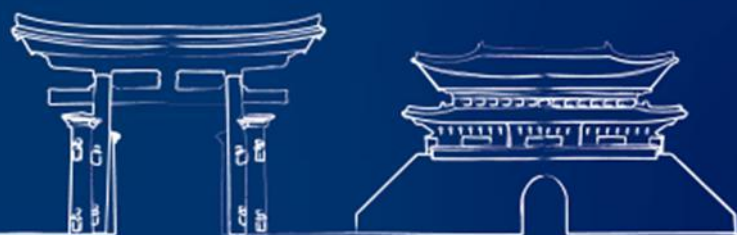




EU Gateway Programme

DOING BUSINESS IN JAPAN

2014



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Executive summary

With this general introduction, The EU Gateway Programme provides a compact and comprehensive analysis of the “What and How” of doing business in Japan. This study presents six vital pillars combining analytic and practical information that can be utilized as a master guide in every step of the business development process. The carefully selected information and topics will provide valuable insights as you venture into Japan.

First of all, since the Japanese culture differs from the European way of thinking, it is only natural that business practices evolve in directions that are fairly unknown to us. That is why the need for explaining cultural differences and customs is very important. It is critical to have a firm understanding of these differences because they form the basis of building communication, contacts and cooperation.

A business meeting in Japan is bound to a rather strict set of rules. It all starts with punctuality, which implies arriving beforehand, rather than being exactly on time. Besides exchanging business cards, you should determine the seniority and hierarchy of the Japanese counterpart. Much more than in Europe, hierarchy and seniority are dominant factors in Japanese society. Fortunately, there are clear signs that show who is who and what rank he or she holds. The hierarchical way of working in Japan often slows the decision making process. If you add the fear of losing face to that, Japanese companies can easily be described as “cautious”. Another result of the extensive hierarchical culture is that usually there is not one single decision maker as ideas and suggestions are often initiated by middle or lower-level employees and then passed via formal and informal channels to higher-ranking managers for review and final approval. At the end, a cooperative decision is made after extensive counseling among different departments.

The three C’s, Communication, Coordination and above all, Consistency, are values highly appreciated by your Japanese counterpart. Although European companies obviously maintain the same values, it is advised that when dealing with the Japanese, increased efforts should be made. Unlike how most Western people would think, Japanese do business on a personal rather than functional or economic basis. Trust and long-term relationships are the foundation of good business relations. The reason why practical tips and hints are thoroughly addressed in Chapter One is that there is a lot of ritual embedded in an official business meeting with potential Japanese business partners.

Even though the import tariff rates in Japan are in general among the lowest in the world, there are some non-barrier tariffs that obstruct or delay the import of foreign products into Japan. How to cope with these non-tariff barriers depends on the industry, product or service

competitiveness, and the creativity and determination of a company's management. Japan is a large and sophisticated market, and the competition can be fierce.

Because Japan is also a highly administrative nation, there are a lot of documents, regulations and specific procedures to take into account. Japanese customs regulations can be challenging, but they are largely mechanical. Almost all difficulties with customs occur in the first applications. Once passed, future clearance is nearly automatic. Japanese customs officials are generally helpful in explaining procedures and regulations, and once these are understood and followed, difficulties are usually minimal. It is recommended to employ an import agent or customs broker to help facilitate customs entry.

When setting up a company in Japan, several types of business operations are available. A Representative Office is established for carrying out preparatory and supplemental tasks aimed at enabling foreign companies to engage in full-scale business operations in Japan. A Branch Office can begin business operations as soon as an office location is secured, a branch office representative is decided, and the necessary information is registered. Other options are a Subsidiary Company (joint-stock corporation) or a Limited Liability Partnership (LLP).

If you are considering setting up a company in Japan, a trustworthy all-in-one contact partner is the Japan External Trade Organization (JETRO, www.jetro.go.jp). This is a government-related organization that works to promote mutual trade and investment between Japan and the rest of the world. Their mission is to actively assist you throughout the entire process of setting up your business in Japan. All JETRO offices in Japan and overseas offer services, free of charge, varying from general consultation (business matching) over temporary offices free of charge to introducing professional service providers that start-ups may require.

Once you visit Japan, especially for periods longer than 90 days, you will face Visa and Status of Residence regulations. It is advisable to check and comprehend ahead of time which options are available to avoid complications at immigration when entering and leaving the country.

After World War II, Japan focused on rebuilding itself economically, and this resulted in one of the most successful comeback stories in history. Japan invested in production plants and equipment, the application of efficient industrial techniques, and high workforce education. Finding a good balance between labor needs and workforce contentment, Japan continues to draw benefits from this historical base of competence. In the 1960's, Japan not only managed to revitalize its economy, but also far exceeded pre-war conditions. Up until the bursting of the Bubble Economy in the late 1980's, Japan was a financial shooting star. From the middle of the decade, the late

1980's saw a rapid increase in asset prices following a sustained loosening of monetary policy. Asset prices started falling in the early 1990's, however, as the Bank of Japan (BoJ or the Central Bank, <http://www.boj.or.jp/en/index.htm>) raised interest rates and the government introduced measures to limit real estate speculation. Following volatile performance in the 1990's, from 2003 onward, the Japanese economy entered its longest post-war recession.

The Cabinet of Prime Minister Abe is carrying out economic countermeasures to end deflation and revitalize the economy, based upon the 3 arrows strategy of Abenomics being sustainable economic growth, improved correlation between business conditions through structural reforms, while this economic revival should result in a healthier fiscal landscape. Japan has been very alert to avoid any form of economic collapse and will address crisis/deflation in a precise and appropriate way. All factors of the Real Gross Domestic Product are expected to evolve positively. The unemployment rate, however, will remain at a high level. Prices will continue to show a mild deflationary phase, and domestic corporate goods and consumer prices will continue to decline.

Presently, Japan is offering several incentives for foreign newcomers in the market, mainly on a central government level but also on a prefectural and more local level. The central government spectrum covers incentives related Asian headquarters (including R&D facilities) in Japan, Special Zones (including the recovery areas in Tohoku) Treatment but also cash subsidies related to equipment investments and exchange rate losses. Since 2012, a profoundly simplified immigration policy for foreigners has also been implemented. For details about prefectural and municipal incentives, please kindly consult the following webpage of JETRO.

(<http://www.jetro.go.jp/en/invest/region/basic>)

Trade between Europe and Japan in general is doing well. Since 2003, export to EU countries has been increasing. Import levels from the European Union have maintained their high levels, even in the recent economically unstable years.

Since the worldwide Lehmann crisis in September 2008, the exchange rate has undergone drastic changes. The Euro grew from a steady 1€=133 JPY in 2000 to a blistering 180 JPY level in 2008. The beginning of the global crisis triggered an ongoing plummet, and in September 2013, the rate between the Euro and the JPY is hovering around 130 JPY, similar to the start level in 2000.

However, this still rather strong yen creates potential export opportunities for European companies in sectors like construction materials, health foods, ecological and environmental-related products and services. The ageing population also promises bright expectations for the healthcare and medical sectors. Elderly-oriented products and services are another promising area for European

companies. The Unique Selling Proposition (USP) of your product or service will be key for successfully exporting from the European Union to Japan.

Japan has a long and vibrant history but its first important appearance as a centre of political power occurred around 300 A.D. Throughout history, Japan's capital shifted several times, and signified a new ruling power each time. In medieval times, Japan was scarred by many civil wars until one great family finally united the country in 1603. The Tokugawa established a relatively peaceful and safe, but above all, secluded country. In 1868, after almost 300 years of Tokugawa reign, the Meiji restoration occurred and Japan entered a new path of modernization. Longing dominance over Asia, Japan's path led them into World War II, which was ended with the nuclear bombs dropped on Hiroshima and Nagasaki. After the Korean War, the recovery of Japan's economy accelerated. This economic growth resulted in an improvement of living standards, changes in society and the stabilization of the ruling position of the conservative Liberal Democratic Party, with only a couple of short stint exceptions where the Democratic Party of Japan (DPJ) was ruling Japan.

As for geography, Japan is divided into four main islands. Hokkaido is the northernmost and has a rather cold climate. Hokkaido's main products are agriculture and livestock. Honshu is the main island, the largest, and it is divided into two major business regions: Kanto and Kansai. The cities corresponding to those regions are Tokyo-Yokohama for Kanto and Osaka-Kyoto-Kobe for Kansai. They are connected by the Tokaido Route, and now easily traversed by the world-famous bullet train. Kyushu was for decades, Japan's gateway to Asia and the rest of the world. The port city of Nagasaki was the only place where contact with Dutch and Portuguese traders was allowed for some 200 years.

Besides the Christian system of numbering years, Japan uses a parallel system based on the Emperor. With a new emperor, a new era begins, and that becomes the first year of that era. For example, 2013 is the 25th year of the "Heisei" era, which began in 1988.

The train and subway transportation systems in Japan are the most advanced and on-time systems in the world. Trains are usually punctual to the exact minute, and although the maps might seem overwhelming at first, navigation is very efficient and logical. The four largest airports are Tokyo Narita International and Haneda International in Tokyo, Nagoya Airport and the Kansai International Airport in Osaka. All airports are well connected to the major metropolitan centers through the train, bus and highway networks. In a word, a well-prepared and informed traveler is a happy traveler and the final chapter of this report is filled with useful information about Japan and its history, geography, climate, currency and transportation systems.

Business opportunities for European companies

While weak macro-economic factors, enhanced by the aftermath of the March 11, 2011 earthquake/tsunami/nuclear disaster, pose great challenges upon Japan, the present exchange rate of the Japanese Yen will also create mutually beneficial long-term business opportunities for European companies with Japanese business partners.

The extremely advantageous geographic location of Japan with China directly links all major Chinese with Japanese harbors within one sailing week, and all inexpensive and easily mass-produced products originate from either China or South-East Asia. These products are very often produced by the off-shore manufacturing plants of major Japanese conglomerates.

Bearing this in mind, it is clear that only European companies offering products and services with very distinct Unique Selling Propositions (USPs) will be able to conquer a substantial market share in the highly competitive Japanese market. USPs very much liked by savvy Japanese 'prosumers' (**professional consumers**) of European products include features like **high quality, traditional, hand-crafted, eco-friendly, energy-saving, durability, recyclable, universal design, health-oriented, no-additives, no artificial colorings, no preservatives, organic materials, natural ingredients**, and products created by **companies that value Corporate Social Responsibility (CSR), impeccable service and after-service**.

Separately, potential Japanese customers will also evaluate more abstract characteristics of your company like **how many years from establishment to date, its management members, export experience, market share, your global clients, professional references, sufficient production capacity, quality assurance systems, universal certifications, sound financial situation, production flexibility, international logistics experience, minimum order quantities and lead time** and last but not least, **price**.

As for business sectors with a bright future in the Japanese market, various market research companies have come up with the following segments, bearing in mind this list is not exhaustive. Traditionally, Japan has a strong **Automotive Industry**, a huge **Retail Business** but extremely difficult to enter for newcomers, **Bio/Nano Technology** and **Medical/Health Care**-related businesses with a rapidly ageing Japanese population, are surely set for a bright future. Anything related to **Environmental/Green Technologies** is growing steadily, and last but not least, **ICT** also has huge growth potential bearing in mind strong local competition. Thus, services offered really need to be cutting-edge in order to be successful. All ongoing ad-hoc

rebuilding efforts needed for the **disaster-hit Tohoku-area** will also create new market entrance opportunities for keen and alert European companies, which again could be the perfect start of more stable and constant business opportunities with the Japanese business counterpart. Please kindly have a look at the following foreign companies representing various business sectors that have succeeded in Japan over the last decade. For details, please visit the this JETRO page. http://www.jetro.go.jp/en/invest/success_stories.

Figure 1: Successful Foreign Companies in Japan

Automobile Parts: Establishing a Production Base in Japan

 <p>BOSCH Invented for life</p> <p>Robert Bosch GmbH Germany Systems and components for Diesel engine management, brake systems for Passenger car</p>	 <p>MAHLE</p> <p>MAHLE Germany Piston systems, cylinder components, as well as valve train, air management, and liquid management systems</p>	 <p>GKN</p> <p>GKN U.K. Driveline parts for automobiles</p>	 <p>TRW</p> <p>TRW Automotive USA Steering systems, braking systems, air bags-seat belt systems, safety electronics</p>
 <p>Johnson Controls</p> <p>Johnson Controls, Inc. USA Automotive seating, interiors and electronic control components</p>	 <p>Webasto feel the drive</p> <p>Webasto Germany Sunroofs, convertible roofs and body systems, and temperature management systems</p>	 <p>RECARO</p> <p>RECARO Germany Seats for passenger car, Office chairs, Train seats, Stadium seats</p>	

Automobile Parts: Sales, etc.

<p>Supported by JETRO</p>  <p>MAGNA</p> <p>Magna International Inc. Canada Manufacturing and sale of automotive parts of exteriors, interiors, seating, powertrain, roof system, etc.</p>	<p>Supported by JETRO</p>  <p>DURA Automotive Systems</p> <p>DURA USA Sale of driver control systems, etc.</p>	<p>Supported by JETRO</p>  <p>MAGNI</p> <p>The Magni Group, Inc. USA Sale and products and technical support of chrome-free coating system for automotive & non-automotive industries.</p>	<p>Supported by JETRO</p>  <p>Bodycote</p> <p>Bodycote pic U.K. Providing thermal processing services for automobile parts.</p>
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Solar Cells



Suntech Power
China
Development, manufacturing and sale of solar cells (crystalline). MSX became a wholly owned subsidiary in 2008.



Dyesol
Australia
Sale of dye-sensitized solar cells. Its Japan base was established in 2010.



Changzhou Trina Solar Energy Co., Ltd.
China
Development, manufacturing and sale of solar cells (crystalline).

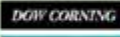


Q-CELLS
Germany
Sale of PV cells and modules. Its Japan base was established in 2010.



Konarka Technologies
USA
Sale of solar cells (organic). Its Japan base was established in 2010.

Solar Cell Parts and Manufacturing Equipment



DOW CORNING
USA
Development, manufacturing and sale of silicon materials for photovoltaics. It established a joint venture company with TORAY industries, inc. in 1966.



APPLIED MATERIALS
USA
Sales, etc of solar, semiconductor and display equipment. Its Japan base was established in 1979.

Lithium-ion Batteries, Fuel Cell Components



UMICORE
Belgium
Development, manufacturing and sale of materials for lithium ion batteries. It plans to build a new factory in Kobe in 2010.



SGL Carbon SE
Germany
Manufacturing and sale of graphite materials for fuel cells and thermal energy storage materials.

Industrial Gases



Air Products
USA
Manufacturing and sale of industrial and specialty gases/chemicals. Its Japan base was established in 1991.



AIR LIQUIDE
France
Production and sales of industrial and medical gases, and related services.



Evonik Industries
Germany
Manufacturing of monosilane gas. It built a manufacturing plant in Mie and will start operation in 2011.

Wind Turbines



Vestas
Denmark
Sale and maintenance of wind generators

Search Engines



Google
USA
Operating search engines. Its Japan base was established in 2001.



Baidu Inc.
China
Developing and providing web search services and internet advertising services. Its Japan base was established in 2006.

E-commerce



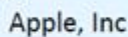
Alibaba.com
China
Online marketplace. Its Japan base was established in 2007.

IT Solutions



IBM
USA
Development, manufacturing and sale of hardware, applications, etc. Its Japan base was established in 1937.

Hardware



Apple, Inc
USA
Sales of computers, smartphones, portable music players, and other products. Its Japan base was established in 1983.



Dell
USA
PC custom selling. Its Japan base was established in 1998.



intel
USA
Sales of microprocessors, SSD, etc. Its Japan base was established in 1974.



BLADE Network Technologies
USA
Sales of network equipment for blade server and rack-mount. Its Japan base was established in 2009.



VSS Monitoring
USA
Sale of IP network equipment. Its Japan base was established in 2007.

Software



Microsoft Corporation
USA
Sale of software, etc. Its Japan base was established in 1996.



