trade associations. Occasionally manufacturers and retailers offer longer warranty periods as a sales promotional strategy, while Japanese regulatory agencies have rules for non-warranty repairs by products.

K. EXPORT CONTROLS

As an active member of the Wassennar Arrangement as well as various international export control regimes, Japan enjoys the least restrictive U.S. export control measures of any destination in the world. At the same time, Japanese firms are engaged in business activities with countries that the U.S. currently has embargoes against. As such, U.S. exporters are encouraged to conduct thorough background research on proposed transactions, especially transshipments through Japan. For the latest in U.S. export and re-export control regulations, please contact the Department of Commerce Bureau of Export Administration (BXA) or check out the web site: www.bxa.doc.gov.

L. STANDARDS

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

Product requirements in Japan fall into two categories: 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 to sell a product or even to display it in a trade event; unapproved medical equipment may be displayed 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 with 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 relaxation of such standards, and the other is a move toward bringing them into harmony with prevailing international standards. While reform is underway, a long list of laws affecting mandatory standards remain on the books, and most have not been translated into English. Therefore, it is important that a Japanese agent or partner be fully aware of the wide variety of legislation that could affect the sale of the exported product in Japan. Main laws and regulations stipulating the standards that apply to products in Japan include the following:

Electrical Appliance and Material Control Law
Consumer Product Safety Law
Measurement Law
Gas Utility Industry Law
Food Sanitation Law
Law Concerning the Securing of Safety and the Optimization of Transaction of Liquefied Petroleum Gas
Pharmaceutical Affairs Law
Road Vehicles Law

The "voluntary" Japan Industrial Standards (JIS) mark, administered by MITI, applies to over 1,000 different industrial products and consists of over 8,500 standards. 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 Article 26 of the Industrial Standardization Law. JIS covers all industrial products except for those products regulated by specific national laws or for which other standard systems apply (i.e., the Pharmaceutical Affairs Law and Japan Agricultural Standards).

The Japan Agricultural Standards (JAS) mark is another "voluntary" but widely used product quality and labeling mark. JAS 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 marks exist for various types of plywood, paneling, flooring boards, lumber, and timber. The JAS marking system is administered by Japan's Ministry of Agriculture, Forestry and Fisheries (MAFF). Separate mandatory standards for quality labeling of processed foods and beverages are administered by Japan's Ministry of Health and Welfare (MHW). A limited number of testing laboratories in the United States have been designated by Japanese government agencies to test and approve U.S. products for compliance with Japanese mandatory certification systems 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.

The following two organizations are designated inquiry points in Japan for standards information:

Standards Information Service
First International Organizations Division
Economic Affairs Bureau
Ministry of Foreign Affairs (MOFA)
2-2-1 Kasumigaseki, Chiyoda-ku
Tokyo 100-8919, JAPAN
Tel: +81-3-3581-3813
Fax: +81-3-3503-3136

Standards Information Service
Information Service Department
Japan External Trade Organization (JETRO)
2-2-5 Toranomon, Minato-ku
Tokyo 105-8466, JAPAN
Tel: +81-3-3582-6270
Fax: +81-3-3589-4179

In addition, the Japan Standards Association maintains a library of information about JIS requirements. The Association will translate JIS information into English for a fee based on the number of pages to be translated. If an inquiry is too specific for the Association to answer, it will refer the inquiry to the appropriate Japanese industry organization for a response.

Japan Standards Association
4-1-2 Akasaka, Minato-ku
Tokyo 107-0052, JAPAN
Tel: +81-3-3583-8003
Fax: +81-3-3586-2029

M. PRODUCT LIABILITY LAW

In addition to standards, another point to bear in mind regarding the sale of merchandise in Japan is the Product Liability Law. This law, which went into effect in July 1995, makes manufacturers liable for compensation for injury, death, or damage to property resulting from the sale of defective products whether or not such defects can be attributed to accidental or willful faulty manufacture. Although only a few lawsuits have been filed under this law so far, the number is expected to rise in the future. Manufacturers should take full note of the fact that revisions of the Civil Proceedings Act, which went into effect in early 1998, have made it easier for lawsuits to be filed and heard in court.

N. FREE TRADE ZONES / WAREHOUSES

Japan has no free trade zones. However, customs officials do allow the bonding of some warehouses, processing facilities, and exhibition sites on a case-by-case basis. A law enacted in 1992 created a total of 22 Foreign Access Zones (FAZ) scattered throughout Japan. Each FAZ offers a comprehensive range of facilities to handle all stages of importing, from customs clearance to product sorting, processing, and distribution. Many FAZs are equipped with business development facilities such as exhibition halls and seminar rooms. Some FAZs offer full-service bonded areas for foreign cargo. Information on the location and facilities available at each FAZ can be obtained by contacting the Japan External Trade Organization (JETRO).

O. MEMBERSHIP IN FREE TRADE AGREEMENTS

Japan is not a member of any free trade agreement. However, it is a member of APEC, which has established a goal of APEC-wide free trade and investment for developed country members by 2010, and for all APEC member countries by 2020.

P. SPECIAL IMPORT PROVISIONS

Japan places few formal barriers on imported goods and its average tariff rates are among the lowest in the world, in line with other industrialized nations. Nevertheless, tariff rates on many imported agricultural products remain high. Moreover, many imports face a wide and complex range of standards, certifications, and other informal and technical barriers, including health and sanitary regulations. Thus, the import process is at times slow and difficult.

In response to complaints from trading partners that Japan discourages the consumption of foreign products, the Government of Japan has launched a number of programs in recent years to help foreign companies export to Japan. The Japan External Trade Organization (JETRO), the Manufactured Imports Promotion Organization (MIPRO), and Japan’s Ministry of International Trade and Industry (MITI) administer these programs. Assistance available includes low interest loans to encourage imports, assistance in finding Japanese business partners, market research, export study programs, and the provision of free temporary office space in six Japanese cities.

The list of JETRO’s import promotion programs is extensive. It includes the dispatch of long-term Senior Trade Advisors to U.S. state governments, where they offer advice on exporting to Japan; the dispatch of short-term import specialists who identify products with potential in the Japanese market; seminar tours to Japan for U.S. business people to better understand the Japanese market; the establishment of Business Support Centers in Tokyo, Yokohama, Nagoya, Osaka, Kobe, and Fukuoka; and the establishment of permanent imported product exhibition sites (for autos, imported homes, and housing materials) throughout Japan. JETRO also publishes numerous market research and trade facilitation information, maintains business-matchmaking databases, organizes import fairs in Japan, and provides import counseling. Information about JETRO and its programs is available at http://www.jetro.go.jp/.

Q. CUSTOMS CONTACT INFORMATION

Ministry of Finance
3-1-1 Kasumigaseki, Chiyoda-ku, Tokyo 100-0013
Phone: 81/3/3581-4111
Website: www.mof.go.jp/~customs/conte-e.htm

Customs Counselors System in Japan
Tokyo Headquarters
Phone: 81/3/3472-7001
Website: www.mof.go.jp/~customs/cselor-e.htm

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CHAPTER VII INVESTMENT CLIMATE

A. Government Attitude Toward Foreign Investment

A.1. Openness To Foreign Investment:

Japan, the world’s second-largest economy, is an immense potential market for U.S. foreign direct investment (FDI). The Government of Japan (GOJ) imposes few formal restrictions on FDI in Japan, and has removed or liberalized most legal restrictions that apply to specific economic sectors. The government does not impose export-balancing requirements or other trade-related FDI measures on firms seeking to invest in Japan. Moreover, risks associated with investment in many other countries, such as expropriation and nationalization, are not an issue in Japan.

Despite Japan’s attractive characteristics as a potential investment site, FDI levels have remained small relative to the size of the economy, reflecting a range of long-standing structural impediments. The challenges facing foreign investors seeking to establish or enhance their presence in Japan -- many of the most important of which are matters of private business practice rather than of government regulation -- include:

--A high overall cost structure that makes market entry and expansion expensive;

--Corporate practices and market rules that inhibit foreign acquisition of Japanese firms, such as insufficient financial disclosure practices, cross-holding of shares among keiretsu member firms, and the low proportion of publicly traded common stock relative to total capital in many companies;

--Exclusive buyer-supplier networks and alliances, still maintained by some Japanese companies belonging to the same business grouping (or "keiretsu"), which limit competition from foreign firms and domestic newcomers;

--Laws and regulations that directly or indirectly restrict the establishment of business facilities and hinder market access for foreign products, services, and FDI; and

--Close ties between government and industry, as illustrated by the delegation of quasi-regulatory authority to trade associations, which are often allowed to devise their own rules to regulate their business sectors.

These and other obstacles make Japan's investment environment relatively costly and difficult to navigate. In JFY 1999, Japan's annual inward FDI totaled $21 billion, or only about 0.5% of GDP. Although the JFY 1999 statistics showed a dramatic improvement on previous years' performance, Japan continues to host the smallest amount of inward foreign investment as a proportion of total output of any major OECD nation. Foreign participation in mergers and acquisitions (M&A), which account for some 80% of FDI in other OECD countries, although on an upward trend, also lags in Japan. Meanwhile, Japan continues to run a substantial imbalance between its inward and overseas FDI (see Table 1). In JFY 1999, a year of record-high inward investment flows, Japan reportedly invested over $66 billion overseas, while attracting only about one-third of that amount in inward direct investment. Japan's relative lack of foreign investment also acts as a restraint on the expansion of imports.

The most extensive changes, and much of the recent FDI flows, have come in the financial services sector. The 1995 Financial Services Agreement began a process of comprehensive liberalization which culminated in the "Big Bang." In the past two years, ongoing economic restructuring (due in large part to the more competitive financial sector and greater emphasis on rate of return), and changes in Japan's financial markets contributed to growth in foreign direct investment in Japan in non-financial sectors. At the same time, structural impediments to foreign investment remain, and it is not certain that inward foreign investment flows will continue to accelerate. Over the past two years, distribution affiliations, joint ventures, and mergers and acquisitions involving foreign and Japanese financial services providers have accelerated rapidly. As foreign firms take advantage of business opportunities being created in Japan's financial sector as a result of the Japanese government's "Big Bang" deregulation initiative, Japanese financial firms have started to look overseas for assistance in the form of new products, technologies and capital to meet these challenges. In addition, foreign firms have stepped in to buy the assets of domestic financial services firms that have recently failed.

Acknowledging that FDI in Japan lags far behind that of other industrialized economies, the GOJ has in recent years taken some welcome steps to address investment-related problems. In 1994, the GOJ established the Japan Investment Council (JIC), chaired by the Prime Minister, and started cabinet-level discussions on ways to improve Japan's investment climate. Since then, the JIC and other GOJ advisory groups -- such as the Prime Minister's Economic Council and various deregulation and administrative reform committees -- have issued statements calling for stronger government efforts to promote FDI as a means of ensuring long-term growth and vitality in key industrial sectors.

Most recently, in April 1999, the JIC issued a report incorporating seven sets of recommendations for improving Japan's investment environment, and the Prime Minister released an official policy statement noting that increased foreign investment is vital to the reinvigoration of the Japanese economy. Generally speaking, there are strong indications that the Ministry of International Trade and Industry (MITI) in particular is taking seriously the challenge of attracting greater foreign investment to Japan. At the regional level, a number of prefectural and city governments are intensifying their efforts to attract foreign investors, although they are hampered by limited financial resources.

Liberalization of Investment Restrictions: Japan has gradually eliminated most of the formal restrictions governing its FDI regime. In 1991, the GOJ amended the Foreign Exchange and Foreign Trade Control Law (which also controls foreign investment) to replace the long-standing "prior notification" requirement for all FDI with an "ex post facto notification" requirement for investment in non-restricted industries. "Prior notification" (and thus case-by-case approval) is now required only for investment in certain restricted sectors, including agriculture, forestry, petroleum, electrical/gas/water utilities, aerospace, telecommunications, and leather manufacturing (see the Appendix for a full list of reserved sectors). It is widely understood that administrative approval for foreign investment in some of these sectors is quite certain, while in other sectors it is likely to be discouraged, if the government finds that the investment would "seriously and adversely affect the smooth performance of the national economy."

