Maritime Opportunities: Japan
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Japan is a densely populated archipelago consisting of four large and many smaller islands, strategically located to the east of Russia, China and the Koreas. The majority of Japan’s population resides on the island of Honshu, home to Tokyo and other large urban centers. The overall quality of life in Japan is high, as evident by the country’s ranking in the U.N. Human Development Report (10th out of 187 countries). Japanese life expectancy at birth is 84 years, among the highest in the world. With a falling birth rate and a negligible rate of immigration (98.5 percent of the population is ethnically Japanese), Japan’s aging population will present a formidable challenge for the country in the years ahead.

Japan is the world’s third-largest economy, after the United States and China, with a GDP of nearly $6 trillion. Japan’s economic recovery was remarkable in the decades after World War II, propelled forward by a strong investment in manufacturing and the development of new technologies. Japan’s economic miracle came to an abrupt halt in the mid-1990s, the result of a national banking crisis from which it has not yet fully recovered. The Heritage Foundation notes that the Japanese economy today “is about the same size as it was in 1992.”

After years of economic stagnation, compounded by the devastation of the tsunami and nuclear accidents of March 2011, significant changes seem to be at hand. Since taking office in December 2012, Prime Minister Shinzo Abe (the seventh prime minister in as many years) has pursued an ambitious three-pronged strategy to revitalize the economy: by depreciating the value of the yen, increasing public spending and introducing wide-ranging structural reforms to enhance productivity. Nearly one year later, most observers agree that “Abenomics” has demonstrated promise on at least the first two counts, even if the so-called “third arrow” of structural reform “has not even been removed from its quiver.” In July 2013, Abe’s Liberal Democratic Party (LDP) claimed a solid electoral victory in the election for Japan’s upper house of Parliament, signaling a popular consensus in favor of the new economic approach.

Japan is one of the United States’ most important partners in trade. U.S. trade with Japan totaled $293 billion in 2013, with a $76 million deficit in the exchange of goods, and a $17 million surplus in the exchange of services. Japan is the fourth-largest export market for U.S. goods and services, and the United States is the second top exporter to Japan (behind only China). Important issues affecting the U.S.-Japan trade relationship in the months ahead include the devaluation of the yen, which has lost approximately 20 percent of its value against the U.S. dollar since Abe took office. Of potentially much greater long-term significance, however, is Japan’s new status (as of March 2013) as one of 12 negotiat-
The United States and Japan have been close allies since the end of World War II. The U.S. Department of State identifies the U.S.-Japan alliance as the “cornerstone of U.S. security interests in Asia.” Japan provides bases as well as financial and materials support to U.S. military forces abroad, although Japan’s own forces are constitutionally limited to the role of self-defense. Japanese military forces may not be stationed abroad for any reason, including peacekeeping missions. The United States was a leading proponent of Japan’s pacifist constitution in the immediate aftermath of World War II, but has recently urged Japan to assume a more proactive role in the maintenance of global, and particularly East Asia, security. This remains a deeply controversial proposition in Japanese society, although Abe – a strong nationalist who pointedly has visited the controversial Yasukuni shrine where major Japanese World War II perpetrators are honored – has hinted that he is open to the possibility of constitutional amendment. Thus, while current military expenditures in Japan are quite low (1 percent of GDP), given current tensions with China, it is likely that military spending will increase in years to come.

DOING BUSINESS IN JAPAN

GENERAL CONSIDERATIONS

| Global Competitiveness Index (World Economic Forum) | Score: 5.4 | Rank: 9/148 |
| Doing Business 2014 (World Bank) | DTF: 78.60 | Rank: 27/189 |
| Trading Across Borders (World Bank) | DTF: 85.87 | Rank: 23/189 |
| Economic Freedom (Heritage Foundation) | Score: 71.8 | Rank: 24/177 |
| Trade Freedom (Heritage Foundation) | Score: 81.8 | Rank: 58/177 |

Japan scores well in the competitiveness measures formulated by the World Economic Forum, World Bank and Heritage Foundation. To an even greater degree than Israel, the standout weakness of the Japanese economy is the level of its debt, which rose to the unprecedented level of 1 quadrillion yen, or $10 trillion, this summer. The Global Competitiveness Report 2013-2014 shows that Japan’s public debt now represents almost 240 percent of GDP, the highest percentage of any country in the world today.

Japan scores in the middle range of the ease-of-trading indexes developed by the World Bank and Heritage Foundation. The Country Commercial Guide for Japan notes that “generally, tariffs on most imported goods into Japan are low. However, cultural, regulatory or other non-tariff barriers that can make market entry difficult continue to exist. These can include Japanese import license requirements, restricted or prohibited imports, temporary entry of goods, certifications, standards, labeling requirements, etc.” Any Virginia defense contractor interested in selling in Japan would be well advised to consult Chapter 3 of the Country Commercial Guide for more details.

Indeed, conducting business in Japan can be a highly complex and daunting endeavor. The Country Commercial Guide advises that “U.S. companies wishing to enter the Japanese market should consider hiring a reputable, well-connected agent or distributor, and cultivating business contacts through frequent personal visits. Japan’s business culture attaches a high degree of importance to personal relationships, and these take time to establish and nurture. Patience and

3 www.state.gov/r/pa/ei/bgn/4142.htm
repeated follow-up are typically required to clinch a deal. The nature and pace of deal making in Japan are quite different from those in the United States." U.S. executives visiting Japan are advised to retain a professional interpreter, not merely because their Japanese contacts may not speak English fluently or prefer to speak Japanese, but also because a skilled interpreter can help to negotiate the countless social intricacies and aspects of nonverbal communication that are key to forging successful business relationships in Japan.