Oracle
USA
Sale of corporate software. Its Japan base was established in 1985.



Symantec
USA
Sale of security, storage and systems management. Its Japan base was established in 1994.



SAP AG
Germany
Development, sale, etc. of business software. Its Japan base was established in 1992.

Online Games



NHN
Korea
Operating online game portal sites. Its Japan base was established in 2000.

Others



IPSTAR
Thailand
Operating high-speed internet services. Japanese branch was established in 2009.

Pharmaceuticals



Pfizer Inc.
USA

Manufacturing, sale, export and import of human and animal pharmaceuticals and agrochemicals. It entered the Japanese market in 1953 through a joint venture with Tanabe Seiyaku Co., Ltd.



Novartis AG
Switzerland

Development, import, production, and sale of pharmaceutical products. Novartis Pharma K.K. was established in 1997.



GlaxoSmithKline
U.K.

Development, manufacturing, sale and import of pharmaceuticals, etc. After multiple mergers, GlaxoSmithKline K.K. was founded in 2005.



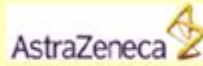
Merck & Co., Inc.
USA

Development, manufacturing and sale of pharmaceuticals and vaccines. Banyu Pharmaceutical Co., Ltd. became a wholly owned subsidiary in 2004. MSD was founded in 2010.



Sanofi-Aventis
France

Development, manufacturing, sale and import of pharmaceuticals and medical devices. After multiple mergers, Sanofi-aventis K.K. was founded in 2006.



AstraZeneca PLC
U.K.

Development, manufacturing and sale of pharmaceuticals. After the merger of Astra and Zeneca, AstraZeneca K.K. was founded in 2000.



Boehringer Ingelheim
Germany

Research & development, import, manufacturing and marketing of pharmaceuticals, etc. SSP Co., Ltd. became a wholly owned subsidiary in 2001.



Eli Lilly
USA

Manufacture and market pharmaceuticals and animal health products. Eli Lilly Japan K.K. was established in 1975.

Generic Drugs



Lupin
India

Development, manufacturing, sale, export and import of generic drugs. Kyowa Pharmaceutical Industry Co., Ltd. became a subsidiary in 2007.

Medical Devices



Baxter
USA

Manufacturing, sale, import of dialysis products, plasma proteins, drug delivery systems etc. It entered the Japanese market in 1969.



Medtronic, Inc.
USA

Developing, manufacturing, importing and sale of medical devices for treating chronic disease such as cardiovascular, neurological disease, and diabetes. It entered the Japanese market in 1975.

Others

Supported by
JETRO



DiaSys Diagnostic Systems
GmbH/Germany

Development, manufacturing, export and import of in vitro diagnostic reagents, food test reagents, analyzer, etc. It entered the Japanese market in 2006.

Apparel



Inditex Group (ZARA)
Spain

Sale of apparel products. Its Japan base was established in 1997.



H & M Hennes & Mauritz AB
Sweden

Sale of apparel products. Its Japan base was established in 2007.



Forever21
USA

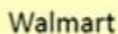
Sale of fast fashion apparel products. Its Japan base was established in 2008.



Abercrombie & Fitch
USA

Sale of high-end casual apparel products. Its Japan base was established in 2009.

Supermarkets



USA

EDP supermarket. Seiyu Gx became a wholly owned subsidiary in 2008.



TESCO
U.K.

EDP supermarket. C Two-Network Co., Ltd. became a wholly owned subsidiary in 2003.



COSTCO WHOLESALE
USA

Membership warehouse supermarket. Its Japan base was established in 1990.



METRO Group
Germany

Membership Wholesaler for food professionals. Its Japan base was established in 2000.

Beauty Products, Toiletries



L'ORÉAL
France

Manufacturing, sale, import and marketing of beauty products. Its Japan base was established in 1996.



Procter & Gamble
USA

Sale, import and export of beauty products and toiletries. It entered the Japanese market in 1973.



Unilever
U.K. & The Netherland

Manufacturing, sale and marketing of beauty products and toiletries. It entered the Japanese market in 1964.

Sporting Goods



PUMA
Germany

Sale of sporting goods. Its Japan base was established in 2003.

Home Appliances



SUNING
China

General sale of electric appliances. Equity participation in Laox Co., Ltd. since 2009.

Hotels



The HongKong and Shanghai Hotels, Limited
Hong Kong
Operating luxury hotels. It entered the Japanese market in 2007.



SOLARE HOTELS & RESORTS Co., Ltd.
USA
Hotel management, asset management and franchise operation in 73 locations nationwide *. Management covers hotel rooms, retail outlets, food & beverage outlets, saunas, public baths and spas. As of December, 2010

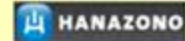


IHG
U.K.
It established a joint venture company for hotel operations with All Nippon Airways Co., Ltd. The company was launched in 2006.

Resorts, Resort Facilities



Mingly Corporation
Hong Kong
It acquired, renovated and operates a Japanese-style inn Chikusenjo. Its Japan base was established in 2009.



Niseko HANAZONO Resort Hong Kong
Operating a ski resort in Niseko. It entered the Japanese market in 2004 as Australian capital. It is currently owned by Hong Kong capital.

Serviced Apartments

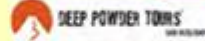


Oakwood
USA
Operating serviced apartments. It established a joint venture company with Mitsui Fudosan Co., Ltd. in 2000.

Travel Agencies



Expedia
USA
Online reservation services for overseas package tours and overseas hotels. Its Japan base was established in 2005.



DEEP POWDER TOURS
Australia
Planning and sale of ski package tours in Japan. Its Japan base was established in 2006.



Lion Travel
Taiwan
Providing travel agency services. Serving tourists from Taiwan to Japan. Its Japan base was established in 2009.

Transportation



Air Asia X
Malaysia
Operating a low-cost carrier which connects Japan and Malaysia. Its Japan base was established in 2010.



Air Busan
Korea
Operating a low-cost carrier which connects Japan and Korea. Its Japan base was established in 2010.



DBS Cruise Ferry
Korea
Operating ferries connecting Japan, Korea and Russia. Its Japan base was established in 2009.

Other Services



Travelex UK Limited
U.K.
Provider of financial services including foreign currency exchange. It's Japan base was established in 2003, the company was founded in Britain in 1976 and now operates in over 25 countries



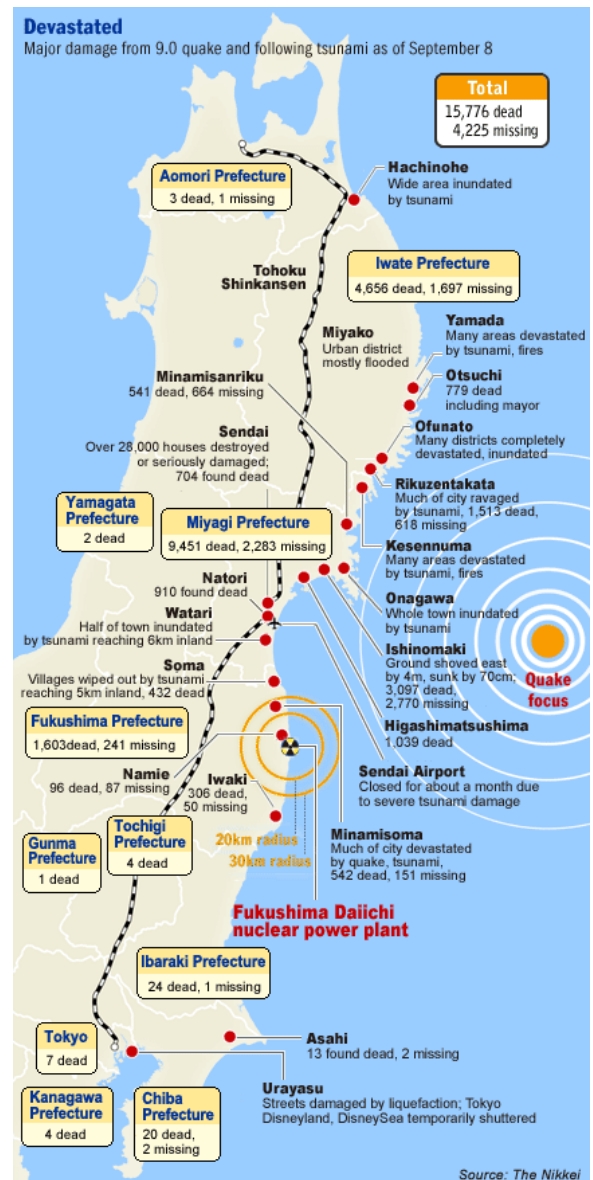
MCI Group
Switzerland
Professional conference/events organizer. It established a joint venture company with Japan Convention Services, Inc. in 2008.

Outlook on business in Japan post-March 2011 earthquake

Japan is a very earthquake-prone country, located in one of the most active seismic regions in the world. On Friday March 11, 2011, at 2:46pm, the northern part of the main island Honshu was devastated by a destructive tremor of M9.0 (50 times stronger than the Great Hanshin Earthquake in 1995 with epicenter in Kobe) with an epicenter depth of 24 km, near Sendai City in the Tohoku region of Northern Japan. The capital Tokyo and its skyscrapers were tested to extreme limits but withstood this stress test without major casualties. However it wasn't until two to three hours after this devastating quake that the true destructive scale of this never-before-seen natural disaster became clear to the general public.

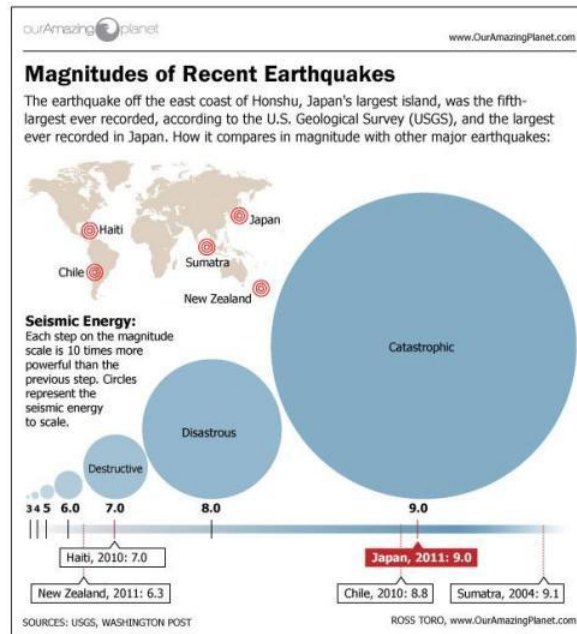
The Great Eastern Japan Earthquake¹ that struck the Tohoku region will be remembered as the fourth-largest earthquake in history. A tsunami created waves over 10 meters high, and after hitting the coastline, traveled inland up to 10 km in certain areas. The earthquake itself lasted 6 minutes and shifted the main island of Honshu of Japan 2.4 meters.

Figure 2: Nikkei.com Online, March 11, 2011



¹ Nikkei.com, March 11, 2011 Special, standaard.be, Wikipedia and various Japanese and English online news resources, March-May 2011

Figure 3: US Geological Survey, March 2011



The catastrophic impact of this tremor is very clear of the chart provided by the US Geological Survey.

The aftermath of the tsunami officially left 15,776 confirmed deaths, 5,304 injured and 4,225 people still missing, as of September 8, 2011. The immediate impact of this disaster was immense with over 125,000 houses partly or completely destroyed, 4.4 million households without electricity and 1.5 million households still without running water. An estimated 360,000 evacuees continue to spend day and night in public shelters. Total surface area inundated by the

tsunami was approximately 470km².

The economic impact of this natural disaster, not including the effects directly linked to the nuclear issues at Fukushima Daiichi Plant, is presently estimated at over 30 trillion JPY (8% of Japan's GDP by purchasing power parity), making it by far the most expensive natural disaster ever in global history. On April 22, 2011 the Japanese government approved an extra budget for quake relief up to 4 trillion JPY for fiscal year 2011, including aid for constructing temporary housing, repairing damaged infrastructure and providing low-interest loans to small business valued at 500 billion JPY. Approximately 220 billion JPY will be allocated to rebuild the fishing industry and another 200 billion to rebuild around 2,000 new schools. One third or about 1.3 trillion JPY will be spent on general public infrastructure and another 500 billion for quickly building 72,000 new houses in the affected region as stated in a recently approved recovery bill. Debris cleanup of the tsunami aftermath is estimated at some 300 billion, with the remaining money being used to waive tuition fees and provide tax grants for the residents of the affected areas.

In the three hardest hit prefectures, 144,000 people remain out of jobs directly linked to the 3.11 earthquake effects. Separately, on a more personal level, nine major domestic life insurers will be paying out an estimated 3 billion USD on earthquake insurance policy claims, a staggering figure five-times that of the 1995 Great Hanshin Earthquake.

Introduction

"TRUST is the bedrock of business everywhere, but the sources from which it springs are different. In Japan, where reputation and relationships are considered precious, the informal cues are as important as the legalistic ones.

"Parties take their time discussing deals. Managers meet to exchange meishi—their all-important business cards (usually presented with two hands)—and bow respectfully. It helps to establish confidence...

"In the West, the business culture is increasingly one of implicit mistrust. Deals require armies of lawyers and thick paper trails to give parties confidence, in spite of the time and money that such work entails.

"In Japan, by contrast, companies—some dating back centuries—regularly deal with long-standing partners; reputational concerns, rather than strictly legal ones, are paramount. Business disputes rarely go to trial. The number of corporate lawyers is extremely low compared with other financial centers, and frauds by one party against another are exceedingly rare."²

² The Economist, April 24, 2008

1. Business etiquette and customs

1.1. Business meeting etiquette

When arranging a meeting with Japanese business people please make your meeting arrangement at least one week in advance and avoid any last-minute changes. Provide a written meeting agenda in advance so that your Japanese counterparts can plan what they would like to discuss.

Before you leave for the company, please remember to bring enough business cards and comprehensive materials, brochures and leaflets of your company. Upon arrival at the visiting company and before you meet your counterparts, remember to take off your coat and hold it over your left arm. Punctuality is extremely important, 5 minutes too early is on time in Japan. Since this is a group society, even if you think you will be meeting one person, be prepared for a group meeting. Casual style attire is still uncommon in the Japanese business place. You should dress appropriately for the occasion.

However, the “cool and warm biz” concept was introduced by the Ministry of the Environment in 2005 under the Koizumi legacy to reduce the CO₂ emissions of Japan, as ratified under the Kyoto Protocol. This, combined with energy-saving efforts following the Fukushima Nuclear Accident, have resulted in almost all major companies announcing that cool biz attire in summer is acceptable for both salespeople and company visitors. The official cool biz period runs annually from 1 June (since the 3.11 earthquake in 2011, cool biz attire is already starting from 1 May to save energy and since 2012, even Super Cool Biz is being promoted by the Ministry of the Environment) through 30 September, while the warm biz period lasts from 1 November through 31 March. No tie and no jacket is the usual cool biz combination, with office temperatures set at 28°C. Warm biz, office temperatures set at 20°C during winter, is less defined but includes wearing functional underwear to keep the body warm to reduce reliance on building heating systems.

At the beginning of a meeting, business cards are exchanged. The Japanese will show special interest in your job title. Please make sure that your name, title and company name are also printed in Japanese on the card. When sitting down to a business meeting, the seating arrangement will be determined by the hierarchy and seniority of the participants. Do not just sit anywhere; as the guest, you will be directed to the appropriate seat. As a general rule, the highest ranking person from the host side will sit at the head of the table or in front of you. Then, the other people will take their seats starting from the seats closest to him and working to the other end of the table. Those of higher hierarchy sit closest to the top person. You should stand at your seat and wait for the top person to tell you to be seated.

Non-alcoholic beverages will probably be served at the beginning of the meeting and they will be distributed in the order of descending importance of recipients. Wait for the top person to drink from his glass before starting on yours.

You may want to take notes during the meeting. This will show that you are interested and will be appreciated by your hosts. However, never write anyone's name in red ink (not even your own) and never write on the received name cards.

