Chapter 3
Imports, Exports and Foreign Businesses in Japan

Abstract This chapter discusses imports, exports, and foreign firms’ investments in Japan. Imports to Japan total to about US$ 812 billion and exports from Japan total to about US$ 697 billion in the year of 2013.

Japan consists of two economically vivid areas, Kanto consisting of Tokyo, Saitama, Kawasaki and Yokohama; and the Kansai area consisting of Osaka, Kyoto and Kobe. Both areas are discussed separately. It will be shown that Chinese trade has a bigger impact on Kansai than on Kanto area.

In the next part, information about foreign affiliated firms doing business in Japan will be demonstrated by expanding on Japanese External Trade Organization data. Kansai will also be discussed separately here. At the end of the chapter, some examples of success stories will be given of foreign affiliated firms located in the Kansai region.

3.1 Introduction

The Japanese economy stagnated after the burst of the bubble economy for many years (Chap. 2). However, recently under the Liberal Democratic Party and the administration of Prime Minister Shinzo Abe there have been some signs of an economic recovery (Urata 2014). These developments are visible when looking at the imports to Japan and exports from Japan, which have both increased in recent years.

A stronger Japan is closely connected to more trade to and from Japan. From 2012, the reelected Prime Minister launched his economic recovery plan called “Abenomics,” a strategy that consists of “three arrows”. These three arrows refer to, aggressive monetary easing, flexible public spending, and a growth strategy to spark private investments. Recently, a three-action program plan titled the “Japan Revitalization Strategy” which is meant to increase imports and exports was announced. Therefore, Japanese imports and exports will be investigated in this chapter. This chapter also sheds light on foreign firms in Japan.
3.2 Imports and Exports

3.2.1 Japanese Imports

Japan imports totaled to about $812 billion U.S. (81,242 billion yen; Fig. 3.1) in the year of 2013. Out of that, Asian imports to Japan count for about 59%. Imports from other countries consist mostly of oil from the Middle Eastern countries (12.5%). This steep increase compared to the previous years is a result of the closing down of atomic power plants following Great East Japan Earthquake disaster in 2011. Also Hosoe finds empirical support that due to the loss of nuclear power supply after Fukushima disaster, more fossil fuels were imported to Japan (Hosoe 2014). The Fukushima power plant accident also had a disastrous impacts on domestic manufacturing industries, which have resulted in higher costs. For example, when Kobe Steel exported steel products, it was necessary to certify that their steel was not contaminated with radiation.

US imports from Japan count for about 9.7% and imports from the EU count for about of 9.6% (Fig. 3.1).

3.2.2 Japanese Exports

Against US$ 812 billion of imports, Japanese firms exported about US$ 697 billion in the year 2013 (Fig. 3.2). Of this, exports to Asia counted for 38.1% of the total. This means that Asia is the most important destination for Japanese firms.

It is prudent to mention that exporting is sometimes replaced by another trend of foreign direct investment (FDI) where firms accelerate offshoring their activities to Asia, and especially to China. This development is mostly driven by the Asian market attraction for Japanese firms.

Japanese exports to the US (in this included is Kansai area) count for about 28.5%. This means that the US market for exports is much higher than the Japanese market for US imports.
3.2 Imports and Exports

To compare exports to imports, it is to state that the volume of imports is higher than that of exports. Imports are relatively high from Asia and the Middle East. Finally, recently Asia has become a more popular destination for Japanese exports (38%) and Europe and the US consumes more Japanese products than they sell to Japan.

3.2.3 Kansai Imports

The development of imports to Kansai area in Western Japan are presented in Fig. 3.3. The amount of imports to Kansai region is merely $ 152 U.S. billion (15,242 billion yen) much lower than that of Japan as a whole. Kansai receives merely 18.8% of the total share of import to Japan. However, imports to Kansai have increased over the years, From $ 82 US billion in 2001 to $ 152 US billion
in 2013. It is also visible that imports to Kansai steadily increased until the year of 2008, the year of the Lehman Brothers shock, when the American trading house went bankrupt. This shock also reduced imports to Kansai down to $98 US billion dollars. However, starting in 2009, imports began to increase again and reached record levels in 2013, an increase of 12.7% compared to the year before (Fig. 3.3).

When imports are divided into three geographical regions, it is clearly visible that trade in Kansai trade is dominated by Asian firms. In 2013, Kansai imports received from Asia totaled at US$86 billion, imports from Chinese firms made up US$49 billion. In contrast, Kansai imports from the US were merely US$15.9 billion and $18.5 billion from the EU. Already in 2001 Kansai received about half of its imports from Asian countries. That means that out of $82 US billion dollars of imports more than half ($44 US billion dollars) came from Asia. This rate increased to more than 55% of imports in 2013. Asian imports show a similar pattern to imports as a whole, decreasing in 2008 but recovering strongly right after (Fig. 3.4).