The *Country Commercial Guide* observes that “Japan’s business world is small and relatively concentrated, both politically and economically. Business relations are formed, conducted, nurtured, and ended with an extraordinary degree of attention to appearances and decorum.” Business is conducted in a highly polite and formal manner, almost never on a first-name basis. Gift giving and the exchange of business cards are key rituals in any new business relationship. Participation in after-hours social events is an expected means of affirming business ties.

**TECHNOLOGY AND INNOVATION**

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<th>Metric</th>
<th>Score</th>
<th>Rank</th>
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<tr>
<td>Technological Readiness (GCI – WEF)</td>
<td>5.6</td>
<td>19/148</td>
</tr>
<tr>
<td>Innovation (GCI – WEF)</td>
<td>5.5</td>
<td>5/148</td>
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Japan’s nurturing of its high-tech industries and its institutional support for innovation propelled the country’s mid-20th-century economic boom, and these remain key strengths of the Japanese economy today. According to the *Global Competitiveness Report 2013-2014*, Japan “continues to enjoy a major competitive edge in business sophistication (first for the fifth consecutive year) and in innovation (fifth). High R&D spending (second), availability of talent (fourth), world-class research institutions (ninth), and capacity to innovate (sixth) are among Japan’s strengths.”

The well-developed high-tech arena provides numerous opportunities for U.S. exporters. The *Country Commercial Guide* singles out Safety and Security as a sector that is particularly attractive for U.S. export: “U.S. products for the government security and anti-terrorism market, including those for port security, enjoy a favorable position in the Japanese market, as U.S. technological leadership in such products is highly recognized.” Given the recent announcement that Tokyo will host the 2020 Summer Olympics, it seems likely that the Japanese market for these products will increase in the months and years ahead.

**SECURITY CONCERNS AND CORRUPTION**

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<th>Metric</th>
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<tr>
<td>Institutions (CGI – WEF)</td>
<td>5.3</td>
<td>17/148</td>
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<tr>
<td>Corruption Perceptions Index 2012 (TI)</td>
<td>74</td>
<td>17/176</td>
</tr>
<tr>
<td>Freedom from Corruption</td>
<td>80</td>
<td>14/185</td>
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Japan’s standings in the corruption indexes maintained by Transparency International and the Heritage Foundation are among the strongest (behind only Australia) of all countries considered in this report. Japan is a signatory of the OECD Anti-Bribery Convention, and the *Country Commercial Guide* affirms that “the direct exchange of cash for favors from government officials in Japan is extremely rare.” Nonetheless, “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.”

In the past decade, Japan has pursued some administrative reforms to reduce the close ties between business and political elites. A notable example is 2007 legislation that sought to restrict the practice of *amakudari* (literally, “descent from heaven”), by which senior government officials retire into top positions in Japanese companies, often in industries they once regulated.
Japan’s greatest internal security concern may well be its susceptibility to earthquakes and tidal waves, the dire effects of which were most recently seen in March 2011. The business costs of crime and terrorism, however, are comparatively low. Crime rates in Japanese cities are well below those of their American counterparts.

**PROCUREMENT STRUCTURE**

Defense procurement is decentralized in Japan. The Ministry of Defense sets overall policy and manages some procurement programs; the Ground, Air and Maritime Self Defense Forces manage the rest. Maritime-related procurement falls under the Maritime Self Defense Force, Japan’s navy. The “Summary of Mid-Term Defense Program (FY 2011 – FY 2015)” provides an overview of Japan’s current procurement priorities. The Maritime Self-Defense Force has been undergoing a sustained modernization program for several years that has replaced aging platforms with modern Aegis destroyers, helicopter carriers and submarines.

The Japan Coast Guard (JCG), under the Ministry of Land, Infrastructure, Transport and Tourism, also procures maritime-related systems and equipment. The Equipment and Technology Department is responsible for procurement. JCG operates a range of patrol vessels, small craft, patrol planes and helicopters, and is growing, in part due to territorial disputes with Japan’s neighbors and to better enforce the Exclusive Economic Zone.

Since 1970, Japan has had a policy of promoting domestic development and production of defense equipment to boost its defense capability. As a result, domestic products have accounted for some 90 percent of the Defense Ministry’s procurement. In 2013, the Defense Ministry began a review of this policy, assessing whether opening up defense procurement to greater foreign competition would provide much-needed savings in an era of tight defense budgets; but no change in policy had been announced as of the publication of this report.

In August 2013, the Ministry of Defense approved a draft plan that would create an agency under the Joint Staff Office in fiscal year 2015 to oversee procurement and management of equipment and facilities for the Self-Defense Forces, consolidating procurement operations now divided between the Defense Ministry and the Self-Defense Forces. Sellers will need to watch for announcements on the progress of this reorganization.

**CONTACT INFORMATION**

Ministry of Defense  
Development and Procurement Planning Office, Equipment Policy Division, Bureau of Finance and Equipment  
Phone: 03 (3268) 3111 ext. 20963
RESOURCES

» Ministry of Foreign Affairs, Government Procurement Information
  www.mofa.go.jp/policy/economy/procurement

» Ministry of Foreign Affairs, “Suggestions for Accessing the Government Procurement Market of Japan,”

» Japan External Trade Organization, Japanese Government Procurement

» Summary of Mid-Term Defense Program (FY 2011 – FY 2015)