U.S. investment has become increasingly common in some restricted sectors, particularly in the petroleum and telecommunications industries, although the criteria for defining and controlling these areas are unclear and could potentially inhibit further investment depending on the Japanese political environment. In February 1998, the Telecommunications Business Law and the Radio Law were amended and all restrictions on foreign ownership were removed with respect to Type I telecommunications carriers including their radio stations (with the exception of NTT and KDD). Further, restrictions on foreign ownership in KDD were abolished in July 1998. The Cable Television Broadcast Law was revised to remove foreign ownership restrictions on cable television companies in June 1999.

Several sections of the Japanese Antimonopoly Law (AML) are relevant to FDI. For example, chapter four of the AML includes extensive antitrust provisions pertaining to international contract notification (section 6), stockholding (section 10, 14), interlocking corporate directorates (section 13), mergers (section 15), and acquisitions (section 16). The stated purpose of these sections is to restrict any stockholding, management, joint venture, and M&A activities that constitute unreasonable restraints on competition or involve unfair trade practices. These provisions are not intended to discriminate against foreign companies or to discourage FDI.

Limitations on Facility Development, and Availability of Investment Real Estate: While the price of real estate has been falling for some years in Japan, particularly in the urban centers, potential foreign investors still point to high real estate-related expenses and regulations as obstacles to investment in Japan. Urban land remains expensive, and the rate of property turn-over is slow enough that investors frequently have trouble assembling property of sufficient size to accommodate their operations. A shortage of information on land prices and ownership also impedes foreign and domestic investors, by making it harder to assess the real asset value of potential business partners or acquisition targets; it also inhibits faster development of the domestic market for estate-related financial products.

A law to stimulate Japan's rental property market by introducing a fixed-term lease system took effect in March, 2000. Under the new law, property owners can terminate leases upon expiration of the contract, making it easier for them to evict tenants and to project rental income. Previous law strongly favored tenants, who could refuse to move even after their lease expired. Revisions to the Securities Investment Trust Law, which were enacted at the same time, lifted the ban on real estate investment trusts (REITs). The revised law permits marketing of mutual funds that invest in property rights. These revisions are expected to encourage development of residential property while diversifying financial products.

In January, 2000, the Japan Institute of Certified Public Accountants introduced a standard requiring companies to write off unrealized losses on real estate inventories acquired for sale or development, further encouraging liquidity in real estate markets.

Japan continues to restrict the development of industrial and commercial facilities in some areas in an attempt to prevent excessive concentration of development in the environs of Tokyo, Osaka, and Nagoya, and also to protect land designated as optimal for agriculture. On the other hand, many prefectural governments outside the largest urban areas will make available property in public industrial parks. Generally speaking, Japan's zoning laws give local Japanese officials and residents considerable discretionary authority to screen almost all aspects of a proposed building. These factors effectively reduce the real estate available for development and often lead to delays in construction and higher building costs.

The Large-scale Retail Store Law (LRSL), designed in part to protect local merchants from large retail competition, continues to challenge foreign investors by limiting the establishment, expansion, and business operations of large Japanese stores, which are most likely to serve as distributors of imported products. The Law was eliminated June 1, 2000, and is being replaced by a new store location law, which emphasizes the preservation of the living environment rather than the protection of small business. Both foreign and domestic large retailers, however, continue to anticipate that they will experience difficulty establishing retail facilities under the new, locally-administered rules.

In February 1997, the Japanese Cabinet tasked the government to study ways of improving the quality and availability of public information on land price, transaction, use, and ownership. Also, incentive measures have been introduced to relax floor area ratio restrictions for projects which provide new open-space or improve urban infrastructure. In September 1998, the National Land Use Planning Act was amended to replace the prior notification system of large-scale land transactions with an ex post facto notification system.

In December 1999, the Diet approved the Law concerning Special Measures for Encouragement of the Supply of Quality Rental Housing and Other Facilities, which was designed to introduce a fixed-term housing leasehold system. The bill went into effect on March 1, 2000. Under this bill, housing lease relationships could be set to definitely terminate with the expiration of the stipulated contract period.

Aiming to increase the liquidity of Japanese real estate markets, over the past four years the government has progressively lowered capital gains, registration, and license taxes on real estate. Starting in 1998, the national Land Value Tax on property holding was suspended, although local property taxes remain considerable.

Corporate Tax Treatment: Local branches of foreign firms are generally taxed only on corporate income derived from within Japan, whereas domestic Japanese corporations are taxed on their worldwide income. Calculation of taxable income and allowable deductions, and payments of the consumption tax (sales tax), are otherwise the same as those for domestic companies, with national treatment for foreign firms. Corporate tax rules classify corporations as either foreign or domestic depending on the location of the head office, without regard to the place of incorporation. The U.S.-Japan Tax Treaty provides for the avoidance of double taxation.

Dividends distributed by a domestic Japanese firm are subject to a 20 percent withholding tax; the U.S.-Japan Tax Treaty reduces this tax to 10 percent for American shareholders. Interest payable to a nonresident is normally subject to withholding of 15 percent, but the Tax Treaty reduces this to 10 percent, as long as the interest is not attributable to a locally incorporated company. Royalties and fees paid to a foreign licenser by a Japanese licensee are subject to normal withholding of 20 percent, reduced to 10 percent by the Tax Treaty. 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. In JFY96, the scope of losses that qualify for this special measure was expanded.

As part of the JFY99 Tax Reform, Japan's effective corporate tax rate, including local taxes, was reduced from 46.36% to 40.87%.

The Japanese government is also examining the introduction of a consolidated taxation system (affiliated corporations and subsidiaries are currently taxed on an individual basis). The lack of consolidated taxation in the nation's tax code is perhaps the most important tax disincentive for venture capital-type M&A activity in Japan. (Because of non-consolidated taxation, the losses usually expected at a new or acquired venture subsidiary cannot be charged against the profits of the parent firm or holding company.) Some quarters of the Japanese government remain reluctant to switch to consolidated taxation, however, fearing a possible significant decline in incoming tax revenue, and the actual timing for the switch remains uncertain.

Investment Incentives: The government-owned Development Bank of Japan (DBJ) , formed by merging the Japan Development Bank and the Hokkaido-Tohoku Development Finance Corporation, offers foreign-affiliated firms various lending programs under which foreign-owned companies (companies whose foreign capital ratio is one-third or higher) are eligible for low interest, long-term loans for capital investment. The loan amount may be up to 60% of the total investment amount and the loan period can run as long as 30 years. Interest rates are roughly competitive with the private long-term prime rate. Similar low-interest loan programs for foreign firms have been established by the Okinawa and Hokkaido-Tohoku Development Finance Corporations as incentives to foreign firms investing in these regions.

The "Technopolis" project, sponsored by MITI, is available to both Japanese and foreign firms. Under this program, MITI and prefectural governments can provide various types of assistance (e.g., preferential depreciation and land taxes) to companies locating in areas designated for development as a technology-intensive zone. As of June 1997, there were 26 areas throughout Japan with the Technopolis designation.

The GOJ has made efforts to improve the dissemination of FDI-related information and to facilitate investment opportunities through various government support services. The DBJ supports foreign companies by supplying market information on Japan (general data on industries, market scale, distribution channels, etc.) and by serving as consultants on specific investment projects. In June 1993, the GOJ established a business information support firm, called the Foreign Investment in Japan Development Corporation (FIND), which (for a fee) advises foreign firms on the many challenges and opportunities of investing in Japan and facilitates meetings with potential investment partners. FIND also publishes annual statistics on FDI in Japan and maintains detailed reference aids on FDI, such as local-level FDI programs. In response to the Japan Investment Council’s April 1996 pledge to, in principle, support mergers and acquisitions, FIND set up a special M&A promotion division. Japanese local governments have in recent years shown increasingly sharp interest in attracting foreign investors to their districts. Most prefectural governments now offer an array of investment incentives including direct subsidies, and assistance in the form of grants and loans for facilities construction, and aid in paying for worker training and even worker salaries. In international comparison, however, these incentives still appear small in scale. Typically, even if a potential investing firm meets all of a prefecture's various criteria, the maximum incentive it can hope to receive has a value of less than $10 million.

The local government investment promotion efforts are also hampered by the fact that the local government is usually in the position of setting rigid conditions to qualify for incentives (by law), and sitting back and waiting for firms to show up which meet those criteria. Local government investment incentives also tend to be one-time, not lasting, and with the exception of the national government-sponsored incentives for investment in depressed areas, not related to taxes. This is because Japanese prefectures, not in control of their own tax laws, are not in a position to change them or interpret them flexibly. A total of 19 Japanese prefectures and cities maintain official trade and investment promotion offices in the U.S.

In general, although the Japanese government's FDI promotion efforts are well-intended, many U.S. firms have often found that incentive programs are insufficient in scope to overcome other problems they face.

A.2. Conversion and Transfer Policies:

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. With the April 1998 revision of the Foreign Exchange Law, Japan moved to a ex-post notification system. This means that all foreign exchange transactions (unless specifically prohibited, including certain foreign direct investments, listed in the Appendix) no longer require prior notification or approval. In addition, the new law eliminated the authorized foreign exchange bank system, whereby foreign exchange transactions all had to go through certain registered banks. All other restrictions on methods of payment -- including netting of settlements -- were also removed, enhancing the ability of foreign and Japanese financial firms to offer a fuller range of services in Japan. This has led to lower foreign exchange transaction costs for non-financial firms as well.

A.3. Expropriation and Compensation:

In the post-war period, the GOJ has not expropriated or nationalized any enterprises, with the exception of the nationalization in 1998 of two large capital-deficient banks, and expropriation or nationalization of foreign investments is unlikely in the foreseeable future.

A.4. Dispute Settlement:

There have been no major bilateral investment disputes since 1990, and there are no outstanding expropriation or nationalization cases in Japan, and no cases of international binding arbitration of investment disputes between foreign investors and the GOJ since 1952. Japan is a member of the 1958 New York Convention on the recognition and enforcement of foreign arbitration awards. However, it has long been an inhospitable forum for international commercial arbitrations. Prior to the March 1996 revision of the GOJ's Deregulation Action Plan, arbitration proceedings were viewed as the exclusive province of Japanese lawyers, with only limited exceptions. As a result, all documents had to be translated into Japanese even though the contract and all negotiations were in English. In step with deregulation, foreign lawyers were permitted to represent parties in international arbitration proceedings in Japan starting in 1996.

There are no legal restrictions on access by foreign investors to Japanese lawyers. However, strict limitations on legal practice in Japan by foreign lawyers, a prohibition on Japanese lawyers joining foreign-based law firms, and the small number of Japanese lawyers capable of handling international business transactions all constrain the ability of foreign investors to obtain adequate legal advice on doing business in Japan. Foreign lawyers licensed in

Japan under the 1986 Foreign Lawyers Law are still not allowed to advise foreign investors on many aspects of investing in Japan, since such advice is considered as practicing Japanese law. The unnecessarily restrictive provisions of Japanese law and the rigid enforcement of these restrictions by the Federation of Japanese Bar Associations (*Nichibenren*) deprive foreign investors of the opportunity to receive the optimal combination of legal advice that a system more in conformity with current standards of international legal practice would allow. Recent deregulatory changes by the GOJ are unlikely to remedy this situation.

Japan's civil courts enforce property and contractual rights, and the courts do not discriminate against foreign investors. However, they are sometimes ill-suited for litigation of investment and business disputes. As in many other countries, Japanese courts operate rather slowly. In addition, the courts lack contempt powers to compel a witness to testify or a party to comply with an injunction, and timely temporary restraining orders and preliminary injunctions are difficult to obtain. While filing fees for large civil cases were reduced in 1992, they are still based on the amount of the claim, rather than a flat fee. A lawyers usually requires an up-front payment before commencing a case; contingency fees, while not unknown, are not common. The losing party can delay execution of a judgment merely by appealing, and on most appeals to the high courts, additional witnesses and other evidence are allowed.

Courts do have power to encourage mediated settlements, and mainly due to the low number of lawyers in Japan, it is very common for companies to settle out of court. Following the 1997 Deregulation Action Plan, the number of new lawyers admitted each year increased from 700 to 800 in 1998, and 1000 in 1999. The Ministry of Justice, the lawyers' union, and the Supreme Court are considering proposals to raise the number to 1500 per year.

A new Product Liability Law became effective in July 1995, but to date there have been only a few court cases. However, many companies have modified their design and production processes, as well as provided more detailed instruction and product manuals, in an effort to limit potential liability. Many industry associations have formed product liability study groups to deal with the law.

A.5. Performance Requirements and Incentives:

Japan does not maintain a system of performance requirements. Japan also maintains no formal requirements for local management participation or local control in joint ventures or other forms of direct investment, except in restricted sectors.