### 3.2.4 Kansai Exports

Looking at the exports from Kansai region one can see a similar pattern to the growth of imports but on a larger scale. Exports from Kansai totaled to $146 billion U.S. dollars (14,678 billion yen) in the year 2013. Similar to imports, exports were also negatively impacted by the Lehman Shock, falling to US$123 billion in 2009. After the year of 2009, an increase is again visible (Fig. 3.5).

Asia is the predominant location of Kansai exports, with US$99 billion’ worth of exports going to Asia in 2013. Again China received the largest share of Kansai
3.2 Imports and Exports

Exports, total to US$ 34 billion. In the same year, Kansai firms exported merely US$ 17 billion to the US and US$ 14 billion to the EU. This means that firms from Kanto region have much closer business relationships with US firms while firms from Kansai region have closer relationships to Asia.

When looking at the development of exports over time, Kansai firms increase their exports on a steady basis between 2001 and 2008, after sharply decreasing in 2009, exports again increase. In 2010 exports increased to $ 97 US billion. This means that Kansai firms almost fully recovered from the situation immediately after the Lehman Shock (Fig. 3.6).

Fig. 3.5 Timely development of Kansai exports. (Source: Kinki En: Boeki Gaikyou (General Outlook of Exports from Kansai Area Japan). Osaka Finance Office 2014, p. 2)

Fig. 3.6 Timely development of Kansai exports to Asia. (Source: Kinki En: Boeki Gaikyou (General Outlook of Exports from Kansai Area Japan). Osaka Finance Office 2014, p. 3)
3.3 Example of Car Manufacturers and Their Exports

To illustrate the streams of exports, imports, and trade an industry example is used. When looking at the last 20 years of the automobile industry one can see the following pattern. In 1993 Japan’s car production stood at 11 million cars; however that number decreased to around 10 million units in 2000. Since then car production has again increased to 11.6 million units in 2008. In 2009, at the time of the Lehman Shock, that number decreased sharply to 8 million units; however, since then, car production has bounced back and totaled 9.6 million units in 2013 (Fig. 3.7).

Table 3.1 shows that car production in Japan has been relatively stable. However, it is also important to look at the worldwide production of Japanese cars including those produced in other countries. For simplicity, we will look only at the number of cars produced by Japanese automotive manufacturers in 2013. It is clearly visible that all Japanese makers shifted most of their production overseas. Toyota, for example, produced 8.94 million cars in 2013, but only 3.37 million were produced in Japan and out of this number, 1.85 million units were shipped overseas. Nissan Motors, the second biggest car manufacturer in Japan, shows a similar pattern. In 2013, Nissan Motors produced more than 5 million cars in total, but only 1 million units were produced in Japan. Out of the one million produced cars, almost half were exported to other countries. See Table 3.1:

![Fig. 3.7 Timely development of Japanese firms’ car production. (Source: (JAMA 2014) Japan Automobile Manufacturers Association. Internet: http://jamaserv.jama.or.jp/newdb/index.html. Accessed 23 May 2014 (year 1993 to 2013))](image-url)
3.4 Foreign Affiliated Firms in Japan

3.4.1 Foreign Affiliated Firms in Overall Japan

Foreign affiliated firms in Japan are owned by non-Japanese. These firms could be established in Japan as subsidiaries, joint ventures, or as representation offices to observe recent developments at the Japanese market. 37.8% of all registered foreign affiliated firms in Japan come from the United States followed by European firms which represented 41.9% and Asian firms with 16.5%. This means that though even trade relationships with Asia are very strong, very few Asian firms operate in Japan (Fig. 3.8).

### Table 3.1  Japanese automobile industry: export (in million units)  
(Source: Enyasu de mo kaigai shifuto (Transfer of car manufacturing plants in spite of a weak yen). Asahi Shinbun April 24th 2014, p. 8)

|           | Total production | Domestically produced | Exports from Japan |
|-----------|------------------|-----------------------|--------------------|
| Toyota    | 8.94             | 3.37                  | 1.85               |
| Nissan    | 5.07             | 1                     | 0.54               |
| Honda     | 4.4              | 0.93                  | 0.09               |
| Suzuki    | 2.85             | 0.99                  | 0.15               |
| Matsuda   | 1.26             | 0.97                  | 0.79               |
| Mitsubishi| 1.26             | 0.63                  | 0.34               |
| Daihatsu  | 1.1              | 0.8                   | 0.008              |
| Fujitsu   | 0.81             | 0.64                  | 0.49               |

Fig. 3.8 Foreign affiliated firms in Japan. Gaishi kei kigyo soran 2013. p. 147
There is evidence that the intensity of foreign headquarters’ commitment towards a subsidiary depends on the degree of ownership of those subsidiaries (Bebenroth et al. 2008). Therefore, the next chart shows how strongly involved foreign affiliated firms are in their Japanese investments. It can be seen that more than 70% of foreign affiliated firms have 100% ownership of their Japan based affiliated firm. Put differently, only 11.1% of the foreign affiliated firms had less than 50% of ownership of their Japan based subsidiaries. This tendency shows clearly that the majority of the foreign firms in Japan have a rather big stake in their investment (Fig. 3.9).