1.2. Japanese business culture

If you had to characterize in one word the way business is done with Japanese companies, then it would be 'cautious'. In general Japanese companies, particularly the large ones, are risk-adverse, and this is mainly caused by two factors:

- Loss of face is something that Japanese companies avoid at any price
- The hierarchical decision making process within Japanese companies is time-consuming

As a result, Japanese companies often do not show full enthusiasm when approached by a foreign company with a proposal for cooperation of any kind. What will frequently be heard from your Japanese counterpart is interesting, indicating that he or she is not rejecting the idea outright. Another classic is: 'We will study the idea', implying that your idea is to be channeled through the company's organization.

When meeting larger corporations, quite a number of people are sitting on the other side of the table. It is difficult to clearly identify who the final decision maker is. Often there is no such one individual, as the decisions are taken after extensive consultation with various departments in the company. This can be seen when you receive documents: there are often quite a number of stamps to prove that the various divisions and responsible people have approved the project. An advantage is that when a decision is taken, your Japanese counterpart will be consistent, as a deviation of the planned route with you will cause difficulties in the organization.

What is important are the three C's: Communication, Coordination and above all, Consistency. As your Japanese counterpart may often ask you to provide data that you might think has already been provided, it is an absolute must to show utmost consistency.

In general, the Japanese understand that it is very difficult for foreigners to work in Japan. They will not expect you to speak or read Japanese, or be conversant with their strict cultural nuances and protocol. Here, mistakes are allowed as long as genuine respect is shown at all times to the other party. They will usually try to help you but often feel embarrassment at their own lack of understanding or English language ability.

The Japanese prefer to do business on the basis of personal relationships. In general, being introduced or recommended by someone who already has a good relationship with the company is extremely helpful in allowing the Japanese to know how to place you

in a hierarchy relative to themselves. One way to build and maintain relationships is with greeting cards or seasonal cards. Nowadays, email and contacts via Social Networks like LinkedIn and Facebook are becoming more and more acceptable. It is important to be a good correspondent, since the Japanese hold this in high esteem.

It may take several meetings for your Japanese counterparts to become comfortable and able to conduct business with you. The time for getting to know each other is crucial to laying the foundation for a successful long-term relationship.

You may be awarded a small amount of business as a trial to see if you meet your commitments. If you respond quickly and with excellent service, you prove your ability and trustworthiness. Never refuse a request, no matter how difficult or unprofitable it may appear.

1.3. Practical tips

1.3.1. Bowing and Business card exchange ritual

At the beginning of a meeting, often before seating, name cards are exchanged³. If seated, stand up and present your business card to the most senior person first. Normally, when the Japanese introduce themselves, they introduce the most senior person first. In this way you can judge their rank. Present your card with both hands and with the information facing your counterparts. You may bow slightly. Greetings in Japan are very formal and ritualized. It is important to show the correct amount of respect to someone based upon their status relative to your own. Best is to wait to be introduced. It can be seen as impolite to introduce yourself. While foreigners are expected to shake hands, the traditional form of greeting is still by far the bow in Japan. How far you bow depends upon your relationship to the other person as well as the situation. The deeper you bow, the more respect you show. A foreign visitor may bow the head slightly, since no one expects foreigners to generally understand the subtle nuances of bowing. When receiving a business card, also receive it with both hands. It is generally considered polite to spend some time studying the card of the counterpart, and if relevant, to ask a question about the information on it. Do not put the cards you receive in your pocket, nor write on them. If you are seated, place the cards gently on the table in front of you in similar order as the people sitting in front of you. Most Japanese with international experience will not expect a bow from a foreigner but often initiate a handshake.

A slight nod of the head or bend at the waist is a good cultural compromise when shaking hands with a Japanese person. Bowing too deeply or for too long a time will result in your Japanese counterpart feeling obliged to dip down again for a further round of needless bowing. Bowing is deeply ingrained in the Japanese psyche. Japanese,

³ Based upon are excerpts from "Readers' Workshop" in the Nikkei Weekly)

who have been living for many years in a foreign country, automatically bow whenever they meet a Japanese person, even in the streets of Paris or London.

1.3.2. Meeting top executives

Normally, if you are dealing with a large company, only managers and junior staff, not top or senior executives attend the first meetings. As the business discussion progresses, an introduction to top and senior executives will take place. However, they may not know the details of the business discussion since they act more as consensus builders but their attendance is usually a sign that your deal is moving into the right direction.

1.3.3. English conversation level

The level of English varies in Japanese companies. Japanese business persons, in general, cannot speak it well although English is the foreign language that everyone must study as part of the compulsory education. There may be some comprehension if the context is obvious, and if you speak slowly and clearly, or if you put it into writing (especially numbers, as Japanese think in units of 10,000 not 1,000).

However, please remember that they can be very shy when asked to speak English to foreigners, especially in the presence of their peers. It is therefore recommended to arrange an interpreter for important meetings. Bear in mind that some people in the room might understand English perfectly, but they will not reveal this to you and your colleagues. Therefore, be aware of the contents, tone and manner when chatting with your colleagues attending the meeting with you.

1.3.4. Be patient: Different time perceptions and detailed questions

A potential Japanese ally might be reluctant to consider a joint-venture or partnership, even if you can outline a myriad of short- and even long-term advantages. Likewise, because the Japanese perspective of time is so extended, few Japanese find themselves in a hurry to make a decision, enter into a partnership, or change long-term business practices.

Especially in large corporations, agreeing to make a change can be risky. By going along with precedence, they cannot be criticized for making a mistake. Change the situation, however, and if the new arrangement goes sour even 10 years later, you can, and likely will, be blamed for creating difficulties.

This lack of urgency can try the patience of a foreigner eager to do a deal. This impatience can sometimes be used by a Japanese counterpart to force the Western entity to make something happen, even if the terms are less-than ideal.

The Japanese will normally ask a great number of in-depth questions about your company's products and will want to know everything about it down to the smallest detail. The representative of any European company will be expected to know the product inside out and respond clearly and directly to such questions. Never answer with half-truths nor give uncertain or unconfirmed information.

1.3.5. Hierarchy in a Japanese company

One aspect of Japanese corporate culture that often is difficult for non-Japanese to understand is the importance of hierarchy. The status relationships among various members of an organization is a key determining factor in how they interact with each other, and how they expect others to interact with them.

Once you understand the hierarchy, be sure to show due deference to high-status individuals. Japanese who have risen to high positions in their companies are accustomed to being treated with a great deal of ceremony and deference, in other words, as VIPs. The more you can follow this approach, the better.

For example, if a high-ranking person is visiting your company, be sure he or she is greeted with appropriate fanfare like a Japanese flag outside or a personalized welcome board at the entrance lobby of your office. Also, be sure to show appropriate deference to high-status individuals in business discussions by, for instance, not directly disagreeing with them and causing them to lose face.

Finally, try to bond with individuals on the Japanese side who are at a similar level in the hierarchy to you, and/or are of a similar age. Japanese are often more comfortable bonding with people at their same level, and these relationships can be strong ones that continue as you both move up the corporate ladder in your respective companies.

1.3.6. Actual product and visualized presentations

In general, Japanese have a preference for visualization over text. It's well-known that visualization is not about oversimplifying problems; it is about condensing a problem and often conveying quite a lot of information or logic without spelling it all out in words. The ability to convey rich detail in graphic form originates from the use of kanji that are derived from the thing they represent - trees, mountains, rivers - or broken down into components that represent concepts from which the overall meaning can be deduced.

When presenting an idea or showing a problem to Japanese, try to use visuals like pictures or movies, bar charts, pie charts, infographics and so on. Even trying to sketch your idea on a piece of paper or a whiteboard as you talk can be of help. Teleconferences that have a web-based visual component, slides or a spreadsheet that can be pointed at, work much better when Japanese are participating than pure voice or visuals of talking heads.

Therefore, it is helpful if your presentation included more graphics and charts than long sentences. Handouts should also be distributed before the meeting.

It is normal that Japanese do not look you in the eyes when they speak, which can be considered rude in Western culture. During your presentation, they may keep their faces down and avoid looking at you, but you do not have to worry, they are listening to your words.

1.3.7. Basic Japanese (business) expressions

English	Japanese
Good morning	Ohayo gozaimasu
Good afternoon	Kon'nichiwa
Good night	Oyasumi nasai
Good-bye	Sayonara
See you tomorrow	Dewa mata ashita
Excuse me	Sumimasen
I am sorry	Gomen nasai
Thank you very much	Domo arigato gozaimasu
Here you are, please go ahead	Dozo
Please (when asking a favour)	Onegai shimasu
Yes	Hai
No	Iie
I	Watashi
My name is Bill Gates, from Microsoft	Watakushi wa Microsoft no Bill Gates to moshimasu.
Nice to meet you	Hajimemashite. Dozo yoroshiku onegai shimasu
Business card	Meishi
Integrated trading company	Sogo Shosha
Improvement; everybody makes efforts to improve the job	Kaizen
Personal seal; a document with hanko indicates an official document approved by the person/department	Hanko
Welcome party	Enkai
“◎” means good; “×” means poor; “△” maybe/intermediate	Signs: “◎”, “×” and “△”
Managing Director	Torishimariyaku
President	Shacho
Vice President	Fuku Shacho

1.3.8. Determining key decision makers and decision making processes

It may be a great idea, but if it is not presented in a way the Japanese can understand it, one will never get anywhere. For a Japanese company, talk and creative ideas alone will not get you too far. If you want to get your ideas heard and implemented, you need to have a detailed layout and plan in a format that can be understood by the Japanese.

Decision-making in a large Japanese company is normally a bottom-up system. Ideas and suggestions are often initiated by middle or lower-level employees and then passed on via formal and informal channels to higher-ranking managers for review. This upward flow of information is regarded as one major way in which Japanese companies differ from others. As a result, decision-making in Japan is normally unanimous; hence the process to make a business decision in a Japanese company might take quite some time.

1.3.9. Impeccable (after) service: The key to success

While some companies work hard to achieve success in Japan, others seem to thrive effortlessly. Certain basic rules of engagement have become evident, regardless of industry or product/service category.

The first is securing distribution. It may sound simple, yet no matter how good or advanced a company's product or service is, if appropriate distribution channels cannot be secured, there will be no success in Japan. The problem is further complicated by many highly developed products and services already being marketed, and there is an accordingly intricate distribution system that supports them. Utilizing a more traditional approach may well be more difficult than developing one's own independent system.

The second key is finding a niche. Again, Japan is a sophisticated market that gives its consumers access to whatever they might desire. Differentiating a company's product or service so that it can rise above the crowd is no small challenge; nor is it inexpensive. The importance of doing your homework cannot be overstated. While this is true regardless of country in an increasingly fast-paced world, it is especially so in Japan, where mistakes are extremely costly and can mean the difference between success and failure. Here, getting it right takes on totally new dimensions.

The third key is making a commitment. Considering the importance of corporate credibility among Japanese consumers, and the inherent change-adverse nature of Japan, making a long-term commitment is part of being successful. It is often said that those companies who are not fully committed for the long-term will never get a second chance. Certainly, the list of companies that have been successful includes many who have been active here for well over 30 years.

1.3.10. Contract negotiations

Negotiating contracts with Japanese companies is similar to other international negotiations. However, there are some unique problems and characteristics that are particular to the Japanese business culture. Japanese start negotiations in order to result in the establishment of not only long-term cooperation based on legal considerations, but also mutual trust. Building mutual trust is time-consuming, and therefore negotiations with Japanese may often be prolonged and postponed. Some Japanese can be more skeptical towards foreign business counterparts than towards Japanese counterparts.

Although negotiations with Japanese companies demand extensive preparation and are time consuming, when the contract is finally fixed the implementation will proceed relatively smoothly because the entire organization has obtained understanding and support.

Japanese are generally reluctant to directly say 'no' and believe that declining a request causes embarrassment and loss of face. If a request cannot be met, Japanese may say that it is difficult, inconvenient or under consideration. Such expressions also generally mean no.

When Japanese smile, it can mean a number of things. They may smile when they have not understood what was said, they are nervous or embarrassed. In negotiations, Japanese may suddenly become quiet. Although this generally means that they are thinking very hard, but it can also mean that something has been done to displease them.

When Japanese say yes, it might only mean 'Yes, I hear you.' Sometimes Japanese will respond to a request by saying 'Yes, but it will be difficult.' To a European, this response may seem affirmative, but in Japan it may well mean no or probably no. If a person says yes to a question and follows it with a hissing sound, the real answer could be no.

1.3.11. After hours

Your Japanese counterparts may bring up the idea of having dinner or drinks together, especially when your scheduled meeting with them starts in the late afternoon. Socializing together over a drink after business hours is a common and effective way to help build and develop business relationships based on trust. After-work drinking sessions are (still) extremely important in the Japanese business culture. You can even consider this evening invitation as a positive sign as your counterpart shows the intention to become more familiar with know you, your company and products/services. The art is being able to distinguish this message to invite overseas visitors as a perfect host, as opposed to merely being polite.

If you do go out for dinner, keep in mind that going Dutch is not normal in Japan. If you are the buyer, you will likely be in for a free evening of entertainment. If you are the seller, you should expect to pick up the bill. However, it is not quite this simple since your counterparts may still insist on paying because you are a visitor in their country. Also, it is normal for the inviting party to pay. In any case, if your host is planning to bear the dinner expenses, make at least a meek attempt to pay, even your feeble attempt to pick up the tab will have created a positive impression. And you can always offer to return the favor when he visits your home country. Japanese are unlikely to invite you into their private homes. When eating with your hosts, try to eat some of everything and look like you are enjoying the food. They will appreciate hearing that you like their food.

Japanese enjoy drinking alcohol. By imbibing, they can become open and feel easy. Also, it is common to extend an evening's entertainment by going out to a coffee shop (or a second round of drinking) after the meal. If your host paid for the meal, you may want to pay this time for the coffee or drinks. Tipping is not customary in Japan and you do not have to do it.

During this socializing time, you could be asked questions that make you uncomfortable as a Westerner, such as your age, your family, interests and hobbies. You do not have to answer, but at least be gracious about it. They are certainly not trying to be offensive; it is just that some questions you would consider rude back home are not necessarily impolite in Japan.

2. Legal and regulatory issues

2.1. Regulatory issues for export to Japan

2.1.1. Import tariffs

The tariff rate in Japan is one of the lowest in the world. 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. Certain products such as leather goods, some processed foods and manufactured goods have relatively high tariff rates.

Japan's harmonized tariff schedule can be found on the English part of the website (<http://www.customs.go.jp/english>) of the Japan Customs. Tariff administration is carried out by The Customs and Tariff Bureau of the Ministry of Finance. As Japan is a member of the Harmonized System Convention, it applies the same trade classification system as the EU. Japan's tariff schedule has four columns of applicable rates: general, WTO, preferential and temporary. Goods from the EU are charged at WTO rates unless a lesser temporary rate exists. Japan's preferential system 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. Japan Customs can provide advance rulings on tariff classification and duty rates.

A summary of Japan's customs procedures, including its customs valuation system, import procedures, temporary admission procedures, refunds and duty drawback payments, as well as relevant customs forms can be found on the aforesaid official website.

The new trade liberalization wind by the Cabinet of Prime Minister Abe, including ongoing EU-Japan Free Trade Agreement negotiations and Trans Pacific Partnership negotiations including the USA, will surely result in lower tariffs, simplified import procedures and less hidden trade barriers but time will reveal the actual implications for European companies exporting to Japan.

2.1.2. Trade barriers

Japan has, however, some non-tariff barriers that impede or delay the import of foreign products into Japan. Despite competition, foreign government pressure and other factors have decreased the impact of these impediments. Companies may still encounter the following non-tariff barriers:

- Japan-only standards (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 operate without oversight
- Cross stock holding and interconnection of business interests among Japanese companies that disadvantages suppliers outside the business group
- Cartels (both formal and informal)
- The cultural importance of personal relationships in Japan and the reluctance to break or modify business relationships

How to cope with these non-tariff barriers depends on the industry, a product or service's competitiveness, and the creativity and determination of a company's management. These non-tariff barriers exist in a highly competitive market. Japan is a large and sophisticated market, and the competition can be fierce.