A.6. Right to Private Ownership and Establishment:

Japan secures the right for foreign and domestic private enterprises to establish and own business enterprises and engage in all forms of remunerative activity.

A.7. Protection of Property Rights:

Protection of intellectual property rights is an integral part of every successful U.S. exporter's basic market strategy in Japan. It is necessary to file applications to register patents and trademarks in Japan to obtain protection, but prior patent filing in the United States can provide certain advantages if applications are filed promptly in Japan. A U.S. patent or trademark attorney can provide informal advice, but it is necessary to hire a Japanese lawyer or patent practitioner (benrishi) registered in Japan to prosecute the patent or trademark application. 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 Agency of Cultural Affairs maintains a registry for such matters as date of first publication, date of creation of program works, and assignment of copyright. U.S. copyrights are recognized in Japan by international treaty. U.S.-produced semiconductor chip design-layouts are protected for ten years under a special law if they are registered with the Japanese "Industrial Property Cooperation Center"-- a Japanese government-backed public corporation.

Obtaining and protecting patent and trademark rights in Japan can be time-consuming and costly, although patent fees have recently been reduced considerably. While the process to safeguard such rights might seem prohibitive, lack of protection would permit competitors both in and outside of Japan to copy a product or production process. Even when intellectual property rights have been acquired, pirating of technology and designs can occur in Japan, as in other countries. Each company in a trading or licensing agreement should understand clearly what its rights and obligations are with respect to the intellectual property rights owned or acquired by the other. Such a clear understanding helps to create a good rapport based on mutual trust, thereby ensuring the success of the trading or licensing agreement.

Patents, Trademarks, Utility Models and Designs: Unlike U.S. patent law, patents are granted to the first to file an application for a particular invention, rather than to the first to invent. Although Japan accepts filings in English (to be followed by a Japanese translation), companies should ensure that translations of their applications are perfect, as significant negative ramifications may result from translation errors. Prompt filing in Japan is crucial because 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, would preclude the grant of a patent on the application. Also, unlike the United States, where examination of patent applications is automatic, an applicant must request examination of his patent application in Japan within three years of filing. (Reduced from seven years to three years starting October 1, 2000.)

As is true in many countries, all patent applications are published 18 months after filing. If, during the examination, the Japanese Patent Office (JPO) finds no impediment to the grant of a patent for a particular invention, it publishes the patent application in the Patent Public Gazette a second time, including any changes that have been made during the examination. Under a recent amendment to the Patent Law, parties may contest the terms of a patent grant immediately after issuance by the Patent Office (for a period of up to six months), rather than prior to registration as had been the previous practice. The patent is granted and valid for 20 years from the date the application is filed.

It takes an average of 19 months, according to the latest JPO statistics in CY 98, in Japan from the request for examination of application to First Action (the government aims to shorten this to 12 months by 2000) -- compared to 18 months in the United States for the entire patent process. An applicant can request accelerated examination, and efforts by the Patent Office to make the documentation necessary for the preliminary research required to request accelerated examination available electronically are expected to lower the cost of such requests to the applicant. During the examination period, limited effective legal protection exists.

Japan’s Trademark Law protects trademarks and service marks. As is the case with patent applications, a resident agent (usually a lawyer or patent agent) must prosecute the trademark application. And as with the processing of patent applications, Japan’s trademark registration process can be slow. Any company planning on doing business in Japan should file for trademark registration as early as practicable. Japan is subject to Madrid Protocol effective March 14, 2000 and trademark registered at WIPO Secretariat will be protected among member countries.

Japan’s Utility Model Law also allows registration of utility models, a form of minor patent with an 6-year term of protection, retroactive from the date of application since January 1994. A separate design law allows protection of designs, with a 15-year term of protection from the date registration was made.

Unfair Competition and Trade Secrets: The only protection available for a trademark in Japan prior to registration is under the Japanese Unfair Competition Prevention Law. Under this law, 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 the unauthorized user. In 1990, Japan enacted amendments to the law that provided some protection from theft of trade secrets, such as know-how, customer lists, sales manuals, and experimental data. The law, which was amended completely in 1993, also provides for injunctions against wrongful use, acquisition, or disclosure of a trade secret by any person who knew or should have known that the information in question was misappropriated. The judicial process, however, makes the enforcement of rights without loss of trade secrets difficult.

A.8. Regulatory System: Laws and Procedures:

Japan’s economy remains relatively heavily regulated for a major industrial country, which tends to limit investment opportunities, raise costs for Japanese businesses and consumers, and hamper employment mobility and business formation. Meaningful deregulation will improve market efficiencies and reduce costs. Combined with stronger antitrust enforcement and administrative reforms to increase the transparency of regulatory regimes, deregulation will help reduce structural problems that impede the sale of foreign goods and services and discourage FDI. The Japanese government and the business community have repeatedly stated that deregulation is a high-priority issue, but opposition to many specific proposals from vested interests remains strong.

The Japanese government has issued a series of deregulation action plans, and has charted some noteworthy deregulation measures in housing, land zoning, financial services, employment services, distribution and freight forwarding. On the other hand, the government has made little concrete progress and either postponed or failed to adequately address important issues in many other areas, including transportation (deregulation of trucking), and legal services.

Under the Antimonopoly Law, the Japan Fair Trade Commission (JFTC) is authorized to screen certain notifiable international contracts--such as joint ventures involving foreigners--and to prohibit specific contracts that, in the JFTC's judgment, might cause unreasonable restraints on trade or involve the use of unfair trade practices. In June 1997, however, the JFTC abolished its contract notification system, under which any Japanese entrepreneur who enters into an international contract that was notifiable under JFTC rules was required to file with the commission within 30 days of concluding such an agreement. The JFTC has also abolished 33 antitrust-exempted cartels, with four other exempted cartels scheduled to be eliminated in future years, leaving three antitrust-exempted cartels operating in Japan.

The United States continues to hold bilateral working-level discussions in an effort to encourage the Japanese to promote deregulation, competition policy, and administrative reform measures that would increase imports and foreign direct investment into Japan. The reader should consult the National Trade Estimate Report on Foreign Trade Barriers, issued by the Office of the U.S. Trade Representative (USTR) on March 31, 2000, for a detailed description of Japan's regulatory regime as it affects foreign firms (both exporters and investors).

A.9. Capital Markets and Portfolio Investment:

Japan maintains no formal restrictions on inward portfolio investment, and in fact foreign capital occupies an increasingly important place in Japanese capital markets. However, corporate practices such as cross-shareholding limit the percentage of shares in individual firms and in the overall market that foreign investors can actually purchase, while informal restrictions on management participation of foreign shareholders limit the attractiveness of Japan's equity market to foreign investors.

Environment for Mergers and Acquisitions: Stock market-based takeovers of listed firms via tender offer, as widely practiced in the United States and parts of Europe -- both friendly and hostile -- remain extremely rare in Japan. Japan's famous aversion to M&A activity is starting to fade, accelerated by the unwinding of extensive corporate cross-shareholding brought about by implementation of improved accounting standards. Tender offers for listed firms may increase as newly-listed firms in the over-the-counter (OTC) market -- which are less likely to become predominantly "cross-held" -- increase. But viewed historically, of the roughly 400 foreign investment M&A transactions in Japan since 1991 (including divestitures of overseas firms held by Japanese), only five cases involved tender offers for companies listed in Japan. (Even this was an improvement over the previous two decades, which saw only one such case.) The "acceleration" of tender offer activity in the 1990's stems directly from the 1990 elimination of the prior-to-offer reporting requirement (which stipulated that the Finance Ministry be informed of any tender offer nine days before its announcement) and the extension of the tender offering period to 60 days.

Friendly transfer of wholly-owned and majority-owned subsidiaries is a more common form of M&A in Japan. Similarly, there are signs that owner-operated unlisted firms -- which traditionally would only sell out as a last resort before bankruptcy -- are becoming more amenable to acquisition by foreigners. Particularly in the more modern, more service-oriented sectors of the economy, purchase by foreigners is becoming less of a badge of shame than in years past.

Still, there remain a number of key factors limiting greater entry into the Japanese market through M&A with unlisted firms -- including tax policy, weak accounting and disclosure practices, Japan's underdeveloped OTC stock market (which if more developed would reduce the risks involved in M&A), lack of readily available information on firms that might be acquired, and the relative lack of a M&A "infrastructure" in the form of specialists skilled in making matches and structuring M&A deals.

The past year saw introduction of two new exchanges geared towards encouraging start-ups and venture capital investments. In December, 1999, the Tokyo Stock Exchange introduced "Mothers," with less-stringent listing criteria for emerging companies. In April, 2000, TSE announced it would tighten listing requirements and screening procedures (requiring new companies to post a full year of earnings before being listed) to prevent firms with mob connections from listing on the exchange.

NASDAQ Japan, in partnership with the Osaka Stock Exchange, opened June 19, 2000, with eight listed companies. NASDAQ announced that listing requirements will be the same as for NASDAQ's New York exchange. Although the new exchanges have relatively few listed firms, as yet, and suffer from lack of liquidity, analysts expect the exchanges to develop a healthy competition and provide needed capital for entrepreneurs.

Cross-shareholding and M&A: Potential foreign investors in Japan frequently point out that extensive cross-shareholding (mochiai) in Japan greatly complicates market-based merger and acquisition (M&A) transactions, and reduces the potential impact of shareholder-based corporate governance. Corporate governance practices which result in senior management emphasis on internal loyalties over shareholder return can also lead to premature rejection of M&A offers. At the same time, many market observers believe Japanese markets are undergoing a clear trend of unwinding of cross-shareholding, which has accelerated in recent years under the pressure of difficult corporate finances. At the same time, more corporations are hiring board members from outside the firm, and placing greater emphasis on shareholder value in their management practices.

To assist corporations in reducing the unfunded liabilities of corporate pension funds, the Japanese government implemented legislation on April 1, 2000, which allows corporations to transfer shareholdings to their related corporate pension funds. The pension funds will be able to properly execute shareholder rights on the transferred shares, and sell the shares if deemed in the best interests of the pension-holders. This legislation is expected to help accelerate the unwinding of cross-shareholdings.

In another useful innovation, the Diet approved amendments to the Commercial Code permitting creation of a stock swap system, through which one of the parties becomes a wholly-owned subsidiary company and the other a parent company, as well as a stock transfer system to establish a parent company. Special tax treatment will be implemented in conjunction with the creation of the stock exchange and the stock transfer system to allow deferment of taxes on capital gains on stocks at the time of exchange and transfer. To take advantage of these new rules, however, foreign investors must legally establish a Japanese subsidiary firm to act as the counterpart to the stock exchange/transfer.

Accounting and Disclosure: Accounting and disclosure standards are an extremely important element in assessing and improving any nation's environment for mergers and acquisitions. Before any merger or acquisition can take place, it is critical that the merging or purchasing corporations have the best possible information on which to make business decisions. However, recent implementation of "Big Bang" associated accounting changes in the past year have significantly improved Japan's accounting standards.

Aside from the lack of publicly available data on the accounts of unlisted Japanese companies, a situation which also exists in the United States, the greatest problem from the perspective of promoting foreign M&A had been the use of book-value accounting rather than mark-to-market accounting. Consolidated accounting is also critical to accurately pricing subsidiaries for sale or purchase. Fortunately for potential investors, the Japanese government is following a timetable for introduction of consolidated and mark-to-market accounting for listed firms:

Starting in JFY99, effective control standards and influence standards were introduced in place of conventional holding standards, expanding the range of subsidiary and affiliated companies included for the settlement of account. Consolidated disclosure of contingent liabilities, such as guarantees, began in April 1998.

Market-value accounting: Starting in JFY00, all marketable financial assets held for trading purposes must be recorded at market price, except for cross-shareholdings and other long-term securities holdings for which market-value accounting is deferred until JFY01.

Also starting in JFY00, companies are expected to disclose unfunded pension liabilities by valuing pension assets and liabilities at market price. However, companies may defer implementation of this decision until the following year.

These improvements leave unresolved the matter of reporting and disclosure by unlisted firms and financial institutions -- which is determined by the Ministry of Justice-administered Commercial Code, not the Ministry of Finance-administered Securities Law. However Financial Supervisory Agency guidelines do regulate unlisted financial institutions, including unlisted life insurance companies.