Another factor of commitment is the endurance of a foreign investor in the country. Investors with many years of experience in Japan should have a higher commitment than those who just entered the Japanese market. The next graph shows the time of entrance to the Japanese market. It is clearly visible that a third of all Japan based foreign affiliates arrived before the year of 1985, that means more than 30% of the foreign affiliated firms have been in Japan for more than 30 years. There are only around 15% of the firms that are classified as very young, meaning they started business in Japan after 2006 (Fig. 3.10).

3.4.2 Foreign Firms in Japan, Especially in Kansai Area

The number of foreign affiliated firms operating in Japan for the year of 2012 was 3086. Out of them, 2331 are headquartered at Tokyo and 227 are headquartered in Kanagawa, near Tokyo. Kansai is home to only 225 Japan offices (Fig. 3.11, Gaishikei kigyo soran 2013, p. 164).

Previously, Kansai’s businesses consisted primarily of small and medium sized firms and had a reputation as a production site. However, there are signs that policies of several Kansai based firms have shifted. Kansai based firms are moving into new areas of development, for example environmental friendly solutions and life science technologies (Kankeiren 2010, p. 10).
3.4 Foreign Affiliated Firms in Japan

The majority of foreign affiliated firms in Kansai area are located in Osaka (121 firms). Next comes Kobe, which is the capital city of Hyogo prefecture (82 firms). Some other firms are settled in Shiga prefecture (9 firms) and Kyoto (9 firms) (Fig. 3.11).

Next, we will look at the origin foreign affiliated firms headquartered in Kansai (Fig. 3.12). The majority of firms are from Europe (44.1%). Only 31.7% are from the U.S. and around 21.1 are from Asia. Only 3.1% of the firms are from the rest of the world.

There is a historic reason that Kansai area is dominated by European firms. After Japan’s opening in the 1850s, Kobe port became the preferred harbor for European ships (see Chap. 2). US American ships preferred Yokohama port, close to Tokyo. Russian ships entered the north at Hakodate port in Hokkaido. Finally, Chinese ships entered the southern island of Kyushu at the port of Nagasaki. Even today, some European firms prefer to stay in Kansai in contrast to their US counterparts, which prefer to stay at Kanto area.
3.4.3 Examples of Foreign Firms in Japan

Some examples of foreign firms in the Kansai area are discussed in the following so called “success stories”. As seen above, many foreign affiliated firms have a long history in Japan having been there for many years. Nestlé K.K. which is located in Kobe is one example. The beverage and food company Nestlé, founded in 1867 in Switzerland opened its first Japan office in 1913. A Jetro prospect puts it this way: “Nestlé has permeated Japanese life to such an extent that scarcely a day goes by without seeing Nestlé products” (Invest Japan 2005, p. 16). Under the slogan “Good Food, Good Life,” Nestlé Group worldwide has one of its biggest subsidiaries located in Japan.

Another example, the large US consumer products company Procter & Gamble (P&G) has a reputation as one of the world's best marketers. With its 80-plus major brands, P&G generates more than $37 billion in annual revenues worldwide. P&G’s Asian headquarters for many years was located on Rokko Island (Kobe) before it moved to Singapore (Kobayashi 2013, p. 165). However, P&G’s Japan headquarters is still located in Kobe and is actively competing against its Japanese rivals such as Kao. P&G’s business is considered to be a success story in Japan (Pfoertsch 2010).

There are also successful Indian and Chinese firms as well. One Indian firm operating in Japan is Infosys. Infosys Limited is a Bangalore based global leader IT consulting firm. The firm established its first Japanese office in Tokyo in 1997. With approximately 250 employees, the Tokyo office serves as a base for the Asia Pacific region. In June 2012, Infosys opened a second office in Nagoya (Jetro 2012). This development shows that the Indian affiliate should also in the near future be able to participate in the Japanese market.