2.1.3. Import requirements and documentation

In Japan tariff duties are assessed on the Customs, Insurance and Freight (CIF) value at either *ad valorem* or specific rates, and also in a few cases a combination of both.

Japanese customs regulations can be unmanageable, incomprehensible and ambiguous, but they are largely mechanical. Almost all difficulties with customs occur in the first applications. Once passed, future clearance is, in the most cases, automatic. Japanese customs officials are generally helpful in explaining procedures and regulations. Once these are understood and followed, difficulties are usually minimal. It is recommended to employ an import agent or customs broker to help facilitate customs entry.

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. Other necessary documents may include an Import

Declaration Form and a certificate of origin if the goods are entitled to favorable duty treatment determined by preferential or World Trade Organization (WTO) rates. In practice, shipments from the EU are routinely assessed using WTO or with 'temporary rates' without a certificate of origin. Any additional documents necessary such as proof of compliance with relevant Japanese laws, standards, and regulations at the time of import may also apply.

Documents required for customs clearance in Japan include standard shipping documents such as commercial invoices, packing lists, and original signed bills of lading, or, airway bills. Air shipments of values greater than 100,000 JPY must also include commercial invoices. Commercial invoices should be as descriptive as possible on each item in the shipments. Packing lists should include the exact contents of each container, the gross and net weights of each package, and all container measurements using metric sizes.

2.1.4. Temporary entry

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 needs to be arranged in advance.

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 but only when the fair or event is held at a bonded exhibition site. After the event, these bonded articles must be re-exported 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 clearly identify the trade show or exhibition site, including exhibition booth number (if known), on shipping documents. Be aware that the requirement to take products out of Japan may end up being more expensive than simply importing and leaving the samples in Japan.

2.1.5. Labelling and marking requirements

Correct packing, marking, and labeling are critical to smooth customs clearance in Japan. Straw packing materials are prohibited. 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, though some categories such as beverages and foods do require such labeling.

Japanese law requires labels for products in four categories: textiles, electrical appliances and apparatus, plastic products and

miscellaneous household and consumer goods. Because the relevant regulations apply specifically to individual products, it's important for exporters to work with a prospective agent or importer to ensure the exporter's products meets applicable requirements. Generally, 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.

2.1.6. Conformity assessment

The Japan Accreditation System for Product Certification Bodies of JIS Mark (JASC) is an accreditation programme defined by the Japanese Industrial Standards (JIS) Law, and operated by the JASC office in the Ministry of Economy, Trade and Industry (METI). JASC accredits product certification bodies in the private sector and allows them to certify companies so that they may place the JIS Mark on their products. A list of Japanese and foreign organizations accredited by JASC as "JIS mark" certification bodies is available on the JISC website (<http://www.jisc.go.jp/eng/jis-mark/acc-insp-body.html>). This list provides contact information as well as the JIS field of certification for these testing organizations.

The two major non-governmental accreditation bodies in Japan are the Incorporated Administrative Agency (IA Japan, part of the quasi-governmental National Institute of Technology and Evaluation) and the Japan Accreditation Board for Conformity Assessment (JAB). IA Japan operates several accreditation programs including the Japan National Laboratory Accreditation System (JNLA) and the Japan Calibration Service System (JCSS). IA Japan's website (www.nite.go.jp/asse/iajapan/en/index.html) provides lists of laboratories accredited under its programs, and laboratories accredited by JAB can be found at the following website, <http://www.jab.or.jp/en>.

Conformity assessment bodies recognized by Japan for electrical appliances can be viewed on the METI website (<http://www.meti.go.jp/english/index.html>), which also contains additional information on third-party conformity assessment for electrical products in Japan.

The website (<http://www.jetro.go.jp/en/reports/regulation>) of the Japan External Trade Organization (JETRO) also has additional information on product specific standards and regulations.

2.1.7. Prohibited and restricted imports

Japan strictly prohibits entry of narcotics and related utensils, firearms, firearms parts and ammunition, explosives and gunpowder, counterfeit goods or imitation coins or currency, obscene materials, or goods that violate intellectual property rights. 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 trade is banned by international treaty. For more information

on prohibited goods, see the website of Japan Customs. (<http://www.customs.go.jp/english/summary/prohibit.htm>).

Japan also imposes restrictions on the sale or use of certain products related to health such as medical products, pharmaceuticals, agricultural products and chemicals. For these products, Japanese Customs reviews and evaluates the product for import suitability *before* shipment to Japan. The use of certain chemicals and other additives in foods and cosmetics is severely regulated and follows a positive list approach.

Regarding import of products for personal use, Japan restricts no more than two month's supply of medicines or no more than 24 units of similar cosmetic products.

2.1.8. Customs regulations: Contact information

Customs Councilors System in Japan, Tokyo Headquarters

Phone: +81-3-3529-0700

English contact information on website:

http://www.customs.go.jp/zeikan/seido/telephone_e.htm

Japan Tariff Association

Komine Bldg. 3 Fl., 3-11-11, Nihonbashi-honcho, Chuo-ku, Tokyo

Phone: +81-3-5614-8871

English information website:

<http://www.kanzei.or.jp/english/jtass/eorg.htm>

2.2. Setting up a company in Japan

2.2.1. Types of business operations

Representative Office

Representative offices are established for carrying out preparatory and supplemental tasks aimed at enabling foreign companies to engage in full-scale business operations in Japan. These offices may conduct market surveys, collect information, purchase goods and implement publicity and advertising efforts, but they are not permitted to engage in sales activities. The establishment of representative offices does not require registration. A representative office cannot open bank accounts or lease real estate in its own name, only through the representative person of the office in his individual capacity.

Branch Office

The simplest means for a foreign company to establish a base for business operations in Japan is to set up a branch office. The branch office can begin business operations as soon as an office location is secured, a branch office representative is decided, and the necessary information is registered. A branch office does not have its own legal corporate status, but it is within the corporate status of the foreign company. In general, the foreign parent company is ultimately responsible for all debts and credits generated by the activities of its Japanese branch office. A Japanese branch office, however, may open bank accounts and lease real estate in its own name if the proper registration work is completed.

Subsidiary Company

To establish a subsidiary company in Japan, one usually chooses the joint-stock corporation: Kabushiki Kaisha (often abbreviated as KK or K.K. in English). All types of subsidiary companies can be established by completing the required procedures stipulated by law and then by registering the corporation. A subsidiary is a separate corporation from the foreign company, so the foreign company will bear the liability of an equity participant stipulated by law for all debts and credits generated by the activities of the subsidiary. Other methods by which a foreign company may invest in Japan using a Japanese corporation but without establishing a subsidiary are by establishing a joint venture with a Japanese enterprise or investment company, and by equity participation in a Japanese enterprise.

Limited Liability Partnership (LLP)

It is also possible to do business by using a Yugen Sekinin Jigyo Kumiai, considered the Japanese version of a limited liability company (LLC). LLPs are also distinguished by the fact that internal rules can be freely determined by agreement between the equity participants, and that taxes are levied on profits allocated to equity participants without LLPs themselves being liable for taxation.

Figure 4: Comparison of the type of business in Japan

	Branch office	Subsidiary company		Limited liability partnership (LLP)
		Kabushiki-Kaisha (joint-stock corporation)	Godo-Kaisha (limited liability company (LLC))	
Capital	No capital	1 yen or more ^{*1}	1 yen or more ^{*1}	2 yen or more (if 2 partners)
Number of investors	---	1 or more	1 or more	2 or more ^{*3}
Liability of equity participants/parent company toward creditors	Unlimited	Limited to amount of equity participation	Limited to amount of equity participation	Limited to amount of equity participation
Transfer of equity participation share	No equity participation share	May be transferred freely in principle. May be stipulated in articles of incorporation that approval of Board of Directors is needed for transfer of shares.	Unanimous approval of equity participants (members) required	Unanimous approval of partners required
Number of executives required	Representative in Japan. 1 or more ^{*2}	See Tables 1-2, 1-3	No legally stipulated minimum. In principle, all members are executive officers, but a representative member may be appointed ^{*2}	No legally stipulated minimum. All partners are executive officers ^{*3}
Legally stipulated term of office for executives	No legally stipulated term	See Tables 1-2, 1-3	No legally stipulated term	No legally stipulated term
Regular general meeting of shareholders (members)	Not required	In principle, must be held every year	Not required	Not required
Possibility of public offer of stock (equity participation share)	No equity participation share	Possible	Not possible	Not possible
Possibility of reorganization into joint-stock corporation	Not possible. Need to separately close branch office and register resignation of all representatives in Japan, and establish joint-stock corporation ^{*4}	--- (A joint-stock corporation may be reorganized into a limited liability company.)	Possible	Not possible. Need to separately dissolve partnership and establish joint-stock corporation ^{*5}
Distribution of profits and losses	---	Allocated according to equity participation ratio	May be allocated at a different rate from equity participation rate if specified in articles of association	May be freely allocated with the unanimous approval of partners
Taxation of profits	Income arising within Japan is in principle taxed	Taxed according to profits of joint-stock corporation and profits allocated to shareholders	Taxed according to profits of Godo-Kaisha and profits allocated to participants	No taxation of partnerships themselves. Taxation of profits allocated to partners

Source: http://www.jetro.go.jp/en/invest/setting_up⁴

⁴ *1 although establishment with capital of zero yen is theoretically possible, approval is granted ex post facto, and it is not in practice possible to incorporate a company without paying in capital.

*2 At least one representative must have an address in and be resident in Japan.

*3 One or more partner must be an individual who has an address in and is resident in Japan for more than 1 year, or a Japanese corporation

2.2.1.1. Establishment of representative office

Representative offices may be freely established without any registration requirements under the Japanese Commercial Code; no notification need be provided to tax offices, as they do not engage in business operations in Japan and thus are not subject to corporate tax.

However, representative offices established by foreign banks, insurance companies and securities companies, or other financial institutions are exceptions: prior notification must be provided to the Financial Services Agency. A bank account opened by a representative office will ordinarily be registered jointly in the name of the office and an individual representative.

The documentation generally required for a representative office to open a bank account is Passport of representative, Resident Card of representative, Company brochure, Leasing agreement and bank seal.

2.2.1.2. Registration of branch office

A branch office may begin business operations after registering its establishment with the Legal Affairs Bureau. In order to select the most similar form of Japanese corporations and to determine the information to be registered, reference should be made to the foreign company's articles of incorporation, establishment certificate, registration certificate, and other such documentation. Once the details of the branch office (the address of the branch office, the representative in Japan, the date of establishment of the branch office and the disclosure method for balance sheets) are determined, the registration can be filed.

Documents certifying the required information to be registered must be submitted when applying for registration of the establishment of a branch office and the certified documents must be issued by the competent authorities in the home country of the foreign company. It is often convenient to use an affidavit for information of registration certified by that country's embassy or consulate in Japan.

2.2.1.3. Registration of subsidiary

Subsidiary companies are established through registration with the Legal Affairs Bureau. The registration application date will be the establishment date. From that date the company may carry out business operations. Some of the documents for the subsidiary establishment procedures should be prepared in the home country: documents certifying the profile of the foreign company, documents certifying the representative authority of the foreign company's representative and documents certifying the authenticity of the signature of the foreign company's representative.

The foreign company's articles of incorporation, establishment certificates, registration certificates and other official documents as well as an affidavit notarized by a notary public in the home country

of the foreign company are ordinarily used. These documents will be required in completing the procedures for certifying the subsidiary company's articles of incorporation in Japan. These documents may also be needed when requesting a financial institution in Japan to take custody of the subsidiary's capital and issue a capital custody certificate. The capital custody certificate is a certificate issued by a financial institution when the full amount of the subsidiary's capital has been remitted to a special account specified by the financial institution asked to take custody. The certified articles of incorporation and the capital custody certificate will both be needed when applying for registration of company establishment.

2.2.1.4. Certificate of registration and company seal

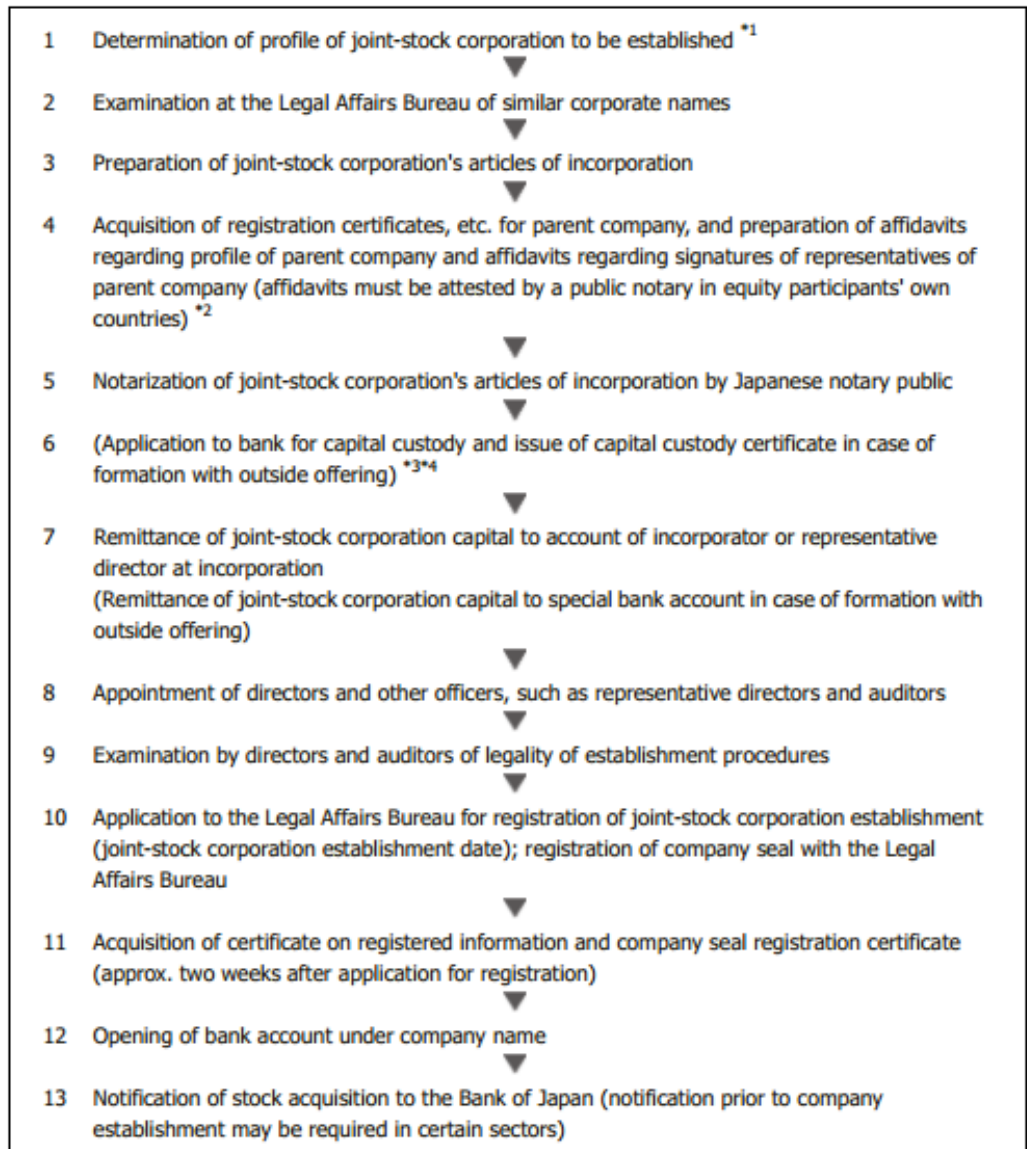
Once registration of establishment has been completed for a Japanese branch office or a subsidiary company, a certificate of registered company information can be obtained from the Legal Affairs Bureau. The certificate of registered company information is a document officially certifying a company's registered information.