The greater focus on consolidated results and mark-to-market accounting is already having an impact and is encouraging unwinding of cross-held shares. Corporate restructuring is accelerating, and companies are rushing to reduce pension under-funding. Banks have stared disposing of low-yield assets (aided by the stock price rally at the end of JFY99). While the recent improvement in accounting standards and growth in M&A activity have been welcome, they have also exacerbated the shortage of accounting professionals.

Taxation and M&A: Another unresolved issue is the question of reconciliation of Japan's accounting and tax regimes. In the area of taxation, in addition to the lack of a consolidated taxation system (noted in section A.1 above), there is the problem of preferential tax treatment of initial public offerings. Under current regulations, if a company is sold in an M&A transaction before IPO listing, a 26% capital gains tax rate applies, whereas if the founding shareholder of a company "goes public" and then sells shares of the company into the market, a capital gains tax rate of only 13% applies (if the sale is within the first year after listing). Alternatively, after waiting one year, the entrepreneur can take advantage of an even lower tax rate of only 1% of gross transaction proceeds. These policies result in medium-sized Japanese owner-managed firms developing "IPO fever," with the anticipation of the windfall of OTC market listing -- even though it may or may not happen soon -- leading them to be reluctant to be acquired. (In one recent poll, 85% of questioned Japanese venture capitalists said they were aiming for OTC listing.) Acquisition, however, is more likely before listing than after listing -- when the stock is held more diffusely and the relative dormancy of Japanese capital markets combines with the difficulty of friendly or hostile acquisition by tender offer to make acquisition much more difficult. The Japanese government and Japan Securities Dealers Association are currently considering plans to amend this situation.

Bankruptcy Laws: Smooth and flexible bankruptcy procedures make it easier for a corporation and its assets to be acquired or merged in a "rescue" format, thereby preserving employment and protecting underlying corporate value. Legal proceedings for disposal of insolvent corporation in Japan were carried out in accordance with the Bankruptcy Law, the Composition Law, the Corporate Reorganization Law, and the Commercial Law (re-organization of a company, and special liquidation). The Japanese government recognizes that these laws need to be adjusted and proceedings reassessed from the viewpoint of the entire legal system concerning insolvency.

Accordingly, the Ministry of Justice conducted a review of Japanese insolvency laws, with an emphasis on reorganization–type disposition procedures covering small and medium-sized enterprises. To promote the rational and flexible rehabilitation of the business and economic activities of debtors in distress, the Law for Rehabilitation of Civil Affairs ("Civil Revitalization Law") was enacted and went into force in April 2000. This is a reconstruction-type bankruptcy law designed to replace the Composition Law. Its main features include improved protection of debtor assets prior to the start of rehabilitation procedures; easing of requirements for start of rehabilitation procedures; simplified and rational procedures for the examination and determination of liabilities; improved procedures for approval of rehabilitation plans; and the provision of measures for ensuring proper execution of rehabilitation plans.

Credit Markets: Domestic and foreign investors have free access to a variety of credit instruments at market rates. In general, foreign companies in Japan have not experienced significant difficulties in obtaining funding. Most foreign firms secure short-term credit by borrowing from Japanese commercial banks or one of the many (close to one hundred) foreign banks operating in Japan. Medium-term loans are available from commercial banks, as well as from trust banks and life insurance companies. Large foreign firms have tended to use foreign sources for long-term financial needs, although increasingly sophisticated derivatives products are becoming available to assist in hedging each foreign investors' perceived risk.

A.10. Political Violence:

In general, political violence is rare in Japan, and acts of political violence involving American business interests are virtually unknown. The media has played up rumors of right-wing groups harassing foreign firms that have acquired real estate associated with non-performing loans, but there does not appear to be much substance to these reports.

A.11. Corruption:

The penal code of Japan covers crimes of official corruption. An individual convicted under these statutes is subject, depending on the nature of the crime, to penal servitude ranging from one month to fifteen years, and possible fines up to three million yen or mandatory confiscation of the monetary equivalent of the bribe.

While corruption usually involves the exchange of moneys, the methods in which business is conducted in Japan can often lead to what some foreign Japan-watchers have described as "institutionalized corruption." For example, 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.

Amakudari is the practice whereby senior government officials retire into top positions in Japanese companies, usually in industries that they once regulated. These officials then function as in-house consultants on regulatory matters and as lobbyists to their former ministries and agencies. Amakudari individuals are particularly common in the financial, construction, transportation, and pharmaceutical industries -- which, not coincidentally, are traditionally heavily-regulated industries. Foreign companies usually do not enjoy such pipelines into the bureaucracy, and thus are somewhat disadvantaged in their ability to understand and deal with laws, regulations, and informal ministry guidance. This disadvantage has been ameliorated somewhat in recent years by the introduction of more-transparent administrative procedures.

While there have been some high profile exposures -- particularly over the past year -- of officials having either given or accepted bribes, the Japanese government has not had an aggressive record of criminal prosecution. Those prosecuted have generally received suspended sentences. In some cases, the government is in the dilemma of deciding how to handle past activities such as "wining and dining" which were commonplace at the time, but which are now more explicitly banned.

Following reform in 1993, numerous shareholder civil suits have been filed. Japanese law also provides for company directors to be found personally liable for the amount of the bribe, and some judgments have been rendered against company directors. This change may significantly impact the payment of bribes, as individuals are held personally liable without the shield of the company to protect them, although there is currently discussion within the ruling political party of new rules to make it harder to file shareholder derivative lawsuits.

Japan has also ratified the OECD Anti-Bribery Convention, which bans the bribing of government officials in countries outside Japan.

B. Bilateral Investment Agreements

The 1952 U.S.-Japan Treaty of Friendship, Commerce, and Navigation gives national treatment and most favored nation treatment to most U.S. investments in Japan.

U.S.-Japan Investment Arrangement: U.S. Government concerns regarding barriers to foreign investment in Japan continue to be addressed through bilateral discussions under the U.S.-Japan Economic Framework. In July 1995, the U.S. and Japan signed the “Policies and Measures Regarding Inward Direct Investment and Buyer-Supplier Relationships.” This document codified inward investment-related policies and promotion programs the Japanese government had instituted up to that time, and detailed further actions the GOJ intends to take to promote FDI into Japan. Significant measures included GOJ pledges to:

Extend the 1992 “Inward Investment Law” and to make its private participation promotion (or minkatsu) programs, including low interest loans and tax incentives, available to foreign investors; (As noted above, this law has been extended and will remain in effect until May 2006.)

Earnestly expand efforts to inform foreign firms about existing FDI-related financial and tax incentives, and to broaden eligibility criteria and lending under these programs; and

Strengthen the FDI promotion roles of such organizations as the Japan Investment Council, Office of the Trade and Investment Ombudsman, the Japan External Trade Organization, and the Foreign Investment in Japan Development Corporation (FIND).

Since July 1995, the bilateral Investment Working Group has met formally six times to review implementation of the “Policies and Measures” and to discuss other issues concerning FDI and buyer-supplier relations. Recent meetings focused on measures to improve the M&A environment in Japan, increase real estate market liquidity, and improve labor mobility. Expert hearings were held on these three subjects in July 1998. In addition, the Working Group organized two public symposia on M&A-related issues, and one public symposium on ways to improve Japanese local government investment incentives.

1999 Joint Report: In May 1999, the Working Group issued a detailed Joint Report to President Clinton and Prime Minister Obuchi concerning improvements in the environment for foreign investment in Japan and the U.S. Through this report, both governments emphasized the usefulness of increasing foreign investment flows into Japan and stressed their willingness to examine measures identified as important to improving the environment for foreign direct investment. In the report, the Working Group concluded that considerable steps have been taken toward improving the environment for foreign direct investment in Japan, and that improvement in Japan's environment for foreign direct investment is accelerating. At the same time, the Report noted that additional steps are both necessary and worthwhile. The Working Group met again in October 1999 and April 2000 to review progress.

2000 Investment Symposium: On March 1, 2000, the Ministry of International Trade and Industry of Japan, the U.S. Department of State and JETRO jointly hosted the "Investment-in-Japan 2000" in Tokyo, under the auspices of the U.S.-Japan Investment Working Group. The symposium brought together more than 30 leading experts on investment and business from the corporate, academic and government sectors of both nations. Before an audience of approximately six hundred people, these experts discussed in detail Japan's current investment climate. While the panelists gave much credit for the growth in investment in-flows and regulatory reforms Japan has undertaken in recent years, the panelists shared their recommendations regarding further changes to Japan's legislative, regulatory and tax systems which would facilitate investment for both Japanese and foreign firms.

C. OPIC And Other Investment Insurance Programs

OPIC insurance and finance programs are not available in Japan. Japan has been a member of the Multilateral Investment Guarantee Agency (MIGA) since it was established in 1988. Japan's capital subscription to the organization is the second largest among member countries, after the United States.

D. Labor

The Japanese labor market today suffers from demographic, macro-economic, and structural pressures, which are slowly but surely changing traditional Japanese employment practices. The regulatory philosophy which has formed Japan's post-war labor laws is also changing, although perhaps more slowly. Foreign investors seeking to hire highly qualified workers in Japan will welcome most of these changes.

Japanese employment practices have been said to rest on "three pillars:" lifetime employment, seniority-based wages, and enterprise unions. In fact, these three aspects of the Japanese labor market have always applied only to the larger firms, and today all three are rapidly eroding. Demographic pressures – fewer young workers and a rapidly aging labor force – as well as the need for structural changes in the Japanese economy are forcing most firms to abandon both lifetime employment guarantees and seniority-based wages. Although labor unions play an important role in the annual determination of wage increases throughout the economy, only 23% of Japanese workers are now union members. In firms with less than 100 employees, only 0.6% are unionized.

Investors should be aware of Japan's high wage structure. Workers earned an average of approximately 300,000 yen per month in base wages last year, with significant variations by education, age/seniority and position. Occupational wage differentials are much smaller than in most countries. However, the Japanese Federation of Employers estimates that base wages are only 58% of total wage costs. Annual summer and year-end bonuses add, on average, another

34%. Relatively high statutory welfare contributions are also required for basic government pensions, health and accident insurance, and unemployment insurance. Most companies also incur other employee welfare costs for family and/or transportation allowances, company-provided pension schemes, and such in-kind payments as housing for some employees. Off-setting these high wage costs, of course, is the fact that the Japanese work force is highly educated, disciplined, loyal to their employer, and motivated to assure the economic well-being of the company.

Japanese workers are classified as being either "regular" or "other" employees. Regular employees are usually recruited directly from schools or universities and given an employment contract with no fixed duration. A complex set of case law, resulting in the concept of the "abuse of the right of discharge" de facto grants such workers the guarantee of lifetime employment. Other employees are given fixed duration employment contracts, which generally cannot exceed one year but may be renewed several times over. Other employees also include part-timers, interns, and "dispatched workers" --as workers from temporary work agencies are called in Japan. Until very recently, only a few occupations could be handled by dispatched worker agencies but this is one area where Japanese labor law has in fact been deregulated.

The regulation of private, fee-charging employment agencies – including executive search firms – has also recently been liberalized. Although a fairly time-consuming and bureaucratic licensing procedure is still required, private employment agencies can now serve virtually the entire range of occupations. On-line, Internet based, job seeking and placement services are, however, only in their infancy in Japan – constrained partly by a Ministry of Labor requirement that every employment agency must personally interview each of its clients.

One other anomaly of the Japanese labor market is that there are no defined contribution pension plans. All pension schemes allowed to date are defined benefit plans. Since there is less than complete vesting in most corporate pension plans, this situation serves as an impediment to labor mobility by imposing costs on workers who voluntarily leave their current employer. Legislation now before the Diet would allow the introduction of defined contribution, portable pensions starting in 2001.

E. Foreign-Trade Zones/Free Ports

Japan no longer has any free-trade zones or free ports. Customs authorities, however, do allow the bonding of some warehousing and processing facilities in certain areas adjacent to ports on a case-by-case basis. The GOJ established a law in 1992 entitled the "Law on Extraordinary Measures for the Facilitation of Imports and Foreign Direct Investment in Japan" (effective July 1992 and valid until May 2006). Under the law, the GOJ helps increase access to the Japanese market for foreign goods and capital at government-designated "foreign access zones" near harbors and airports.

F. Capital Outflow Policy

In the 1990’s Japan has generally continued to be a net exporter of long term capital, albeit of a lesser magnitude in the late 1980’s.

The Japanese Government believes that overseas direct investment will expedite the industrial adjustment of the Japanese economy through its effects of replacing exports and expanding re-imports from Japanese “transplants” overseas.