The Chinese firm Biotechnology Genome Institute (BGI) Japan K.K, a biological science research institute, is also a successful firm located in the Kansai area. BGI is one of the worldwide largest biological science research institutes, and established its first Japanese branch, BGI Japan K.K., in Kobe in September 2011. BGI Group is a key player in biotechnology and is involved in many important research projects such as the 1000 Genome Project and the International Cancer
Genome Project (Jetro 2011). Also, BGI Group is known to be the first research team to decode the genome sequence for the SARS virus in the year 2003.

The Chinese firm had several reasons for opening an office in Japan. BGI Japan Director Mr. Liu, commented that one of these reasons was that: “BGI has an advantage in collaborating in genome analysis and biological sciences, and since Japan has one of the best biological science researches in the world, we can expect further expansion of our services. Up to now, we have been developing our businesses in Japan from our bases in China; however, by being physically closer, further development with BGI and Japan’s biological science sector can be expected” (Jetro 2011, p. 2)

3.4.4 Changes Caused Through Foreign Firms?

It was shown that Japan relies heavily on exports and imports to and from foreign countries. It was also shown that there are an increasing number of foreign affiliated firms in Japan. It can be assumed that Japanese firms have become more international. Internationally acquired Japanese firms may also change in their behavior because of the pressure of the foreign firms’ management.

However, on average, there is remarkably little evidence of radical change in Japanese economic institutions despite the long period of stagnation between 1989 and 2002, this also includes employment relations. Evidence of a Confucian legacy can be found in gender relations, specifically between men and women, with the latter’s role being predominantly weaker (Sekiguchi 2010). As we will discuss starting in Chap. 6, there is a big market for mergers and acquisitions in Japan, this development can challenge the existing institutional patterns of Japanese firms. For example that women are traditionally excluded from the core memberships of Japanese firms. By comparing five Japanese firms taken over by foreign firms, Olcott and Oliver examined the impact of foreign ownership on the role of women in the Japanese workplace (2014). Their finding is; however, that even prospects for women improved at foreign-acquired firms; however, it was not necessarily accompanied by a change in attitudes towards gender. They find that while a takeover causes some changes in a target firm, a wider societal shift would be required to significantly alter the behavior of the firms, in this case, to put women in better positions according to their abilities at foreign affiliated firms located in Japan (Olcott and Oliver 2014).

3.5 Conclusion

This chapter discussed imports, exports and foreign firms’ investments in Japan. Regarding exports and imports in 2013, Japan imported ($ 812 US billion dollars) more than it exported ($ 697 US billion dollars). This relatively high volume of
Imports is caused by an increase of oil exports due to the shutting down of Japan’s nuclear power plans following the Great East Japan Earthquake disaster in 2011.

Besides the trade with Japan as a whole, imports and exports for the Kansai area were also discussed separately. It was shown that firms from Kansai area have stronger economic relationships with firms from Asia. Kansai firms’ exports to Asia totaled $99 billion dollars (out of $146 US billion dollars), while imports totaled US$ 86 billion (out of $152 US billion dollars). Finally, the chapter ended with some foreign success stories in Kansai region.

Questions

1. How much does Japan import and export in US dollars?
2. How many foreign affiliated firms are operating in Japan (in 2012)?
3. From which parts of the world do these foreign affiliated firms come from?
4. How has the Japanese Automobile market developed in terms of domestic production and their export to the world?
5. Recently, which geographic region has become more important for Japanese car makers?
6. How many foreign affiliates are headquartered in the Kanto region in contrast to the Kansai region?
7. How strong are European firms at Kansai?
8. How has the Kansai attractiveness changed recently?
9. With which geographical region does Kansai have strong relationships?
10. Recall at least two foreign success stories which are located in the Kansai region?

Answers

1. (At the year 2013 figures) Japan had around 812 US billion dollars of imports and around 697 US billion dollars of exports.
2. Around 3086 foreign affiliated firms existed in Japan in the year 2012.
3. Nearly 40% all foreign affiliated firms come from the USA. Second biggest investor is Germany with more than 370 firms. Then UK and France come as investors with around 200 foreign affiliated firms. Recently, Chinese firms come more often to Japan, participating at Japanese firms.
4. Japanese automobile production lost momentum after 2008 at the Lehmann Shock. However, Japanese manufacturer produce recently (only in their home country) again up to 10 Mio cars, exporting almost 5 million units.
5. An increasingly important destination for Japanese car makers is nowadays Asia, in front with China.
6. Kanto region hosts about 87% of all foreign firms’ headquarters in Japan, while Kansai only hosts 7%.
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7. European firms are still dominating at the Kansai region.
8. Recently, Chinese firms get stronger in presence at Kansai region some Chinese firms resulted from acquisition with Jap. target firms.
9. Kansai region has a strong connection to Asian region.
10. Nestle or Procter and Gamble (P&G)