The principal information to be registered for a joint-stock corporation is as follows: Corporate name, location of head office, business purposes, method of giving public notice, total number of shares to be issued, types and numbers of outstanding shares, rules on the limitation of transfer of shares, amount of capital, directors and dates of their appointments, representative directors and dates of their appointments, auditors and their dates of appointments, and date of the company's establishment.

The Certificate of Registered Company Information must ordinarily be presented whenever opening a bank account, filing notifications with administrative authorities, purchasing assets for which name registration is required, and when concluding important agreements with business partners.

On certain occasions, the Company Seal Registration Certificate will need to be submitted along with the Certificate of Registered Company Information. The Seal Registration Certificate is used to confirm whether or not company seals placed on applications, filings, contracts, etc., have the legitimate authorization from the company. This certificate may be obtained from the Legal Affairs Bureau after the completion of establishment registration. Representatives of the branch office/subsidiary company are the only parties authorized to use the company seal, and their personal seal registration certificates or signature certificates must be presented when registering the company seal.

Figure 5: General flow of establishing a Kabushiki-Kaisha (joint-stock corporation)



Source: http://www.jetro.go.jp/en/invest/setting_up/pdf/settingup_201210.pdf

(Note) Time required: about two months after determination of profile of company to be established

*1 This profile should contain information including the following: trade name, location of head office, business objectives, business year, amount of capital, issue price of shares, existence of provisions restricting transfer of shares, existence of board of directors, names of directors and representative directors, terms of directors, names of equity participants, and values of their investments.

*2 If an individual or corporation with an address in Japan is the promoter of a joint-stock corporation and a foreign enterprise is the underwriter of shares in that corporation when it is established (such a situation is called a "formation with outside offering," or Boshû Setsuritsu), affidavits regarding the parent companies may not be required. A bank capital custody certificate is additionally required. While in this case shares issued when the joint-stock corporation is established are shared by the promoter and foreign enterprise, the joint-stock corporation may be made a 100% subsidiary of the foreign enterprise by subsequently transferring the shares held by the promoter.

*3 If a joint-stock corporation is incorporated with the joint equity participation of an individual or corporation with a bank account in Japan, it may not be necessary to apply to a bank for capital custody and issuance of a capital custody certificate. In this case, it is sufficient for the capital to be paid into the joint equity participant's bank account in Japan, and for documentary evidence to be submitted by the representative director of the

joint-stock corporation in place of a bank-issued capital custody certificate in order to certify that payment of the full amount of capital has been received.

*4 In the case of formation without outside offering, special bank accounts and capital custody certificates are in practice rarely used. This is due to several reasons, including the high level of bank fees, and the fact that banks often do not allow special accounts to be opened if there are no previous dealings with them.

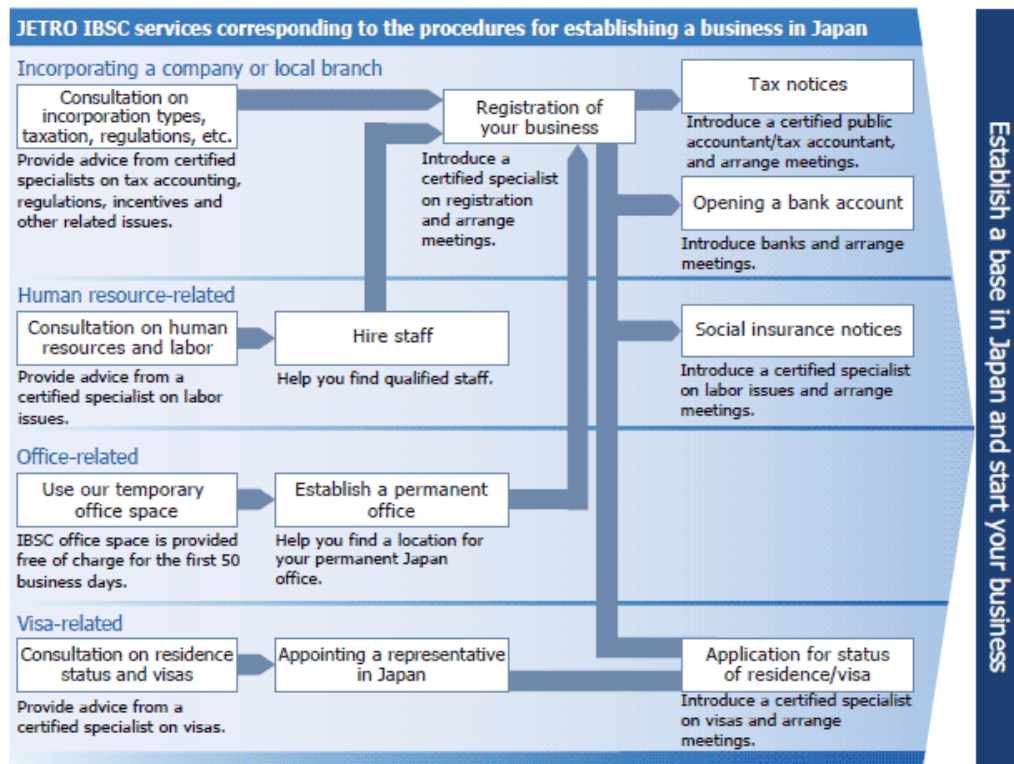
2.2.2. The Japan External Trade Organisation (JETRO)

As for companies considering the set-up of their own legal and commercial entity in Japan, we strongly suggest contacting JETRO's (Japan External Trade Organization) well-documented English website (<http://www.jetro.go.jp>).

JETRO is a government-related organization that works to promote mutual trade and investment between Japan and the world. Originally established in 1958 to promote Japanese exports abroad, JETRO's core focus in the 21st century has shifted toward promoting direct foreign investment into Japan and helping small to medium size Japanese firms maximize their global export potential.

JETRO offers a wide array of support and services to companies planning to invest in Japan. Because of their worldwide network, the entire process does not necessarily have to start in Japan.

Figure 6: JETRO's Support Flow for Setting Up in Japan



The Invest Japan Business Support Centers (IBSCs) are located in six major cities of Japan being Tokyo, Yokohama, Nagoya, Osaka, Kobe and Fukuoka. At each IBSC, experienced staff and advisors provide

information by using a broad network across government and private sector, and offer consultation according to the company's needs. Each company can enjoy free individual consultation about various topics such as market and industry information or cost estimates.

JETRO can also arrange the use of temporary office space, conference halls and multipurpose halls. Industrial Cluster information, regional guides, general business info and logistics information are all included in JETRO services.

2.2.3. Visa and Status of Residence

Any foreign national wishing to enter Japan must have a valid passport, which in principle, contains a visa corresponding to his/her purpose of entry into Japan, obtained in advance from a Japanese embassy in the person's home country. Upon landing in Japan, the foreign national must then be screened to receive a landing permission stamp from an immigration officer at the port of entry, who will determine the foreign national's status of residence and period of stay.

However, this visa requirement does not apply to nationals of countries with which Japan has reciprocal visa exemption arrangements for temporary visitors. Upon arrival, going through both immigration and customs checks are essentially a formality for EU business travelers as long as passports and air tickets are in order. Starting November 20, 2007, all foreign nationals entering Japan, with the exemption of certain categories, require provision of fingerprint scans and face photographs at the port of entry. This requirement does not replace any existing visa or passport requirements.

On July 9, 2012, Japan implemented its new immigration and foreigner resident rules, with new 5 year visas, changes to the expensive and troublesome red-tape re-entry system and a new Resident Card, replacing the long-time contested 'Alien Registration Card'.

The Immigration Bureau of Japan explains the new residency management system as per below:

"The aim of the new residency management system is to enable the Ministry of Justice to continuously keep information necessary for managing the residency of foreign nationals residing in Japan for the mid- to long-term with resident status, and ensure greater convenience for those foreign nationals.

The system will issue qualifying foreign nationals a resident card containing a portrait photo of the individual, basic personal information such as his/her name, his/her resident status and his/her currently allowed period of stay.

Moreover, because the new system will allow authorities to more accurately track resident status than with the previous system, it makes it possible to introduce measures that will improve the convenience of foreign nationals who legally reside in Japan, such as a maximum period of stay of five years instead of the previous three years, and a new reentry permit system that waives reentry permit formalities for foreign nationals who leave and reenter Japan within one year of the date of their original departure.”

For more details about the new system, effective since mid 2012, please kindly visit the English website of the Immigration Bureau at the following URL: <http://www.immi-moj.go.jp/english/index.html>.

2.2.4. Trademark and design protection systems

2.2.4.1. Protection of property rights

In general, Japan maintains a strong intellectual property rights (IPR) regimen, so there are costs and procedures prospective investors should be aware of. Companies doing business in Japan are encouraged to be clear about all rights and obligations with respect to IPR in any trading or licensing agreements. Explicit arrangements and clear understanding between parties will help to avert problems resulting from differences in culture, markets conditions, legal procedures, or business practices. Important to note is that Japan uses the first-to-file rule principle, which can be a major handicap for foreign companies not aware of this.

2.2.4.2. Registration of patents, trademarks, utility models and designs

In Japan, the IPR holder is required to register his patents and trademarks in order to ensure protection. Filing the necessary applications requires hiring a Japanese lawyer or patent practitioner registered in Japan to pursue the patent or trademark application. An EU patent or trademark attorney may provide informal advice but is not able to perform some of the required functions. Patent and trademark procedures in Japan have historically been costly and time consuming. The laws have been changing, however, making it easier and cheaper to obtain patent and trademark protection. Procedures have been simplified, fees cut, and more judges are receiving further training and assignments to specialized IPR courts.

Prompt filing of patent applications is very important. Prior to the filing date of the Japanese application, printed publication of a description of the invention anywhere in the world, or knowledge or use of the invention in Japan can speed up the granting of a patent. Japan grants patents on a first-to-file basis and accepts initial filings in English (to be followed by a Japanese translation). A patent is valid for 20 years from the date of filing.

2.2.4.3. Patent Prosecution Highway

The Patent Prosecution Highway (PPH) is a noteworthy development for EU firms seeking patent protection in Japan. This arrangement became fully operational on January 4, 2008, following an 18-month pilot program. The PPH allows filing of streamlined applications for inventions determined to be patentable in other participating countries, reducing the average processing time (from request for examination to first action) from 26 months to two to three months for secondary filings. The programme, based on information sharing between national patent offices and standardized application and examination procedures, should reduce costs and encourage greater utilization of the patent system.

2.2.4.4. Relevant laws

Japan's trademark law protects trademarks, and like patent protection, requires registration through an application filed by a resident agent (lawyer or patent agent). Because the process takes time, firms planning on doing business in Japan should file for trademark registration as early as possible. Japan is a signatory of the Madrid Protocol. Trademarks registered at the World Intellectual Property Organization (WIPO) Secretariat are protected among all member countries.

Japan's utility model law allows registration of utility models (a form of minor patent) and provides 10-year terms of protection. Registration fees were lowered in 2005 and the application procedures were profoundly streamlined.

A separate design law, effective April 2007, allows for protection of designs for a 20-year term from the date of registration. If registered with the Japanese Industrial Property Cooperation Center, a government-established public corporation, semiconductor chip design layouts are protected for 10 years under a special law.

2.2.4.5. Prevention of unfair competition and trade secrets

The unfair competition prevention law provides for protection of trademarks prior to registration. 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 an unauthorized user.

The law also provides some protection for trade secrets, such as know-how, customer lists, sales manuals, and experimental data. Recent amendments to the law provide for injunctions against wrongful use, acquisition, or disclosure of a trade secret by any person who knew, or should have known, the information in question was misappropriated. Criminal penalties have also been strengthened. However, Japanese judicial processes make it difficult to file claims without revealing the trade secrets.

2.2.4.6. Copyrights

In conformity with international agreement, Japan maintains a non-formality principle for copyright registration. Registration is not a precondition for the establishment of copyright protection. However, the Cultural Affairs Agency maintains a registry for such matters as date of first publication, date of creation of program works, and assignment of copyright.

3. Investment in Japan

3.1. The concept of Invest Japan

The concept was originated by the former Prime Minister Koizumi. Promoting Foreign Direct Investment (FDI) in Japan, he established the Invest Japan Business Support Centers (IBSCs) within JETRO to serve as one-stop centers for investment information and support. The IBSCs provide information on investment procedures to foreign businesses, like setting up an operation in Japan.

Increasing FDI in Japan is a strong and effective way to bring in more advanced business models, technology, knowledge, products, services, etc. from overseas and to further accelerate the structural reform and revitalization of the economy already in progress. The ratio of Japan's cumulative inwards FDI stock against its GDP is very low compared to that of other developed countries.

Recognizing the importance of raising more FDI, Prime Minister Koizumi announced that he would aim to double the cumulative stock of foreign direct investment within five years, and his administration accelerated efforts to promote investments to Japan.

Under the slogan INVEST JAPAN (<http://www.jetro.go.jp/en/invest>), Japan has been working to establish a better and more effective investment environment for investors.

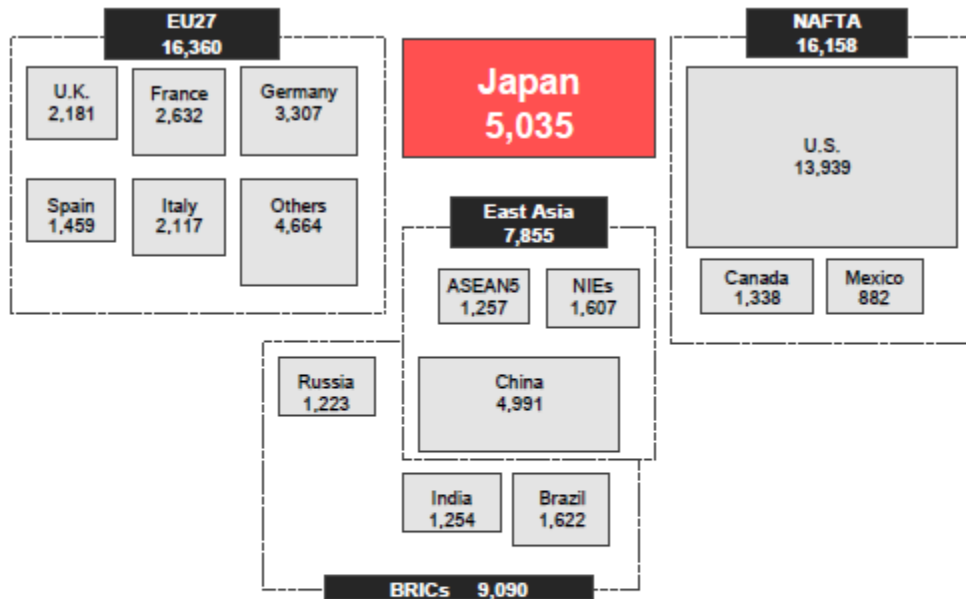
3.2. Advantages of investing in Japan

3.2.1. Japan as one of the world's largest economies

Japan⁵ is a promising market, with a market scale ranking near the top of developed nations. Many regions of Japan are appealing for investments as most major Japanese regions GDP is bigger than the average European country's GDP.

⁵ 'Investing in Japan' by JETRO online

Figure 7: GDP comparison chart (April 2012)



(US \$ billion, 2009)

Note: "ASEAN5" means Indonesia, Thailand, The Philippines, Malaysia and Vietnam.

"NIEs" means Hong Kong, Taiwan, Singapore and Korea.