APPENDIX INVESTMENT STATISTICS

The following tables incorporate JFY99 data for both inward and outward foreign investment in Japan. The data show a drop in U.S. investment in Japan, after the remarkable increase in JFY98. However, total foreign investment in Japan, led by sharp increases by France, the Netherlands and the Cayman Islands, doubled in JFY99, increasing about 400% since JFY97. Japanese investment overseas rebounded as well in JFY99, but the overall ratio of inward FDI remained nearer OECD average levels.

Although the number of cases of U.S. FDI in Japan remained roughly the same as in JFY98, the value was barely half the previous year's total. While there was increased U.S. investment in machinery (by far the largest sector for U.S. investors) and communications, investment in financial services/insurance and services dropped sharply.

The official statistics below represent notification to the Ministry of Finance (MOF) of authorization by MOF of specific planned investment projects (as reported to MOF by companies), not necessarily actual flows of investment. Thus these figures generally exceed by a substantial amount actual investment flows as reported in Japan's balance of payments data. (At the same time, neither the data below nor the balance of payments statistics capture re-investment of profits by foreign firms operating in Japan, or Japanese firms operating overseas. Therefore, according to some academic researchers, both types of official data misstate actual foreign capital investment by a wide margin.)

All data in the tables below is from MOF, current as of June 2000, and converted into dollars using each year’s average exchange rate. JF97 data was converted 122.68 yen to the dollar, JFY98 data at 128.02 yen to the dollar, JFY 99 data at 111.54 yen to the dollar.

Table 1: Annual New FDI Into Japan (Billions of Dollars)

JFY	1992	1993	1994	1995	1996	1997	1998	1999
	4.08	3.08	4.16	3.83	6.84	5.53	10.47	21.5

Ratio of Japan's Inward to Outward FDI Flows

JFY	1992	1993	1994	1995	1996	1997	1998	1999
	1:8.4	1:11.7	1:9.9	1:13.4	1:7.02	1:9.77	1:3.9	1:3.1

Table 2: Foreign Direct Investment in Japan, by country

(Million dollars; annual flow; reporting basis)

	JFY 1997	JFY 1998	JFY 1999	Cumulative Total JFY'50-99
N. America	1,240	6,634	3,741	30,745
U.S.	1,237	6,620	2,230	27,506
Canada	2	14	1,512	3,239
Europe	2,509	2,477	12,674	31,154
Neth'lds	1,193	1,049	4,224	10,485
U.K.	364	303	805	3,461
Germany	450	275	419	3,587
Switz.	156	236	344	3,199
France	76	138	6,685	7,765
Asia	605	173	986	986
Singapore	157	60	661	661
Taiwan	40	46	118	118
Hong Kong	333	39	108	1,382
Korea	68	16	95	n/a
L. America	482	281	2,595	n/a
Cayman Isles	430	178	2,257	n/a
BVI	40	11	209	n/a
Bermuda	3	56	56	n/a
Total	5,528	10,985	21,511	n/a

Table 3: Foreign Direct Investment in Japan, by industry

(Million dollars; annual flow; reporting basis)

	JFY 1997	JFY 1998	JFY 1999	Cum. Total JFY 1950-1999
Manufact.	2,180	2,442	8,783	36,425
Machinery	1,184	1,663	7,757	20,950
Chemicals	603	310	541	8,890
Metals	2	16	160	2,144
Rubr/Lthr	153	37	63	1,554
Petroleum	47	66	121	617
Textiles	15	28	2	639
Foods	18	202	13	210
Glass/Cer	6	-	51	171
Other	151	120	76	1,251

Non-manuf.	3,349	8,028	12,727	41,409
Finance/Ins	1,317	3,569	4,586	9,862
Trade	812	1,374	3,124	10,174
Services	724	2,485	1,845	14,098
Real Estate	393	325	151	2,242
Telecom	27	131	2,959	3,441
Transport	3	48	20	287
Construction	2	11	20	141
Other	71	87	22	1,165
Total	5,528	10,470	21,511	77,837

Table 4: U.S. Direct Investment in Japan, by industry
(Note: Data is actually, North America, not U.S.)
(Million dollars; annual flow; reporting basis)

	JFY 1998 $ Amount	# of cases	JFY 1999 $ Amount	# of cases
Manufact.	1,300	66	1,711	64
Machinery	1,033	48	1,557	35
chemicals	16	5	26	12
Metals	-	0	30	2
Foods	200	5	5	2
Non-manuf.	5,023	569	2,030	570
Finance/Ins.	2,540	105	543	68
Commerce/Trade	370	167	149	141
Services	1,762	202	961	280
Real Estate	248	61	48	47
Telecom	18	18	312	27
Construction	11	2	11	4
Total	6,323	635	3,741	634

Table 5: Japanese Direct Investment Overseas, by country

(Million dollars; annual flow; reporting basis)

	JFY 1997	JFY1998	JFY 1999	Cum. Total (JFY'50-'99)
N. America	21,395	10,944	24,770	306,038
U.S.	20,774	10,316	22,295	292,469
Canada	620	627	2,474	13,567

Europe	11,207	14,011	25,804	156,848
U.K.	4,120	9,781	11,718	66,342
Netherlands	3,296	2,118	10,360	37,812
Germany	732	553	649	11,116
France	1,736	520	1,127	11,896
Ireland	567	361	460	n/a
Spain	232	122	518	n/a
Asia	12,185	6,528	7,162	126,064
Thailand	1,867	1,371	816	13,882
Indonesia	2,515	1,076	918	25,509
China	1,987	1,065	751	19,521
Singapore	1,824	637	962	15,258
Hong Kong	695	601	971	18,782
Malaysia	791	514	525	9,334
Philippines	523	379	617	5,613
South Korea	443	302	980	7,857
India	434	257	208	n/a
Taiwan	450	224	285	5,932
Vietnam	311	51	99	n/a
L. America	6,338	6,463	7,437	83,710
Cayman Isles	2,539	4,495	2,242	20,232
Panama	1,119	1,040	1,413	28,038
Brazil	1,183	466	654	12,331
BVI	681	177	1,041	n/a
Mexico	320	83	1,484	5,003
Bermuda	195	16	145	4,864
Oceania	2,058	2,213	894	36,129
Australia	1,669	1,387	857	31,257
Africa	332	444	515	9,800
Liberia	161	386	217	7,873
South Africa	131	52	157	n/a
Middle East	471	146	113	5,858
Saudi & Kuwait	132	120	106	901
UAE	196	-	2,890	n/a
Israel	-	5	2	n/a
Total	53,985	40,751	66,694	723,749

Table 6: Japanese Direct Investment Overseas, by industy

(Million dollars; annual flow; reporting basis)

	JFY 1997	JFY1998	JFY 1999	Cumulative Total (JFY '50-'99)
Manufacturing	19,344	12,253	42,310	241,968
Electrical	6,691	3,419	16,350	68,222
Chemicals	3,014	2,247	1,694	30,072
Transport	2,909	1,607	4,781	32,209
Food	572	1,270	14,908	25,704
Metals	1,413	1,223	1,458	21,926
Machinery	1,284	795	995	19,502
Lumber/Pulp	351	677	116	6,215
Textiles	959	341	260	9,392
Other	2,151	673	1,749	28,619
Non-manufacturing	34,067	28,140	24,178	471,812
Finance/Ins.	11,973	16,376	9,885	139,246
Comm/Trade	4,376	3,777	3,877	71,906
Real Estate	5,535	2,810	2,114	93,784
Services	6,480	2,053	4,314	84,837
Transport	2,342	1,898	2,771	37,509
Mining	2,687	874	922	27,358
Construction	456	294	182	5,636
Ag/Forestry	56	33	81	2,451
Fisheries	109	20	26	1,478
Total	53,985	40,751	66,694	723,749

Source: Japanese Ministry of Finance, June 2000

Table 7: Foreign Direct Investment in Japan relative to GDP

	1996	1997	1998	1999
Nominal GDP (a) (trillion yen)	504.4	507.6	487.3	493.8
FDI Inflow (b) (100 billion yen)	7.7	6.8	13.4	24
10 (b/a)	0.15	0.13	0.27	0.49

Source: Japanese Ministry of Finance, June 2000

Restricted Investment Sectors Requiring Prior Notification:

Agriculture
Forestry
Fisheries
Crude Petroleum and Natural Gas Production
Tobacco Manufacturing
Fur Apparel and Apparel Accessories
Miscellaneous Chemical and Allied Products (This sector is unrestricted except for explosives, gelatin, and adhesives.)
Paving materials
Miscellaneous Petroleum and Coal Products. (This sector is unrestricted except for petroleum products.)
Manufacture of Rubber/Plastic Footwear and Accessories
Leather Tanning and Manufacture of Leather Products and Skins
Manufacture of Electrical Generating, Transmission, Distribution, and Industrial Apparatus (This sector is unrestricted except for industries related to aircraft, ordnance, atomic power, and space development.)
Manufacture of Communication Equipment and Related Products. (This sector is unrestricted except for industries related to aircraft, ordnance, atomic power, and space development.)
Ship Building and Repairing, and Manufacture of Marine Engines. (This sector is unrestricted except for industries related to aircraft, ordnance, atomic power, and space development.)
Manufacture of Aircraft and Aircraft Parts
Miscellaneous Transportation Equipment. (This sector is unrestricted except for industries related to aircraft, ordnance, atomic power, and space development.)
Manufacture of Ordnance
Electricity Generation and Distribution
Gas
Heat Supply
Water and Water Supply
Railways, Coastal Transport, and Inland Water Transport
Air Transport
Airplane Services
Ordinary Warehousing (This sector is unrestricted except for industries related to petroleum reserves.)
Communication
Postal Services
Telephone and Telegraph, except Wire Broadcasting Telephone (This sector is unrestricted except for Type I telecommunications business, as defined by Article 6 of the Telecommunications Business Law.)
Services Incidental to Communication (This sector is unrestricted except for telecommunications of Type I carriers in accordance with Article 15 of the Telecommunications Business Law.)
Regional Financial Institutions for Agriculture, Forestry, And Fisheries
Exchanges and Exchange Clearing Houses
Bicycle, Horse, Motorcar, and Motorboat Race Companies
Radio and Television Broadcasting

Guard Services

Designated Technologies Requiring Prior Approval and Technology Import Contracts:

Aircraft
Arms and Explosives Manufacturing
Nuclear Energy
Space Development

CHAPTER VIII TRADE AND PROJECT FINANCING

A. DESCRIPTION OF THE BANKING SYSTEM

Although financial system deregulation and international competitive pressure is starting to change the face of Japanese banking, the connection between corporate finance and banking institutions and non-financial corporations remain much tighter in Japan than in the United States; and extend far beyond simple lender/borrower relationships. Much corporate banking business is rooted in either "keiretsu" or regional relationships, and Japanese banks are frequently shareholders in companies that conduct banking business with them. Japanese companies are traditionally highly leveraged in comparison with their U.S. counterparts, as such banks take an active role in maintaining the financial health of their clients.

This unique relationship between a company and its bank has been long-standing; until recently, a Japanese company rarely changed its primary lender, although it would occasionally "shop around" for better credit arrangements. Even when credit is loose, companies sometimes borrow in excess of their need in order to maintain good relations with their bank and to ensure that funds will be available in leaner years. Banks are often large shareholders in publicly traded corporations, have close relationships with both local governments and national regulatory agencies, and often play a coordinating role among their clients. The collapse of the asset price "bubble" and the consequent worsening of bank balance sheets since the early 1990s, as well as corporate borrowing outside of traditional channels has increasingly tapped international capital markets, and placed traditional banking systems under considerable strain. However, it remains safe to say that the Japanese commercial bank system is much more relationship oriented than the transaction-based U.S. system.

While large corporations with suitable credit ratings (especially export-oriented firms) can rely on corporate bond issues rather than banks for financing, bank lending continues to be the primary financing method for small and medium sized companies. However, after the "bubble" economy of the late 1980s and early 1990s, Japanese banks have had a harder time maintaining strong capital positions, and consequently have become more restrictive, leading to a credit crunch. In November 1996, the Japanese government embarked on a "Big Bang" financial sector reform initiative which may have an important impact on Japanese banking and corporate finance patterns in the coming years. One of the first features of the Big Bang, lifting of restrictions on individual investment in certain types of foreign currency assets, was initiated in April, 1998. While the actual long term market impact of this liberalization still remains to be seen, the psychological impact in raising awareness of the potential effects of deregulation are now apparent.