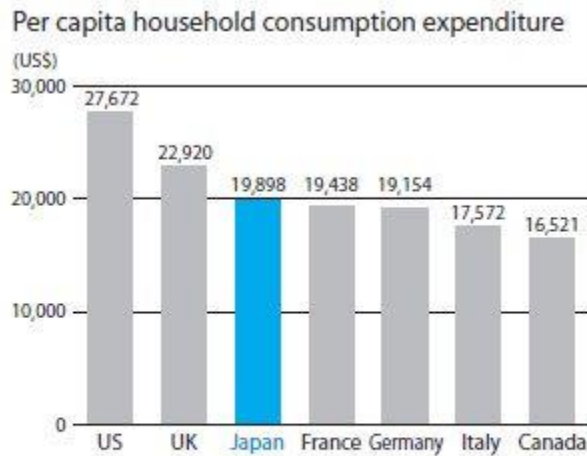
Source: Prepared by JETRO based on "World Economic Outlook Database (April, 2012), IMF

Source: <http://www.jetro.go.jp/en/invest/whyjapan>

3.2.2. Sophisticated consumers with high purchasing power

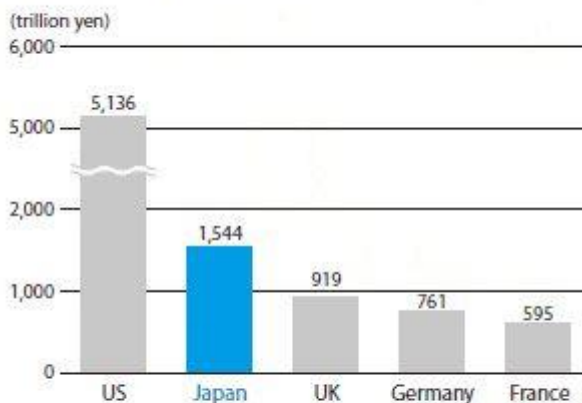
Japanese consumers are early adopters and move fast to stay on the cutting edge of the latest technologies. Most companies in Japan listen carefully to consumer demands when developing new products, as many products in common use around the world have originated in Japan. Japan thus makes an ideal test market for new products and services.

Figure 8: Sophisticated consumers with high purchasing power



Note: 2004 data used for the US, Germany and Canada; 2005 data used for all other countries.
Source: "World Statistics 2008," Statistics Bureau, Ministry of Internal Affairs and Communications

Comparison of personal financial assets by country (As of end of 2007)



Conversion rates: \$1=¥113.12, £1=¥227.90, €1=¥166.66.
Source: Prepared by Dai-ichi Life Research Institute Inc., based on Bank of Japan "Flow of Funds Accounts," FRB "Flow of Funds Accounts," ONS "National Statistics," Deutsche Bundesbank "Germany Financial Flows," Banque de France "National Financial Accounts"

Source: <http://www.jetro.go.jp/en/invest/whyjapan>

3.2.3. Favorable business climate

With Asia, being the strongest growth-market globally, Japan is geographically a superior location to connect with other Asian countries and to unlock new business opportunities. Japan scores extremely high rankings on international investment surveys in the areas of ICT, basic infrastructure like gas, water and electricity, while assuring a safe and secure living environment for the investor's employees.

3.3. Japan's foreign direct investment policy

In 2012, Japan remains the world's third's largest economy, after the USA and due to the growth of China, taking second place but Japan is feeling the rise of the new economic power India. The Government of Japan (GoJ) recognizes the value of FDI in enhancing Japan's competitiveness and boosting economic growth. The Ministry of Economy Trade and Industry (METI) and the quasi-governmental Japan External Trade Organization (JETRO) are the lead agencies responsible for assisting foreign firms wishing to invest in Japan. Many prefectural and city governments also have active programs to attract foreign investors. Japan's economy is in the midst of its longest period of uninterrupted economic growth since World War II. Corporate profits are strong, particularly in Japan's world-class manufacturing sector. Unemployment is down and remains at low levels. Growth in consumption continues to lag, however, as wage growth remains modest.

In recent years, significant structural reforms have created new opportunities for FDI. The reforms and the improving economy have led to increased Merger and Acquisition (M&A) activity.

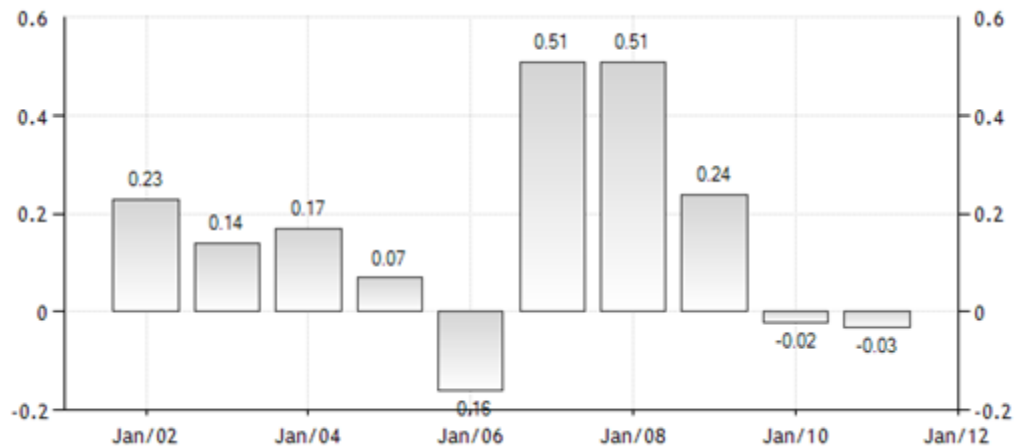
Figure 9: Japan's Reputation as FDI Destination



Source: <http://www.jetro.go.jp/en/invest/whyjapan>

Despite the increase in FDI since the mid-1990s, however, Japan continues to have the lowest foreign direct investment as a proportion of GDP ratio of any major OECD member.

Figure 10: Foreign direct investment; net inflows (% of GDP) in Japan



Source: World Bank Data, January 2012

For detailed statistical information about Japan's Foreign Direct Investment in English, please kindly visit the following website: <http://www.tradingeconomics.com/japan/indicators>.

Over the past few years, inward FDI has been fuelled by Koizumi administration's liberalization policies:

- 1) New foreign entrants, due to deregulation in telecommunications and pharmaceuticals
- 2) New foreign entrants in the financial sector
- 3) Japanese firms (automotive and retail industry) allying with foreign firms in response to the reorganization of global markets.

In June 2010, the cabinet of former Prime Minister Naoto Kan enacted the various measures to encourage foreign direct investment in Japan, including (1) lowering corporate taxes, (2) subsidies for companies setting up operations in Japan and (3) taxable income deduction on companies certified as Asian headquarters and engaging in businesses in the global special strategic zones.

3.4. Tax system in Japan

Taxation of an individual's income in Japan is progressive. In other words, the higher the income, the higher the rate of tax payable. The tax rate for an individual is between 5% to 40%. Japanese corporate tax is currently fixed at 30%.

Presently, Prime Minister Abe is handling the hottest iron in the tax reform landscape, namely the consumption tax. Japan is one of the only industrialized countries with a consumption tax as low as 5% at this moment, being raised to 10% by 2015, which is heavily discussed both amongst politicians and the people but it looks like that Japan will raise the consumption tax to 8% from April 2014 on.

3.4.1. Individual income tax

An individual pays tax on his income as a wage-earner or as a self-employed person. Tax for an individual who meets the criteria of a "permanent resident" in Japan will be calculated on his income in Japan and abroad. A foreign resident who is employed in Japan pays tax only on income earned in Japan. Generally speaking, there are three classes of taxpayers: permanent resident, non-permanent resident and non-resident. The following table shows Japan individual income tax rates for 2012:

Figure 11: Personal Income Tax Ratios

Brackets of taxable income		Tax rates
-	Or under 1,950,000 yen	5%
Over 1,950,000 yen	Or under 3,300,000 yen	10%
Over 3,300,000 yen	Or under 6,950,000 yen	20%
Over 6,950,000 yen	Or under 9,000,000 yen	23%
Over 9,000,000 yen	Or under 18,000,000 yen	33%
Over 18,000,000 yen	-	40%

Source: http://www.jetro.go.jp/en/invest/setting_up/laws/section3/page7.html

3.4.2. Japan corporate tax

From April 2012 on, the national corporate tax on income below 8 million yen stands at 16.5%. For corporation with a share capital exceeding 100 million yen, the tax rate stands at 28.5%.

In addition to corporate tax (a national tax), there are two classes of local tax paid by the corporation: (1) inhabitant tax and (2) enterprise tax. Given the corporate fiscal reforms from April 2012 on, a surtax of 10% is being levied so the total corporate taxes will reach 38.5%, which is 3.5% down from the 41% before the tax reforms.

Income from dividends is not classified as regular income. When a dividend received by one company from another Japanese company and the holding in the payer's equity is 25% or more, only 50% of the dividend income will be added to the regular tax.

3.4.3. Consumption tax

This tax is similar to a value added tax and is, in fact, imposed on most sales and services provided in Japan and on imports. A taxpayer may offset the consumption tax paid on expenses against the tax he has to pay on his income.

Companies whose sales are less than 10 million yen per year are tax exempt. Income that is exempt from consumption taxes are exports, sales of real estate, foreign currency transactions, interests, sales of stamps and medical services.

In September 2013, Prime Minister Abe, looking at swelling social security costs in combination with huge restoration costs of the Tohoku area after the 3.11 disaster, decided to raise the present consumption tax rate of 5% to 8% from April 2014 on. It is expected that a second raise to 10% will follow in October 2015 but historically, consumption tax rate hikes have always been very hot political issues in Japan.

4. Political system

4.1. Political structure

Japan is a constitutional monarchy, with the Emperor as the head of state. The system is a parliamentary democracy with the Diet being the sole legislative organ. The Diet consists of the House of Councilors (the Upper House), and the House of Representatives (the Lower House).

The Liberal Democratic Party (LDP) governed Japan for most of the last 70 years, being briefly out of power for some short stints by the Democratic Party of Japan (DPJ).

The Japanese constitution, de facto a peace constitution, became effective from May 1947 during the US occupation. Its main features are that it renounces war and arms in Article 9, asserts fundamental human rights and equality of the sexes and declares that sovereignty resides with the people (rather than with the Emperor). Article 9 has been particularly controversial, as it raises questions over the constitutionality of Japan's de facto military, the Self-Defense Forces.

The executive, the Prime Minister, is chosen by a ballot of the Diet and appoints a cabinet, a majority of whose members must also be members of the Diet. The national legislature is the bicameral Diet, comprising the 480-member Lower House and the 242-member Upper House.

4.2. Present Cabinet

Japan has had more prime ministers in recent years compared to any other major developed country globally.

After a very long sluggish economic situation of Japan after the bubble burst in the early 90's, the so-called 2 lost decades, Japan's economic and financial situation has been changing rapidly and profoundly since Shinzo Abe took office in December 2012 as Japan's 96th Prime Minister, after a landslide election victory for the Liberal Democratic Party (LDP).

During the elections of 21 June 2013, the LDP's coalition also secured a majority in Japan's Upper House, dissolving the Divided Diet (Nejire Kokkai in Japanese) phenomena, allowing Abe to implement very swiftly approved guidelines, many of them including more global and liberal economy but also a more pro-active engagement of Japan in the global political scene in general.

His revival plan for Japan is based upon a 3 arrows strategy and is often being referred to as 'Abenomics'.

- Arrow 1: Aggressive Monetary Policy
- Arrow 2: Flexible Stimulant Fiscal Policy
- Arrow 3: Sustainable Long-term Growth Strategy by Sparking Private Investments

Since then, both the average Nikkei Index and the exchange rate of the Japanese Yen have been very volatile but on average, the Nikkei Index increased with 30% while the Yen devaluated with 30% compared to other major global currencies.

In September 2013, the exchange rate of 1 Euro to the Japanese Yen stood around 130 JPY, a similar level to the initial price fork of 133 JPY, when the Euro was introduced to the global financial markets in 2002.

Figure 12: Nikkei 225 Evolution 2011-2013



Source: <http://e.nikkei.com/e/app/fr/market/marketdata.aspx>

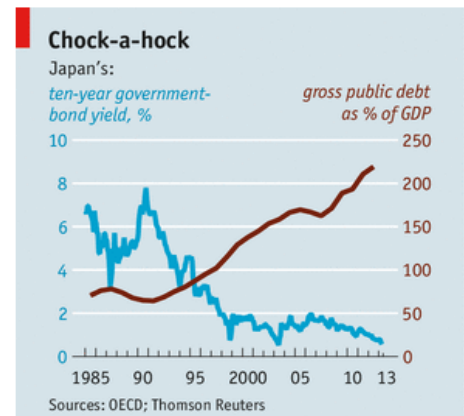
Figure 13: Yen-Euro Exchange Rate-2013



Source: <http://www.xe.com>

However, the outlook is not only rosy as Japan is facing major challenges shouldering an immense public debt of over 1,000 trillion yen since August 2013, being approximately 230% (luckily, the majority amount of these sovereign bonds are owned by Japanese citizens, not by foreign institutional investors) of the present GDP, it's continuous deflation domestically, while a major consumption paradigm is and will take place given a quickly ageing in combination with a shrinking population.

Figure 14: Japan: from Creditor to Debtor



On a more micro-economic level, this huge debt figure translates in a debt of almost 9 million yen per capita. In order to reduce this public debt, the LDP has announced to start gradually raising the present consumption tax of 5% via 8% to 10% by October 2015.

The awarding by the International Olympic Committee (IOC) on 7 September 2013 to Tokyo to host the Summer Olympics and Paralympics in 2020, is surely extra wind in the sails of Abe and his team. The economic effects of this organization decision, following Tokyo's last hosting in 1964, is estimated at 3 trillion yen by 2020, creating over 150,000 new jobs.

At the same time, adding another expense bill of 400 billion yen over the next 7 years, also gives mixed feelings to many Japanese. It will surely put pressure on Tepco and the Japanese government to profoundly solve the nuclear leakage issues at Fukushima Daiichi Plant.

4.3. The Lower House

The Lower House election in October 1996 was the first held under a new voting system introduced in 1994 by the non-LDP administration of then Prime Minister Morihiro Hosokawa. The new arrangement of a combination of 300 first-past-the-post seats and 200 proportional-representation constituencies replaced the 511 multi-seat constituencies introduced in 1925, which were criticized for encouraging 'money politics' (kinken seiji in Japanese).

Following changes in 2000 to electoral legislation governing the Lower House, starting with the election held in June of that year, the number of seats selected by proportional representation was reduced by 20 to 480. The Lower House is elected every four years, but polls are often held before a term is completed.

4.4. The Upper House

One-half of the seats in the Upper House are contested every three years. Voters have two ballots, one for the proportional-representation constituency and one for their prefectural electoral district.

The Upper House currently has 242 seats. Of this total, 121 seats are contested at each election for the chamber, 48 by proportional representation and 73 through prefectural electoral districts. The minimum age for Upper House candidates is 30, five years older than that for candidates standing for the Lower House.

4.5. The Supreme Court

The Supreme Court is a US-style court, appointed by the cabinet, and presides over a legal system of lesser courts divided into four arms: the high court, district courts, family courts and summary courts.

Under Article 76 of the constitution, all judicial power is vested in a Supreme Court, which administers eight high courts, below of which are 452 summary courts, 50 district courts and 50 family courts. In weighing constitutional issues, the Supreme Court has been criticized for granting public welfare too much importance in relation to the rights of the individual. This criticism resulted in the start of a jury system on May 21, 2009. In general, judicial precedent is considered to be binding.

4.6. The Administration

Although small by the standards of other developed countries, Japan's administration enjoys a degree of influence over policy that sets it apart from many of its peers. Despite reform in January 2001 to strengthen the role of politicians in policy formulation, civil servants still take principal responsibility for drafting legislation and policy initiatives, as they have largely done since the end of the Second World War.

The influence of civil servants on government policy is enhanced by close relations with the long-dominant LDP. This tie is reinforced by the considerable number of civil servants that enter politics after retirement, and by the practice of 'amakudari' (descent from heaven), where retired civil servants sit on the boards of private companies or semi-governmental companies.

5. Economic System

5.1. Background

Japan increased its prominence in the global economy during the post-war period. Historically, the primary drivers of Japan's strong economic growth have been high rates of investment in production plants and equipment, the application of efficient industrial techniques, a high standard of education, good relations between labor and management, ready access to leading technologies with significant investment in research and development, an increasingly open world trade framework, and a large domestic market of discerning consumers – all of which have given Japanese businesses an advantage in scale of operations. Many of these attributes remain relevant to Japan's economic growth.

Japan's industrial facilities were largely destroyed in the Second World War. Thereafter, a high ratio of investment to GDP and efficient industrial techniques resulted in strong real growth rates, particularly in the 1960s. These were boosted by a high standard of education, good relations between labor and management, and government guidance for selected industries. The late 1980s saw a rapid increase in asset prices following a sustained loosening of monetary policy from the middle of the decade. Asset prices started falling in the early 1990s, however, as the Bank of Japan (the Central Bank) raised interest rates and the government introduced measures to limit speculation in real estate.

For those interested in specific economic updated statistics about Japan, please see the following website (<http://www.tradingeconomics.com/japan/indicators>) with English information about all major economic indicators for Japan, real time and customizable to your specific needs.

5.2. Policy issues

Deregulation and liberalization are important policy issues, but the pace of change has been slow. The rapid aging of the population has implications for the structure of the future labor force, the savings rate and the government's budget. Faster economic growth in the last decade has helped to buy the largest banks, but concerns remain about the health of the smaller, regional banks. The government's fiscal position is also in poor standing, owing to sluggish tax revenue growth and the implementation during the 1990s of successive fiscal-stimulus packages with a combined headline value of more than 100 trillion yen.

5.3. Unemployment rate

For August 2013, the unemployment rate in Japan stood at a very low 3.8%, excluding the data of the three prefectures, Iwate, Miyagi and Fukushima, hit hardest by the natural disaster on March 11, 2011.

Figure 15: Unemployment Percentage in Japan 2011-2013



Source: <http://www.tradingeconomics.com/japan/unemployment-rate>

5.4. Global Foreign Trade of Japan

Japan's Trade Value per Continent

Year	2010		2011		2012	
	Import	Export	Import	Export	Import	Export
Asia	313,184	430,499	380,670	459,084	393,570	438,100
Middle-East	118,009	25,182	160,685	24,533	170,136	28,431
Europe	66,186	86,734	91,270	109,260	95,049	89,977
North America	78,150	127,483	87,236	134,575	89,297	150,927
Central America	28,359	43,966	34,699	44,104	35,472	43,209
Africa	11,749	12,001	17,159	13,167	21,313	12,965
Oceania	49,305	20,363	61,336	22,330	61,642	23,078
Total	767,025	691,447	833,055	807,053	866,479	786,687

Source: <http://www.jetro.go.jp/en/reports/statistics>

5.5. EU-Japan Trade Overview

The EU and Japan together account for 33% of world GDP and have a combined population of 632 million people. In 2011, the EU was Japan's largest foreign direct investor with approximately 7 trillion Yen.

During fiscal year 2012, the EU was Japan's 3rd largest trading partner while Japan is the EU's 7th largest trading partner, clearly showing the importance of both countries as international trade partners.

The effects of the strong Japanese Yen since 2010 till end of 2012, clearly resulted in a the steep rise in imports of all commodities in all segments.

Important to note here is the rather constant import volume by Japan from Europe, quite independent from exchange rate fluctuations and the global crisis over time, stressing the importance of Japan as a business partner for the EU, also from a global business perspective.

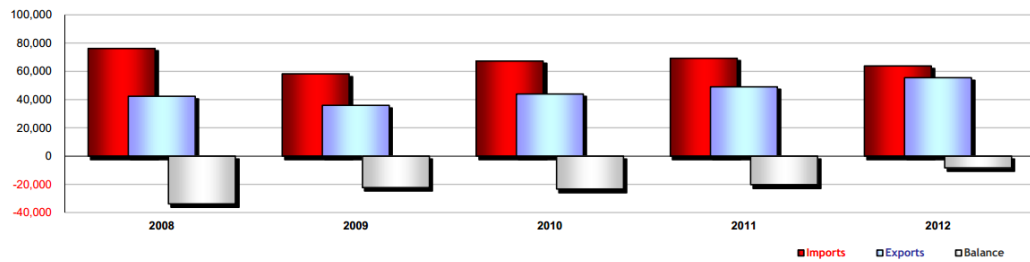
Commodities Imports by Japan from the EU for 2009-2012

	2009	2010	2011	2012
Foodstuff	53,478	59,116	73,304	60,282
Raw Materials	36,418	54,338	65,957	42,236
Mineral Fuels	152,538	197,807	273,334	265,131
Chemicals	49,130	61,166	76,339	56,304
Mach. & Equipment	103,728	147,154	162,246	156,384
Others	82,913	91,521	104,122	89,625

Source: <http://www.ietro.go.jp/en/reports/statistics>

In 2012, EU companies exported a total value of 55.5 billion Euros to Japan, covering business segments like machinery and transport equipment, chemical products and agricultural products. In the same year, EU imports from Japan accounted for 63.8 billion Euros in total.

Figure 16: EU27 Trade Balance with Japan in 2008-2012



Source: http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113403.pdf

It is clearly visible that exports from the EU27 to Japan have been increasing gradually over the last couple of years, rapidly closing the past unbalanced trade gap with Japan, bringing it in line with global trade gaps. Upon conclusion, the Free Trade Agreement between the EU and Japan, should even close more this gap bringing the EU and Japan to a level of equal trade partners with a long-term sustainable relation, hence creating new and exciting business opportunities for EU companies looking to do business with Japan.

Figure 17: EU Exports to Japan 2012

European Union, Exports to... Japan				Share of total EU Exports
SITC Codes	SITC Sections	Value (millions of euro)	Share of Total (%)	
TOTAL		55,490	100.0%	3.3%
SITC 7	Machinery and transport equipment	19,331	34.8%	2.7%
SITC 5	Chemicals and related prod, n.e.s.	14,501	26.1%	5.3%
SITC 8	Miscellaneous manufactured articles	9,293	16.7%	5.3%
SITC 6	Manufactured goods classified chiefly by material	4,298	7.7%	2.1%
SITC 0	Food and live animals	3,111	5.6%	4.4%
SITC 1	Beverages and tobacco	1,656	3.0%	5.7%
SITC 2	Crude materials, inedible, except fuels	1,464	2.6%	3.4%
SITC 3	Mineral fuels, lubricants and related materials	489	0.9%	0.4%
SITC 9	Commodities and transactions n.c.e.	364	0.7%	0.7%
SITC 4	Animal and vegetable oils, fats and waxes	188	0.3%	4.0%

Source: http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113403.pdf

Figure 18: EU Imports from Japan 2012

European Union, Imports from... Japan				
SITC Codes	SITC Sections	Value (Millions of euro)	Share of Total (%)	Share of total EU Imports
TOTAL		63,813	100.0%	3.6%
SITC 7	Machinery and transport equipment	41,248	64.6%	9.1%
SITC 8	Miscellaneous manufactured articles	7,954	12.5%	3.6%
SITC 5	Chemicals and related prod, n.e.s.	6,495	10.2%	4.0%
SITC 6	Manufactured goods classified chiefly by material	5,316	8.3%	3.2%
SITC 9	Commodities and transactions n.c.e.	1,197	1.9%	1.6%
SITC 2	Crude materials, inedible, except fuels	885	1.4%	1.2%
SITC 3	Mineral fuels, lubricants and related materials	169	0.3%	0.0%
SITC 0	Food and live animals	129	0.2%	0.2%
SITC 1	Beverages and tobacco	24	0.0%	0.3%
SITC 4	Animal and vegetable oils, fats and waxes	15	0.0%	0.2%

Source: http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113403.pdf

5.6. EU-Japan Free Trade Agreement Negotiations

On a global level, Japan has been conducting a large number of free trade agreements (FTA's) and economic partnership agreements (EPA's) since 2001, having 13 agreements in force at present.

The ongoing EU-Japan Free Trade Agreement negotiations, led by Commissioner Karel De Gucht, between the EU and Japan, were officially initiated on 25 March 2013. When concluded, the FTA is estimated to boost Europe's economy by 0.6 to 0.8% of its GDP, resulting in 420.000 new jobs. The same research report also predicts that the EU exports to Japan could increase by 32.7%. Japan's exports to the EU are expected to grow with 23.5% in the same period.

Japan is aiming at eased market entrance in the EU for automotive and home electronics companies while the EU is pushing hard to break through Japan's nontrade barriers, also hoping that European enterprises could gain easier access to Japan's public tenders and works.

Japan is and remains a major direct foreign investment player in Europe with 3,750 local branches and employing an equivalent of 470,000 people, being 0.2% of the total EU work force.

The earliest date set forward for the FTA to go into force is set for 2018.

5.7. Economic Outlook for FY 2013

On 28 February 2013, the Cabinet of Abe announced the following statement in regard to the economic outlook for fiscal year 2013 for Japan.

"In FY2013, with the modest recovery of the world economy expected, the Japanese economy will recover, driven by domestic demand as implementation of the measures shown in "Basic Stance for FY2013 Economic and Fiscal Management" is expected to create steady demand and employment.

With regard to prices, the rate of increase in consumer prices is forecasted to be approximately 0.5%, while the GDP deflator will turn to positive. Owing to an increase in the number of employees, the unemployment rate is set to decrease. In consequence, the real GDP growth rate in FY2013 is expected to be around 2.5% (the nominal growth rate is around 2.7%).

Downside risks include the following: uncertainty in overseas economy such as the European sovereign debt crisis, developments in foreign exchange markets, and constraints on the electric supply."

Source: Council on Economic and Fiscal Policy (CEFP) from the Cabinet Office

6. Country background information

6.1. History

6.1.1. Prehistory

Japan has been inhabited from about 30,000 B.C. Japan was connected to Siberia and the Korean peninsula during the Ice Age, and the earliest inhabitants from those areas entered Japan over this natural land bridge. Another theory is that seafaring people from Polynesia came to Kyushu and Okinawa and spread to the rest of the country from there.

6.1.2. Establishment of a native culture

In around 300 A.D., a center of political power was beginning to take shape in the Yamato area, which is thought to be either the Nara or Kyushu areas. The elite there unified the nation through conquests and alliances. The Yamato period was followed by the Nara period. In this period a centralized imperial state was formed and Buddhism was introduced from China. Rivalry between Buddhism and Shinto, the traditional religion in Japan, was diffused by presenting Shinto deities as manifestations of Buddha.



Figure 19: Murasaki Shikibu, author of *The Tale of Genji*, by Tosa Mitsuoki (1617 - 1691)

In 794, the emperor moved the capital to the newly built Heian. Most probably, the reason for leaving Nara was to avoid the Buddhist influence on the government. During the Heian era, the arts flourished and important developments in religious thinking and institutions were adapted to the needs of Japanese society. The Japanese writing system *hiragana* was also developed from Chinese writing in this period. However, as Japan's emperors began to devote more time to leisure and scholarly pursuits and less time to government matters, a new power was allowed to develop: the *samurai* or warrior class.

6.1.3. Wars on power

One of the powerful *samurai* families was the Minamoto. They had their headquarters in Kamakura, near present-day Tokyo, while the emperor remained in Kyoto. The Minamoto clan started a feudal system, *bakufu*, which existed until the Meiji restoration of imperial power in 1868. During the Kamakura period, Kublai Khan's Mongol armies tried to invade Japan several times. Japan managed to stave off the Mongols, but the leadership was weakened and finally lost the support of the *samurai*.

Emperor Go-Daigo presided over the beginning of the Muromachi Period (1333-1576), until a revolt masterminded by the Ashikaga caused him to flee to the hills. The Ashikaga and descendants ruled with gradually diminishing effectiveness, and Japan slipped into civil wars and chaos. During the Momoyama period (end of the 16th century) the country was pacified and unified by Oda Nobunaga and his successor Toyotomi Hideyoshi.

6.1.4. Edo period

Tokugawa Ieyasu defeated Hideyoshi's young heir and set up his headquarters at Edo (now Tokyo). This was the start of the Edo period, which lasted from 1600 to 1867. During the 16th century, when the first Europeans, including Jesuit missionaries, arrived in Japan, there was little authority over foreign trade. The missionaries converted local lords keen to profit from foreign trade and assistance with military supplies. The new religion spread rapidly and came to be seen as a threat to the Japanese government.



Figure 20: Shogun Ieyasu Tokugawa

Suspicious, the Tokugawa shogun put a stop to Christianity and led Japan into a period of national seclusion. Japanese were forbidden to travel overseas or to trade abroad. Only the Dutch, Chinese and Koreans were allowed to stay but kept under strict supervision.

6.1.5. Meiji Restoration

By the 19th century, the Tokugawa government had become rigid and corrupt. Foreign countries began to probe Japan's isolation with increasing insistence, and famine and poverty weakened support for the government. In 1867, Emperor Meiji restored imperial power and took control of state affairs, seeing Japan through a crash course in Westernisation and industrialisation. In 1889, Japan created a Western-style constitution: a parliament, the Diet, was established, while the Emperor remained the sovereign leader.

6.1.6. Asian dominance

Conflicts of interest in Korea between China and Japan led to the Sino-Japanese War in 1894-1895. China lost the war and although Taiwan was acquired, Japan was forced by Russia, France and Germany to return other territories.

New conflicts of interest with Russia in Korea and Manchuria led to the Russo-Japanese War in 1904-1905. The Japanese army won this war also, gaining territory and some international respect. Japan further increased its influence on Korea and annexed Korea completely in 1910. These war successes led to a growth in Japanese confidence and nationalism.

6.1.7. World War I

In World War I, Japan joined the Allied powers, but played only a minor role in fighting German colonial forces in East Asia. After WWI, Japan's economic situation worsened. The Great Kanto Earthquake in 1923 and the worldwide depression in 1929 intensified the crisis. People started to make plans to overthrow the government, including political assassinations. This led to a strong increase in the power of the militarists. Japan finally invaded Manchuria and established a Japanese puppet regime. The Japanese air force also bombarded Shanghai in order to protect Japanese residents from anti-Japanese movements. During the 1930s, the military established an almost complete control over the government. Many political enemies were assassinated, and communists were persecuted. Indoctrination and censorship in education and media were further intensified. Naval and army officers soon occupied most of the important offices, including that of the prime minister.

6.1.8. World War II

Due to international criticism of Japanese actions in China, Japan withdrew from the League of Nations in 1933. In July 1937, the 2nd Sino-Japanese War broke out. Japanese forces succeeded in occupying almost the entire coast of China and committed severe war atrocities on the Chinese population, especially during the fall of the capital, Nanking. However, the Chinese government never surrendered completely, and the war continued on a lower scale until 1945.

In 1940, Japan occupied Vietnam and joined the Axis powers, Germany and Italy. This sharpened Japan's conflict with the US and Great Britain, which subsequently started an oil boycott against Japan. The resulting oil shortage and failures to solve the conflict diplomatically made Japan decide to capture the oil rich Dutch East Indies (Indonesia) and to start a war with the US and Great Britain.

In December 1941, Japan attacked Pearl

Harbor and several other points throughout the Pacific. Japan expanded control within the following six months over a large territory that

stretched to the border of India in the west and New Guinea to the south. In 1944, the US military began bombing cities in Japan. Tokyo



Figure 21: A-Bomb Dome in Hiroshima

and Osaka were badly damaged. The US military also landed on Okinawa, where about 13,000 American soldiers and 250,000 Japanese died. After the US military dropped the atomic bombs on Hiroshima and Nagasaki in August 1945, the Emperor announced Japan's surrender.

6.1.9. Reconstruction

After WWII, Japan was occupied by Allied forces in order to demilitarise the country and dismantle the power of the Emperor. For most of Japan, the occupation lasted until 1952; Okinawa however was occupied until 1972. A recovery programme enabled the economy to expand rapidly, and Japan became the world's most successful export economy, generating massive trade surpluses and dominating such fields as electronics, robotics, computing, automobile production and banking.

6.1.10. Modern Japan

After the Korean War, the recovery of Japan's economy accelerated. The economic growth resulted in an improvement of living standards, changes in society and the stabilization of the ruling position of the conservative Liberal Democratic Party (LDP), but at the same time, severe pollution. The 1973 oil crisis shocked the Japanese economy heavily dependent on oil. This led Japan to shift to high technology industries.