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 costs a few hundred yen on average), or by sending cash through the postal system. The banks (and now investment/securities firms) continue to wage an uphill battle against the postal savings system for consumer deposits, a fight that has become more difficult recently due to the perceived superior safety of the postal deposit system. The postal system enjoys regulatory permission to pay higher rates than commercial banks (and is in turn an important source of working capital for the government). However, the postal deposit system cannot approach the annual returns offered by investing in the security firms' investment products

Personal checking accounts are almost unknown in Japan. Most individuals use electronic bank transfers to settle accounts. Cash settlement is also very common and the Post Office has a mechanism for payment by "cash envelope" which is widely used in direct marketing and other applications. Many Japanese banks now operate 24-hour cash machines (as do some credit card companies). Bank and other credit cards are easy to obtain and are widely accepted. In FY 1999,over 226 million credit cards were held by Japanese consumers. 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.

B. FOREIGN EXCHANGE CONTROLS AFFECTING TRADE

Foreign exchange regulations have almost no impact on normal business transactions. One deregulatory action likely to lower foreign exchange transaction costs is the revision of Japan's Foreign Exchange Law, which went into force in April 1998, and enabled a broad variety of institutions to conduct foreign exchange transactions. Prior to that action, only "authorized foreign exchange banks" could undertake such transactions, a system which dated back to Japan's opening to the West in the late 19th century.

C. GENERAL AVAILABILITY OF FINANCING

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 have stated 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 better treatment from Japanese banks.

While most American 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).

D. HOW TO FINANCE EXPORTS / METHODS OF PAYMENT

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 American 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 tegata if there are cash flow problems.

E. TYPES OF AVAILABLE EXPORT FINANCING AND INSURANCE

The Government of Japan's programs to promote imports and foreign investment in Japan include tax incentives, loan guarantees, low-cost loans to Japanese and foreign investors for import infrastructure through the Development Bank of Japan and other loan programs. Underscoring the Government's emphasis on import promotion, both MITI and JETRO have established import divisions. In addition, Japan has a program to develop 21 Foreign Access Zones (some are still under construction) to offer enhanced import infrastructure facilities and eligibility for preferential tax treatment and low-cost loans.

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

The Japan Bank for International Cooperation's import credit program for manufactured goods aims to provide support for the import of manufactured goods from developed countries to Japan. Five-year secured or guaranteed loans 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 which will 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 two loan programs designed to increase imports into Japan. These loans are available to foreign companies and foreign owned companies for 50 percent of debt financing, or 60 percent within a Foreign Access Zone, for the expansion of business operations in Japan and also for those who are planning to establish a business in Japan. The DBJ and the U.S. Small Business Administration have published "Inside Washington and Tokyo: A Business Guide to U.S. and Japanese Government Assistance" a free booklet that highlights DBJ programs.

The Japan Finance Corporation for Small Business and National Life Finance Corporation have expanded their program to facilitate import sales. The program aims to provide support to small-scale retailers, wholesalers and importers in Japan for investments to increase imports to Japan.

A program between U.S. Eximbank and the Export-Import Insurance Division of MITI (EID/MITI) provides for co-financing insurance for U.S. exports to developing countries.

EID/MITI will also be providing advance payment insurance for U.S. exports to Japan. For additional details on these and other cooperative financing programs, U.S. companies should contact U.S. Eximbank.

No insurance for U.S. exporters is available from the Japanese Government.

F. AVAILABILITY OF PROJECT FINANCING, INCLUDING OPIC AND EXIMBANK PROJECT FINANCE, AS WELL AS LENDING FROM MULTINATIONAL INSTITUTIONS

In addition to the investment loan programs from Japanese Government-affiliated lenders described in section E above, prefectures and municipalities offer various incentives, including construction, land acquisition and labor hiring subsidies, special depreciation of business assets, tax deferments for replacement of specific assets, exemption from special land-owning taxes assessed by municipalities and prefectural and municipal real estate acquisition, enterprise and municipal property tax reductions. In addition, most prefectures offer loan programs to encourage companies to establish local operations.

Japan’s venture capital specialist funds are only one-quarter the size of those in the United States. Over-the-counter equity financing in recent years exceeded 60 billion yen. Ministry of Finance guidance to brokers to set tough standards for companies seeking to go public results in even the best companies taking up to a decade to get a listing on the over-the-counter stock market -- less than 1000 over-the-counter stocks are listed on the 7-year-old JASDAQ, Japan’s electronic OTC market. In June 2000, NASDAQ Japan opened with eight listed companies.

G. TYPES OF PROJECTS RECEIVING FINANCING SUPPORT

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

JBIC is a governmental institution that deals with external economic policy issues such as encouraging exports, securing access to energy resources, promoting direct overseas investments and improving Japan’s external imbalances through financial assistance to the trade and investment activities of Japanese companies.

The financial facilities offered by JBIC include export loans, import loans, overseas investment loans and untied loans. JBIC also provides loan guarantees to private financial institutions, short-term loans designed to finance the external transactions of the governments of developing nations (bridge loans), and equity participation in the overseas projects of Japanese companies. As of the end of FY1999, JBIC’s loans, equity participation and guarantees outstanding amounted to ¥11,218.0 billion (US $98.4 billion).

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 targets the economic development of developing countries.

Overseas Investment Loans and Overseas Project Loans:

These loans are typically granted via JBIC and extended to Japanese corporations for overseas investment activities and overseas projects. Overseas investment loans can also be made to overseas joint ventures involving Japanese capital and to foreign governments for capital investments or loans to joint ventures involving Japanese capital.

Un-Tied Loans:

Extended to foreign governments, foreign governmental institutions, foreign financial institutions (including multilateral development banks), foreign corporations, and so forth 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.

H. LIST OF BANKS WITH CORRESPONDENT U.S. BANKING ARRANGEMENTS

Besides the more than 20 U.S. banks with branches in Japan, many U.S. banks have correspondent relationships with Japanese banks, which themselves have many branches and subsidiaries in the United States.

Commercial Banks in Japan

Asahi Bank
1-1-2 Ohtemachi, Chiyoda-ku, Tokyo 100-8106
Phone: +81/3/3287-2111 Fax: +81/3/3212-3484
www.asahibank.co.jp

Bank of Tokyo-Mitsubishi
2-7-1 Marunouchi, Chiyoda-ku, Tokyo 100-8388
Phone: +81/3/3240-1111 Fax: +81/3/3240-4764
www.btm.co.jp

Daiichi Kangyo Bank
1-1-5 Uchisaiwai-cho, Chiyoda-ku, Tokyo 100-0011
Phone: +81/3/3596-1111 Fax: +81/3/3596-2179
www.dkb.co.jp

Daiwa Bank
2-2-1 Bingo-machi, Chuo-ku, Osaka 540-8610
Phone: +81/6/6271-1221 Fax: +81/6/6268-1337
www.daiwbank.co.jp

Development Bank of Japan
1-9-1 Ohtemachi, Chiyoda-ku, Tokyo 100-0004
Phone: +81/3/3244-1770 Fax: +81/3/3245-1938
www.dbj.go.jp

Fuji Bank
1-5-5 Ohtemachi, Chiyoda-ku, Tokyo 100-0004
Phone: +81/3/3216-2211 Fax: +81/3/3201-0527
www.fujibank.co.jp

Industrial Bank of Japan
1-3-3 Marunouchi, Chiyoda-ku, Tokyo 100-8210
Phone: +81/3/3214-1111 Fax: +81/3/3215-0367
www.ibjbank.co.jp

Japan Bank for International Cooperation
1-4-1 Ohtemachi, Chiyoda-ku, Tokyo 100-8144
Phone: +81/3/5218-3579 Fax: +81/3/5218-3968
www.jbic.go.jp

Sakura Bank
1-3-1 Kudan-Minami, Chiyoda-ku, Tokyo 100-8611
Phone: +81/3/3230-3111 Fax: +81/3/3239-1022
www.sakura.co.jp

Sanwa Bank
3-5-6 Fushimi-machi, Chuo-ku, Osaka 541-8530
Phone: +81/6/6206-8111 Fax: +81/6/6229-9305
www.sanwabank.co.jp

Sumitomo Bank
1-3-2 Marunouchi, Chiyoda-ku, Tokyo 100-0005
Phone: +81/3/3282-5111 Fax: +81/3/3282-8293
www.sumitomobank.co.jp

Multilateral Development Bank Offices in Country

Asian Development Bank
Second floor, Yamoto Seimei Building
1-1-7 Uchisaiwa-cho, Chiyoda-ku, Tokyo 100-0011, Japan
Tel: No. +81/3/-3504-3160 Fax: +81/3/3504-3165
E-mail: adbjro@adb.org
www.adb.org

CHAPTER IX BUSINESS TRAVEL

A. BUSINESS CUSTOMS

An understanding of Japanese business and social practices is of great importance in establishing and maintaining successful business relationships in Japan. Indifference to local business practices may indicate a lack of commitment on the part of the exporter, and may lead to misunderstandings and bad feelings between both sides which could result in the loss of business opportunities. One should not assume that because meetings and correspondence are carried out in English, Western social and business norms apply.

Japanese society is complex, structured, hierarchical and group-oriented with strong emphasis on maintaining harmony and avoiding surface confrontation. Japanese religious practice tends to be socially-oriented and selective rather than a matter of deep personal commitment; ethics tend to be situational. Building relationships (which will probably precede the first sale) should emphasize mutual trust, confidence, loyalty and commitment for the long term.

Group decision making is emphasized in Japan and has been generally described as bottom up rather than top down. Family businesses founded since WWII and smaller second tier firms are 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 group decision-making tends to be slower. Recognizing that it takes a longer time to cultivate business relationships in Japan than in the United States, American business executives should not expect to make a deal in just a few days or they will depart in frustration, having made no progress. Consistent follow-up is vital. Likewise, American 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. The 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 4 is pronounced the same as the word for death). Gifts that can be shared among a group are appropriate.

Business travelers to Japan should have bilingual business cards with the traveler's title. 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 name basis in business relationships, and initial business and social contacts are characterized by politeness and formality.

Using a professional interpreter in business meetings is highly recommended, although expensive, even if the Japanese side is supplying one and even if the Japanese side speaks good English. This shows proper preparation, gives an opportunity to observe the other side more closely and assures better communication.

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. Contractual commitments are perceived as representing long-term relationships. Therefore, a company should consider carefully whether to grant exclusive rights to an unknown Japanese company.

U.S. Business travelers are encouraged to obtain a copy of the "Key Officers of Foreign Service Posts: Guide for Business Representatives" available for sale by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402; TEL. (202) 512-1800; FAX (202) 512-2250. Business travelers to Japan seeking appointments of U.S. Embassy Tokyo officials should contact the Commercial Section in advance. The Commercial Section can be reached by fax at 81/3/3589-4235, or email at office.tokyo.box@mail.doc.gov.

B. TRAVEL ADVISORY AND VISAS

There are no State Department travel advisories for Japan. Japan is noted for its low crime and safe streets. A valid U.S. passport is necessary to enter and travel in Japan, and by Japanese law non-residents are required to carry their passports at all times. A visa is not required for short-term business visits (up to 90 days) with a round-trip air ticket. If one plans to work in Japan, a visa is required. A work or investor visa may take up to two months to receive. Immunization and health certificates are not required. Foreign residents 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 (if arriving without a visa) are in order. Passengers should exchange U.S. dollars for yen before leaving the airport, especially if arriving at night, on a holiday, or on a Sunday.

C. HOLIDAYS

The following lists Japanese annual holidays. When a national holiday falls on a Sunday, the following Monday is a compensatory day off. In addition, many Japanese companies and government offices traditionally close during the New Year's holiday season (December 28-January 3), "Golden Week" (April 29-May 5) and the traditional O-Bon Festival (usually August 12-15).

January 1	New Year's Day
January 8	Adult's Day
February 11	National Foundation Day
March 20	Vernal Equinox Day
April 29	Greenery Day
May 3	Constitution Memorial Day
May 4	(Declared Official Holiday)
May 5	Children's Day
July 20	Marine Day

September 15	Respect-for-the-Aged
September 23	Autumnal Equinox Day
October 8	Health-Sports Day
November 3	Culture Day
November 23	Labor Thanksgiving Day
December 23	Emperor's Birthday

D. WORK WEEK

Monday through Friday 9:00 a.m. to 5:00 p.m. Flex work hours became popular at large companies.

E. BUSINESS INFRASTRUCTURE

Japan's business infrastructure is on a par with the U.S. All business traveler services are available. For additional information on traveling to Japan, contact the Japan National Tourist Organization (JNTO) at Phone: 212-757-5640, Fax 212-307-6754, or visit the Website: http://www.jnto.go.jp/.

F. TEMPORARY ENTRY OF GOODS

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 (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. A Carnet should be arranged for in advance by contacting a local office of the United States Council for International Business or its New York office at Phone: 212-354-4480.

CHAPTER X ECONOMIC AND TRADE STATISTICS

COUNTRY DATA

Population (*): 126,770,000 (as of January 1, 2000)

Population Growth Rate: 0.25 percent

Religions: Buddhism and Shinto
(Christianity: 1 percent of population)

Government System: Constitutional Monarchy/Parliamentary Democracy

Language: Japanese; English is the primary second language

Work Week (*): Monday through Friday 9:00 a.m. to 5:00 p.m.; average weekly hours worked as of April 2000 is 42.8 hours.

Sources: GOJ Statistics Bureau

APPENDIX A DOMESTIC ECONOMY

(Billions of U.S. Dollars)

C.Y	1997 (actual)	1998 (actual)	1999 (actual)
Gross Domestic Product	4,211.9	3808.2	4346.8
GDP growth rate (percent)	1.6	-2.5	0.2
GDP per capita (USD)	33357	30086	34283
Government spending as a percentage of GDP	17.5	17.8	18.3
Inflation (CPI)(percent)	1.8	0.6	-0.3
Unemployment (percent)	3.4	4.1	4.7
Foreign Exchange Reserves	220.8	215.9	288.1
Average Exchange Rate YEN/USD (used in this table) *****	121.0	130.9	113.9
Debt Service Ratio	NONE	NONE	NONE
U.S. Economic Military/ Economic Assistance	NONE	NONE	NONE

Source: government of Japan

APPENDIX B TRADE

(Billions of U.S. Dollars)

C.Y	1997 (actual)	1998 (actual)	1999 (actual)

Total country exports (*)	409.21	374.38	403.88
Total country imports (*)	307.75	251.66	280.49
U.S. exports (**)	65.67	57.90	58.61
U.S. imports (**)	124.26	125.10	127.78
Average Exchange rates YEN/USD	121.0	130.9	113.9(used in this table)

Sources:
* Ministry of Finance
** USDOC data

CHAPTER XI U.S. AND COUNTRY

U.S. Embassy Trade Personnel

Commercial Service Tokyo
Alan Turley, Minister-Counselor for Commercial Affairs
U.S. Embassy, Tokyo
1-10-5 Akasaka, Minato-ku, Tokyo 107-8420
Phone: +81/3/3224-5060 Fax: +81/3/3589-4235
www.csjapan.doc.gov

American Business Information Center (ABIC)
Phone: +81/3/3224-5075 Fax: +81/3/3589-4235
(U.S. Address: Unit 45004, Box 204, APO AP 96337-5004)

Ira Kasoff, Counselor
E. Keith Kirkham, Attache, Information Technology
Rick A. de Lambert, Attache, Transport, Machinery & Safety
John E. Simmons, Attache, Medical Equipment, Healthcare & Intellectual Property Protection
Greg Briscoe, Attache
Steven Corless, Attache

U.S. Trade Center
Frank G. Carrico, Director
World Import Mart 7F
3-1-3 Higashi-Ikebukuro, Toshima-ku, Tokyo 170-8630
Phone: +81/3/3987-2441 Fax: +81/3/3987-2447
(U.S. Address: c/o American Embassy Tokyo
Unit 45004, Box 229, APO AP 96337-5004)

Commercial Service Osaka
Kenneth B. Reidbord, Principal Commercial Consul
Charles Reese, Commercial Consul
American Consulate General Osaka-Kobe
2-11-5 Nishitenma, Kita-ku, Osaka 530-8543
Phone: +81/6/315-5957 Fax: +81/6/315-5963
(U.S. Address: Unit 45004, Box 239, APO AP 96337-5004)

Commercial Service Nagoya
Gary Konop, Principal Commercial Consul
American Consulate Nagoya
3-10-33 Nishiki, Naka-ku, Nagoya 460-0003
Phone: +81/52/203-4277 Fax: +81/52/201-4612
(U.S. Address: Unit 45004, Box 280, APO AP 96337-5004)

Commercial Service Sapporo
Michael Meserve, Consul General
Peter H. Barlerin, Econ/Commercial Officer
American Consulate General Sapporo
Nishi 28, Kita 1, Chuo-ku, Sapporo 064-0821
Phone: +81/11/641-1115 Fax: +81/11/643-1283
(U.S. Address: Unit 45004, Box 276, APO AP 96337-5004)

Commercial Service Fukuoka
Scott A. Smith, Consul
American Consulate Fukuoka
2-5-26 Ohori, Chuo-ku, Fukuoka 810-0052
Phone: +81/92/751-9331 Fax: +81/92/725-3772
(U.S. Address: Unit 45004, Box 242, APO AP 96337-5004)

Naha Consulate
Robert S. Luke, Consul General
American Consulate General Naha
No.2564 Nishihara, Urasoe City, Okinawa 901-2101
Phone: +81/98/876-4211 Fax: +81/98/876-4243
(U.S. Address: PSC 556, Box 840, FPO AP 96372-0840)

Foreign Agricultural Service
Suzanne K. Hale, Minister-Counselor for Agricultural Affairs
(effective November, 2000)
Michael D. Woolsey, Senior Agricultural Attache
Casey E. Bean, Agricultural Attache
Kevin Latner, Agricultural Attache (effective August, 2000)
Terrence Barber, Senior Director, Japan ATOs (until August, 2000)
David C. Miller, Director, Agricultural Trade Office (Tokyo)
Karen B. Halliburton, Deputy Director, Agricultural Trade Office (Tokyo)

Daniel A. Martinez, Director, Agricultural Trade Office (Osaka)
U.S. Embassy, Tokyo
1-10-5 Akasaka, Minato-ku, Tokyo 107-8420
(U.S. Address: Unit 45004, Box 226, APO AP 96337-5004)
Phone: +81/3/3224-5105 Fax: +81/3/3589-0793
ATO Tokyo Phone: +81/3/3505-6050 or +81/3/3224/5115 Fax: +81/3/3582-6429
ATO Osaka Phone: +81/6/6315-5904 Fax: +81/6/6315-5906
www.atojapan.org

State Department Economic Section
Michael W. Michalak, Minister-Counselor for Economic Affairs
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1-10-5 Akasaka, Minato-ku, Tokyo 107-8420
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Energy Department
Giulia Bisconti, Energy Attache
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(U.S. Address: Unit 45004, Box 219, APO AP 96337-5004)
Phone: +81/3/3224-5444 Fax: +81/3/3224-5769

Treasury Department
Robert Dohner, Financial Attache
U.S. Embassy, Tokyo
1-10-5 Akasaka, Minato-ku, Tokyo 107-8420
(U.S. Address: Unit 45004, Box 216, APO AP 96337-5004)
Phone: +81/3/3224-5486 Fax: +81/3/3224-5490

Washington-based U.S. Government Japan Contacts

U.S. Department of Commerce
Majory E. Searing, Acting Assistant Secretary and Director General of the
U.S. Foreign and Commercial Service
Robert Francis, Office Director, Japan
Office of Japan (OJ)
International Trade Administration
Room 2320, 14th Street and Constitution Avenue, N.W., Washington, DC 20230
OJ Phone: 202-482-1820 Fax: 202-482-0469

For further contact information on the U.S. Department of Commerce and U.S. based multipliers relevant for Japan, please contact the OJ.

Japanese Trade Associations/Chambers of Commerce

KEIDANREN
Masakazu Kubota, Director
International Relations Bureau
1-9-4 Ohtemachi, Chiyoda-ku, Tokyo 100-8188
Phone: +81/3/3279-1411 Fax: +81/3/5255-6255
www.keidanren.or.jp

KEIZAI DOYUKAI
Tohru Anjo, Managing Director, Research and International Development
Nihon Kogyo Club Bldg., 1-4-6 Marunouchi, Chiyoda-ku, Tokyo 100-0005
Phone: +81/3/3284-0220 Fax: +81/3/3212-3774
www.doyukai.or.jp

Japan Foreign Trade Council, Inc.
Shigetoshi Matsumoto, General Manager, International Affairs and Research Group
World Trade Center Bldg.
2-4-1 Hamamatsu-cho, Minato-ku, Tokyo 105-6106
Phone: +81/3/3435-5950 Fax: +81/3/3435-5979
www.jftc.or.jp

Japan-U.S. Business Council
Kunihiko Maeda, Executive Director
Otemachi Bldg. Suite 439, 1-6-1 Otemachi, Chiyoda-ku, Tokyo 100-0004
Phone: +81/3/3216-5823 Fax: +81/3/3284-1576

Japan Chamber of Commerce and Industry
Matsuo Shimojima, General Manager
International Div.
Tosho Bldg., 3-2-2 Marunouchi, Chiyoda-ku, Tokyo 100-0005
Phone: +81/3/3283-7607 Fax: +81/3/3216-6497
www.jcci.or.jp/home-e.html

Tokyo Chamber of Commerce & Industry
Matsuo Shimojima, General Manager
International Div.
Tosho Bldg., 3-2-2 Marunouchi, Chiyoda-ku, Tokyo 100-0005
Phone: +81/3/3283-7607 Fax: +81/3/3216-6497
www.tokyo-cci.or.jp

Osaka Chamber of Commerce and Industry
International Division
Shunji Kawamura, Director
2-8 Honmachi-bashi, Chuo-ku, Osaka 540-0029
Phone: +81/6/6944-6400 Fax: +81/6/6944-6293
http://new.osaka.cci.or.jp/e/

Kansai Economic Federation (Kankeiren)
Teruo Aoyagi, General Manager
International Affairs Department
Nakanoshima Center Bldg. 30F
6-2-27, Nakanoshima, Kita-ku, Osaka 530-6691
Phone: +81/6/6441-0104 Fax: +81/6/6441-0443
www.kankeiren.or.jp

The Kansai Committee for Economic Development
(KANSAI KEIZAI DOYUKAI)
Shuichi Kaneko, Senior Researcher
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6-2-27, Nakanoshima, Kita-ku, Osaka 530-6691
Phone: +81/6/6441-1031 Fax: +81/6/6441-1030
http://kdoyukai.on.arena.ne.jp

Nagoya Chamber of Commerce and Industry
Takanori Kitamura, General Manager, International Division
2-10-19 Sakae, Naka-ku, Nagoya 460-8422
Phone: +81/52/223-5729 Fax: +81/52/232-5751
www.nagoya-cci.or.jp

The American Chamber of Commerce in Japan (ACCJ)
5F, Bridgestone Toranomon Bldg.
3-25-2 Toranomon, Minato-ku, Tokyo 105-0001
Phone: +81/3/3433-5381 Fax: +81/3/3436-1446
www.accj.or.jp

The American Chamber of Commerce in Japan (ACCJ) Kansai Chapter
Herbis Plaza Bldg. 6F, 2-5-25 Umeda, Kita-ku
Osaka 530-0001
Phone: +81/6/6343-7505 Fax: +81/6/6343-7506
www.accj.or.jp

Agricultural Trade Associations

Japan Chain Stores Association
Toranomon #40 Mori Bldg., 5-13-1 Toranomon
Minato-ku, Tokyo 105-0001
Phone: +81/3/3433-1290 Fax: +81/3/3433-1297

Japan Confectionery Association
JB Bldg. 7F, 6-9-5 Shinbashi
Minato-ku, Tokyo 105-0004
Phone: +81/3/3431-3115 Fax: +81/3/3432-1660

Japan Convenience Foods Industry Association
Kimura Bldg. 8th Floor, 5-5-5, Asakusabashi
Taito-ku, Tokyo 111-0053
Phone: +81/3/3865-0811 Fax: +81/3/3865-0815
E-mail: fvbf8260@mb.infoweb.ne.jp
www2.inter.co.jp/instantramen

Japan Dairy Products Association
1-14-19 Kudan Kita
Chiyoda-ku, Tokyo 102-0073
Phone: +81/3/3264-4131 Fax: +81/3/3264-4139
E-mail: jdpa@mx1.alpha-web.ne.jp

Japan Dehydrated Vegetable Association
3-4-1 Nihonbashi Kayabacho
Chuo-ku, Tokyo 103-0025
Phone: +81/3/3669-0286 Fax: +81/3/3639-2555
E-mail: primerd@mb.inforweb.ne.jp

Japan Food Service Association
1-29-6, Hamamatsucho
Minato-ku, Tokyo 105-0013
Phone: +81/3/5403-1060 Fax: +81/3/5403-1070
E-mail: jfnet@jfsa.or.jp

Japan Frozen Food Association
10-6 Nihonbashi Kobunacho
Chuo-ku, Tokyo 103-0024
Phone: +81/3/3667-6671 Fax: +81/3/3669-2117
E-mail: info@reishokukyo.or.jp
www.reishokukyo.or.jp/

Japan Fruit Juice Association
Dai 2 Toyo Bldg.,
2-1-21 Nihonbashi
Chuo-ku, Tokyo 103-0027
Phone: +81/3/3275-1031 Fax: +81/3/3275-1067

Japan Health Food & Nutrition Food Association
2-7-27 Ichigaya Sadohara-cho
Shinjuku-ku, Tokyo 162-0842
Phone: +81/3/3268-3131 Fax: +81/3/3268-3135
E-mail: jhnfa@mxl.alpha-web.ne.jp
www.health-station.com/jhnfa/

Japan Restaurant Association

Ginza 8-10 Bldg.
8-10-8 Ginza
Chuo-ku, Tokyo 104-0061
Phone: +81/3/3571-2438 Fax: +81/3/3571-7090
E-mail: jp.res.@joy.ne.jp
www.joy.ne.jp/restaurant/

Japan Wine And Spirits Importers Association
Daiichi Tentoku Bldg.
1-13-5 Toranomon
Minato-ku, Tokyo 105-0001
Phone: +81/3/3503-6505/6506 Fax: +81/3/3503-6504

Japanese Government Agencies

Ministry of International Trade and Industry (MITI)
Toshiki Kanamori, Director, Import Division
1-3-1 Kasumigaseki, Chiyoda-ku, Tokyo 100-8901
Phone: +81/3/3501-1659 Fax: +81/3/3501-0997
www.miti.go.jp

JETRO (Japan External Trade Organization)
Toshiaki Endo, Director
Import Promotion Dept.
2-2-5 Toranomon, Minato-ku, Tokyo 105-8466
Phone: +81/3/3582-5562 Fax: +81/3/5572-7044
www.jetro.go.jp

JETRO Business Support Center
Hiroshi Sakuramoto, Chief Director
ATT Main Bldg. 2F, 2-17-22 Akasaka, Minato-ku, Tokyo 107-0052
Phone: +81/3/5562-3131 Fax: +81/3/5562-3100
www.jetro.go.jp/ip/e/bsc/index.html

Foreign Investment Promotion Development Corporation (FIND)
Shuro Karashima, President & CEO
Akasaka Annex Bldg. 6F, 2-17-42 Akasaka, Minato-ku, Tokyo 107-0052
Phone: +81/3/3224-1203 Fax: +81/3/3224-9871
www.fid.com

Manufactured Imports Promotion Organization (MIPRO)
Kunio Yagi, President
World Import Mart Bldg. 6F
3-1-3 Higashi Ikebukuro, Toshima-ku, Tokyo 170-8630
Phone: +81/3/3988-2791 Fax: +81/3/3988-1629
www.mipro.or.jp

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

Market Research Firms in Japan

A.T. Kearney K.K.
ARK Mori Bldg., East 32F
1-12-32 Akasaka, Minato-ku, Tokyo 107-6032
Phone: +81/3/5561-9155 Fax: +81/3/5561-9190
www.atkearney.com

Boston Consulting Group K.K.
New Otani Garden Court, 4-1 Kioi-cho, Chiyoda-ku, Tokyo 102-0094
Phone: +81/3/5211-0300 Fax: +81/3/5211-0333
www.bcg.co.jp

Deloitte & Tohmatsu Consulting Co., Ltd.
Toranomon Kotohira Kaikan
1-2-8 Toranomon, Minato-ku, Tokyo 105-0001
Phone: +81/3/5521-5555 Fax: +81/3/5512-6271
www.dtcg.tohmatsu.co.jp

Fuji Chimera Research Institute, Inc.
F.K Bldg., 2-5 Nihonbashi Kodenma-cho, Chuo-ku, Tokyo 103-0001
Phone: +81/3/3664-5815 Fax: +81/3/3661-5134
www.fcr.co.jp

The Japan Research Institute, Ltd.
16 Ichibancho, Chiyoda-ku, Tokyo 102-0082
Phone: +81/3/3288-4700 Fax: +81/3/3288-4750
www.jri.co.jp

Nikkei Research Inc.
Park Side 1 Bldg., 2-2-7 Kanda Tsukasa-cho
Chiyoda-ku, Tokyo 101-0048
Phone: +81/3/5296-5111 Fax: +81/3/5296-5110
www.nikkei-r.co.jp

Sanwa Research Institute Corp.
Shimbashi Sanwa Toyo Bldg., 1-11-7 Shimbashi, Minato-ku, Tokyo 105-8631
Phone: +81/3/3572-9030 Fax: +81/3/3572-6230
www.sric.co.jp

Yano Research Institute Ltd.
2-46-2, Honcho, Nakano-ku, Tokyo 164-8620

Phone: +81/3/5371-6900 Fax: +81/3/5371-6967
www.yano.co.jp/eyrihome/index.htm

U.S. Federal Government

TPCC Trade Information Center number in Washington
Tel: 1-800-USA-TRADE
tradeinfo.doc.gov/

U.S. Department of State
Office of Coordinator for Business Affairs
Tel: 202-647-1625 Fax: 202-647-3953

U.S. Department of Commerce MAC Country Desk Officer
(for market access and regulatory problems only)
Robert Francis, Office Director, Japan
Office of Japan (OJ)
International Trade Administration
Room 2320, Washington DC 20230
Tel: 202-482-1820 Fax: 202-482-0469

U.S. Department of Agriculture
Foreign Agricultural Service
AgExport Services Division
Tel: 202-690-3576

Overseas Private Investment Corporation
1100 New York Avenue, N.W., Washington, D.C. 20527
Tel: 202-336-8799 Fax: 202-408-9859
www.opic.gov

CHAPTER XII MARKET RESEARCH

Market research is distributed by the U.S. Department of Commerce Economic Bulletin Boards, National Trade Data Bank (NTDB) and STAT-USA Internet. ISA can also be found on the CS Japan homepage at www.csjapan.doc.gov/.

Upcoming FY 2001 Industry Sector Analyses (ISA) titles

Sector	Title	Specialist	Due (mm/yy)
SEC	Access Control and Security Products	M. Ami	02/01
ACE	Action Plan Construction Procurement	T. Ohmura	09/01
ACE	Airport Projects in Kansai	S. Okuno	07/01

CSF	Application Software	T. Ogawa	06/01
APS	Auto Parts	H. Tamada	03/01
AUT	Automobiles	H. Tamada	07/01
AUT	Camping Trailer	K. Sudo	09/01
TEL	Data Communications	M. Inoue	09/01
HCG,GCG,FUR	Decorative Accessories	K. Nomoto	08/01
FOD	Dietary Supplements	A. Inaba	03/01
BLD	Doors	K. Takabatake	05/01
BLD	Food Disposer	K. Sudo	08/01
ELP	Fuel Cell Market	K. Kobayashi	09/01
MED	High Technology Home Health Care	A. Inaba	09/01
TYP,TXF	Home Furnishings	K. Takabatake	08/01
HCG,GCG	Housewares	K. Nomoto	04/01
MED	Infection Control Products and Services	H. Hanawa	04/01
TEL,TES	Internet on Mobile	M. Inoue	06/01
CPT,CSF,CSV	Japanese Internet Market	T. Ogawa	04/01
TRA	Japanese Outbound Overseas Travel Market	T. Imai	03/01
ACE	Japan's ODA	T. Ohmura	07/01
MTL	Machine Tools	M. Ami	09/01
DRG	Pharmaceuticals	H. Hanawa	09/01
ACE	Projects in Osaka Bay	S. Okuno	09/01
GCG	Selling to Japanese Retailers	M. Muto	09/01
SPT	Sports for Elders	H. Taki	08/01
EDS	Study USA	M. Muto	02/01
POL	Waste Water Treatment	K. Kobayashi	06/01
APP	Women's Wear	H. Taki	09/01

Available FY 2000 Industry Sector Analyses (ISAs)

Sector	Title	Specialist
AUT	Auto Parts and Accessories for the Aftermarket	H. Tamada
ROB	Automation Machinery and Robotics	M. Ami
AUT	Automobiles	H. Tamada
BLD	Building Products for Single Family Home	K. Takabatake
APP	Children's Wear	H. Taki
TEL	Data Networking Equipment	M. Inoue
CEL	Electric Appliances	K. Sudo
POL,LAB	Environmental Measurement & Chemical Analysis	K. Kobayashi
INF,GCG	E-retail	M. Muto
BLD	Flat Glass	K. Sudo
OTH	Food Supplements	A. Inaba
GCG	Fragrances	K. Nomoto

FOD	HACCP Food Processing Machinery	M. Ami
HCS	Health Care Services	H. Hanawa
OTH	Home Infusion Therapy	A. Inaba
ACE	Hyogo Prefecture Project	S. Okuno
GSV,FLM	Internet Broadcast	M. Muto
CSF	Linux Operating Software	T. Ogawa
ACE	OECF ODA Projects	T. Ohmura
FUR	Office Furniture/Falicity Management	K. Nomoto
ACE	Osaka Prefecture Project	S. Okuno
TRA	Overseas School Travel	T. Imai
CPT	PC and PC Peripheral Market	T. Ogawa
ELP	Photovoltaic Power Generation	K. Kobayashi
AEC	Public Projects - Consulting Work	T. Ohmura
SPT	Ski Market: New Ski and Fan Ski	H. Taki
MED,TEL	Telemedicine	H. Hanawa
TEL	Wireless Communications Market	M. Inoue
BLD	Wood Windows and Vinyl Windows	K. Takabatake‘

Agricultural Trade Reports

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 (fas.usda.gov).

CHAPTER XIII TRADE EVENT SCHEDULE

FY 2001 CS Trade Promotion Events for Japan (tentative)

For a current list of trade promotion events organized or supported by CS Japan, please visit http://www.csjapan.doc.gov/ustc/events

Event Name	Site	Type	Approximate Date
Intelligent Transportation Systems 2000	Tokyo	SFO	9/25-27/2000
World PC Expo	Tokyo	CTF	10/3-7/2000
Comdex Japan	Tokyo	PLC	10/7-10/2000
U.S. Eco Energy 2000	Tokyo	SFO	10/12-13/2000
Shiga Environmental Business Exhibition	Nagahama	TFO	10/18-20/2000
International Food Fair 2000	Kitakyushu	TFO	10/2000
West Japan International Welfare Equipment Device Fair	Kitakyushu	TFO	10/2000
Japan Home Show 2000	Tokyo	TFO	11/14-17/2000
U.S. Apparel Show in IFF (International			

Fashion Fair)	Tokyo	TFW	01/2001
U.S. Pavilion in Security Show 2001	Tokyo	TFO	02/26-28/2001
U.S. Pavilion in Japan Golf Fair 2001	Tokyo	TFO	02/2001
Telecom Networking	Tokyo	SFO	02/2001
Western Japan Total Living Show	Kitakyushu	TFO	02/2001
American Home & Garden Collection	Tokyo	SFO	03/2001
Health Care 2001	Tokyo	TFO	03/20-22/2001
JETRO Medical Device Show	Tokyo	PLC	03/2001
Western Japan Import Fair	Kitakyushu	TFO	05/2001
The 15th American Home Electronics Show	Fukuoka	SFO	05/2001
The Business Show	Tokyo	PLC	05/2001
Western Japan General Machinery Show	Kitakyushu	RFC	06/2001

Food Trade shows in FY2001

Event Name	Site	Date
Food Services Industry Fair 2000	Tokyo	10/20-21/00
Foodex Japan 2001	Chiba	3/13-16/01
IFIA 2001 (Int'l Food Ingredients & Additives Exhibition and Conference)	Tokyo	5/16-18/01
Health Ingredients Japan 2001	Tokyo	9/26-28/01