Japan seemed to be a nation of unassailable job security and endless economic growth. However, with the arrival of the 1990s, the old certainties seemed to vanish: Japan's legendary economic growth slowed to a virtual standstill; the LDP was swept out of power and then back in again the next year; in 1995 a massive earthquake nearly devastated Kobe; and a cult with doomsday ambitions engineered a poison gas attack on the Tokyo subway system.

6.1.11. Japan today

The most important prime minister to remember in recent years would be Junichiro Koizumi, who took office in April 2001 and who brought a mix of nationalism and structural reforms. Promising to end Japan's perceived culture of high-level nepotism, he distinguished himself from his many recent predecessors by creating a high level of public expectation.

Koizumi stepped down at the end of September 2006. His 5 years in office will go into history as a very important era for Japan. Koizumi was the third prime minister to stay in office for such a long time. Prior to Koizumi taking office, Japan had 10 prime ministers during the previous 12 years. With Koizumi in office, the Japanese economy improved again and the Japanese megabanks especially regained reliability. Postal reforms are a fact nowadays and Japanese people have become more optimistic resulting in an increase in spending without excesses.

Presently, Prime Minister Shinzo Abe, also from the LDP, is repeating history, with a re-enforce Japan plan, for which former Prime Minister Koizumi paved the way.

6.2. Geography



Japan is situated in North-east Asia between the North Pacific Ocean and the Sea of Japan. The country Japan consists of some 4000 small islands and four main islands: Hokkaido, Honshu, Shikoku and Kyushu. The island stretches from Hokkaido in the north at around 45°N, to Okinawa in the south at around 25°N. Global cities at comparable latitudes would be Milan, Italy in the north and Cairo, Egypt in the south. However, the climate in the north is comparable with that of the northern European countries, and the climate in the south is

comparable with that of Hawaii. The total area of Japan is about 377,000 sq km, nearly equivalent to Germany and Switzerland combined.

6.2.1. Hokkaido

Hokkaido is the northernmost island. The capital is Sapporo (population: 1,822,000). Hokkaido is quite different from the other islands. Agriculture and livestock are the main products. It is less crowded and sparsely populated (5.7 million or 72 persons/km²).



Figure 22: Flickr, Hokkaido Scenery

6.2.2. Honshu

Honshu is the main island with important business regions, **Kanto** and **Kansai**. The Kanto region includes Japan's capital, Tokyo (population: 12,059,000) and Yokohama (population: 3,426,000). The Kansai region includes Osaka (population: 2,598,000), Nagoya (population: 2,171,000) and Kobe (1,493,000) as the major industrial and cultural centers. These major cities are connected by the famous super express train called the "shinkansen" (similar to TGV in Europe). Three-fourths of Japan's major and modern cities are on Honshu, including the 23 special wards of Tokyo (borough in English, arrondissement in French).



Figure 23: Flickr, Shinkansen

6.2.3. Shikoku

Shikoku lies between Honshu and Kyushu. Shikoku is the smallest of Japan's four main islands and perhaps the least visited. Several bridges connect the island with Honshu.



Figure 24: About.com, the Kobe-Shikoku Bridge

6.2.4. Kyushu

Kyushu lies in the southwest of Honshu, with Fukuoka as the major city (population: 1,290,000). Since Kyushu is close to the Korean Peninsula and China, many foreigners came through the islands during Japan's early history. Kyushu is the third largest island of Japan and the most south-westerly of the four main islands. It is considered the birthplace of the Japanese civilization. For centuries, it was Japan's gateway to Asia and the rest of the world. The port city of Nagasaki was



Figure 25: Volcano World, Mount Aso

during Japan's early history. Kyushu is the third largest island of Japan and the most south-westerly of the four main islands. It is considered the birthplace of the Japanese civilization. For centuries, it was Japan's gateway to Asia and the rest of the world. The port city of Nagasaki was

the only place where contact with Dutch and Portuguese traders were allowed for some 200 years. There are several active volcanoes on the island as well as many "onsen" (hot spring) resorts. The region is hit by typhoons and heavy rain every year.

6.2.5. Okinawa

Among the smaller islands, Okinawa is the largest and most significant, located halfway between the western tip of Honshu and Taiwan. It is far enough from the rest of Japan to have developed a culture distinctive in many respects from that of the "mainland." The capital of Okinawa is Naha (population: 1,341,000).

6.3. Climate

The combination of mountainous terrain and the length of the archipelago results in different climates throughout Japan. The climate of the northernmost island, Hokkaido, has short summers and long winters with heavy snowfalls. On the other hand, the southernmost island, Okinawa, enjoys subtropical climate year-around. In general, Japan enjoys four distinct seasons:

6.3.1. Spring (March-May)

The plum blossoms are a good sign that the cold winter will soon end and spring is just around the corner. Between the end of March and the beginning of April, the cherry blossoms in the Tokyo area are at their peak. Splendid views of mountains, fields and gardens all blanketed in gentle pink. Clothing: light jackets, light sweaters



Figure 26: Google images, Hanami party

6.3.2. Summer (June-August)

The Japanese summer begins in June with a one-month rainy season. It becomes extremely hot and humid from July following the official announcement of the rainy season ending. It is recommended to avoid this season for visiting Japan. During "summer vacation," many Japanese enjoy visiting the seaside or relaxing at cool resorts in mountainous areas. Summer is when many interesting festivals and other events are held throughout the country. Hokkaido has no rainy season and the summer is very cool and attractive for the other parts of Japan. Clothing: light clothing for cool evenings

6.3.3. Autumn (September-November)

Autumn always brings freshness with light breezes and cool temperatures after a hot and humid summer. All forests are dyed in glorious autumn colours. Chrysanthemums create beautiful displays with their abundance of flowers and enchant visitors to parks and gardens. Autumn is also the season for many exhibitions, music concerts and sports tournaments in Japan. Clothing: light jackets, light sweaters.

6.3.4. Winter (December-February)

The temperature rarely drops below 0°C in the plains along the Pacific coast during winter. It is also quite dry and very often clear and sunny. The central and northern parts of Japan have much snow. The southern region is comparatively mild and pleasant in winter.

Clothing: overcoats, sweaters.

Average Temperatures in Major Cities

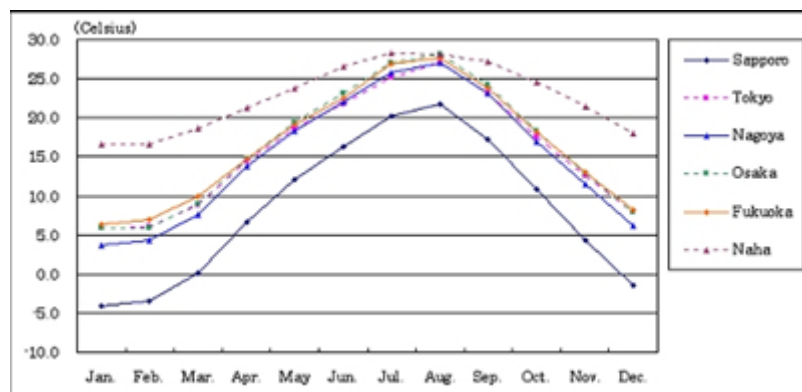


Figure 27: Rika Nempyo, National Astronomical Observatory

6.4. Japanese calendar and currency

6.4.1. Japanese calendar

While the Christian method of numbering years is commonly used in Japan today, a parallel numbering system for years according to the era of the reigning Emperor is also frequently used. The era of the current Emperor is called 'Heisei' and the year 2013, for example, is the 25th year of the Heisei era, which can also be referred to as Heisei 25.

6.4.2. Time difference

Japan occupies a single time zone, 9 hours ahead of GMT. No Daylight Savings Time is practiced in Japan. The time differences with major European cities are: Frankfurt: -8 hrs; Geneva: -8 hrs; Paris: -8 hrs; London: -9 hrs and one hour less during summer time.

6.4.3. Business hours

Normal business hours of companies are from 9 am until 6 pm, but it is customary to work overtime, sometimes even until midnight, or last train, whichever is later. The hours of postal offices vary from location to location. Central Post Offices are open almost 24 hours per day, while normal windows at branches are open from 9 am to 7 pm.

Banks are open from 9 am to 3 pm. They are normally closed on the weekends and National holidays, but there are exceptions. However, deposits and withdrawals, and most other transactions can be made at ATMs 24 hours a day at major nationwide convenience stores such as Lawson, Seven Eleven or Family Mart.

6.4.4. National Holidays in Japan 2014

Figure 28: National Holidays 2014

Weekday	Date	Holiday name	Holiday type
Wednesday	Jan 1	New Year's Day	National holiday
Thursday	Jan 2	January 2 Bank Holiday	Observance
Friday	Jan 3	January 3 Bank Holiday	Observance
Monday	Jan 13	Coming of Age Day	National holiday
Tuesday	Feb 11	National Foundation Day	National holiday
Friday	Mar 21	Spring Equinox	National holiday
Tuesday	Apr 29	Shōwa Day	National holiday
Saturday	May 3	Constitution Memorial Day	National holiday
Sunday	May 4	Greenery Day	National holiday
Monday	May 5	Children's Day	National holiday
Tuesday	May 6	Greenery Day observed	National holiday
Monday	Jul 21	Sea Day	National holiday
Monday	Sep 15	Respect for the Aged Day	National holiday
Tuesday	Sep 23	Autumn Equinox	National holiday
Monday	Oct 13	Sports Day	National holiday
Monday	Nov 3	Culture Day	National holiday
Sunday	Nov 23	Labor Thanksgiving Day	National holiday
Monday	Nov 24	Labor Thanksgiving Day observed	National holiday
Tuesday	Dec 23	Emperor's Birthday	National holiday
Wednesday	Dec 31	December 31 Bank Holiday	Observance

Source: <http://www.timeanddate.com/holidays/japan/2014>

In cases where a national holiday falls on a Sunday, the following Monday becomes a holiday. December 25 (Christmas) and August 15 (Obon Festival) are not official national holidays in Japan, but most companies are actually closed. During the New Year's season between December 29 and January 3, government and other public offices as well as companies are closed.

New Years and Obon are two important historical seasons in Japan, and the only occasions when people en masse take holidays or successive days off. Crowding airplanes, trains, ferries and highways all over Japan, people travel from the cities to their hometowns to reunite with their parents and relatives. During New Years, they watch the first sunrise and pray for happiness and prosperity for the New Year. In the summer Obon period, they pay respects to their ancestors by visiting their graves and praying for protection.

It is recommended to avoid all business trips during these periods.

6.4.5. Currency

The unit of Japanese currency is the yen. There is no limit on the amount of any currency that may be brought into or taken out of Japan. However, if you transport checks, securities or other monies exceeding 1,000,000 yen into or out of Japan, you must complete a customs declaration.

Yen currency has four kinds of bills: 10,000 yen; 5,000 yen; 2,000 yen (uncommon now) and 1,000 yen. There are six types of coins: 500 yen; 100 yen; 50 yen; 10 yen; 5 yen and 1 yen.

Figure 29: Yen Currency



Source: <http://en.wikipedia.org>

6.5. Getting Around

Because Japanese companies know that finding one's way inside Japan is far from easy, they take good care of their visitors and customers. When you have an appointment they will most often pick you up, usually at your hotel, any major train station or place of transport. For improved client relations and efficiency, it is recommended that you at least find your way to your hotel by yourself. The best mode of transportation is by train and/or subway, rather than taxi. Taxi fares can be quite expensive, increasing by distance traveled and time of day.

6.5.1. Tokyo

Airports

The international airport is Narita Airport (NRT) located 60 km from Central Tokyo. Haneda Airport (HND), mainly for domestic flights and since September 2010, more frequent international flights, is located closer to central Tokyo.

Narita International Airport

From Narita Airport to central Tokyo, there are various modes of transport. The Narita Express train (NEX) departs frequently for Tokyo, Shinjuku, Ikebukuro and Yokohama stations. Also, the Airport Limousine Bus is easy to use and has numerous direct routes from the airport to larger cities and major hotels in the centre of



Figure 30: Trek Earth Photo, Marunouchi side of Tokyo station

Tokyo. Trips take around 70 minutes (up to 2 hours plus on busy days) one-way from Narita into central Tokyo. The train is the cheapest, and sometimes the fastest way into Tokyo, but not the most convenient if you have a lot of luggage. The inexpensive Keisei Express and Limited Express connect the airport with Ueno and Nippori stations in Tokyo, taking between 75-90 minutes. Another inexpensive alternative is the slightly faster (about one hour) Keisei Skyliner, which also stops at Ueno and Nippori stations. Details can be found on the following websites.

<http://www.narita-airport.jp/en>

<http://www.jreast.co.jp/e/nex>

http://www.keisei.co.jp/keisei/tetudou/keisei_us/top.html

<http://www.limousinebus.co.jp/e/index.html>

Haneda Domestic & International Airport

Haneda Airport is served by the Keihin Kyuko Railway and Tokyo Monorail. Keikyu offers trains to Shinagawa Station and Yokohama Station and to the Toei Asakusa Line, which stops several times in eastern Tokyo. Some Keikyu trains also run through to the Keisei Oshiage Line and Keisei Main Line, thereby making it possible to reach Narita International Airport by train. Tokyo Monorail offers trains to Hamamatsucho Station, where passengers can connect to the Yamanote Line for other points in Tokyo.

6.5.2. By Shinkansen (bullet train)

The world famous super express train, Shinkansen, which fascinates Japanese and foreign visitors alike with its high speed and comfort, is operated from Tokyo to major cities throughout Japan at approximately 10-minute intervals. All Shinkansen lines go to Tokyo. The trip from Osaka or Kyoto takes about 2 hours 30 minutes. There are also direct trains to Kyushu, Nagano, Niigata and destinations in the Tohoku region. There is an online reservation system for all Shinkansen lines and the Narita Express at the following website.

(http://www.world.eki-net.com/e_Default.asp).

6.5.3. Japan Rail Pass

The Japan Rail Pass is a special ticket that is available only to travellers from foreign countries during their visit to Japan for sightseeing. The Rail Pass enables almost unlimited use of JR trains and its affiliated bus and ferry services within various areas of Japan. This pass can only be bought overseas and cannot be used by foreign residents in Japan. The Japan Rail Pass can be validated at certain major railway stations or at the JR counter in Narita Airport. For details, see this website.

(<http://www.japanrailpass.net>)

6.5.4. Basic Orientation

Tokyo's public transportation is nearly always on time, fast, efficient, frequent, safe and clean. The main transit services are JR trains, Toei (Metropolitan) subway lines, Tokyo Metro subway lines (since April 1, 2004), private railways and buses that are operated by about a dozen different companies. Subway lines are color-coded and have numbered stations, making getting around easier for visitors. Most

stations have subway maps and fare tables in English. Station names are written using the Roman alphabet. Rush hours in Tokyo are 8:00-9:30 am and 6-8 pm. In Central Tokyo, the most important train line is the JR Yamanote Line, a loop line connecting Tokyo's multiple city centres. Most of the suburban train lines start at one of the six major stations on the Yamanote Line (Tokyo, Shinagawa, Shibuya, Shinjuku, Ueno and Ikebukuro).

For subways and trains you will probably need to buy your ticket from a machine. Usually, they are relatively easy to understand even if you cannot read Japanese characters. There will be a map explaining the route and from this you can find what the fare should be. However, if you can't work out the fare, an easy solution is to buy a ticket for the lowest fare on the machine. When you finish your trip, go to the office adjacent to the exit gate and you can pay the additional fare without penalty.

If traveling to a business appointment by subway, make sure you check beforehand which subway exit you need to use and ideally get a map to show you how to get from the subway to your final destination (ask a counterpart to fax/e-mail a map to you beforehand). The subway and most trains start operating at 5 am and finish at around midnight daily. For additional information please check the following website.

(<http://www.tokyometro.jp/e/index.html>)

You will find taxi stands at train stations and on certain major streets. Otherwise, as in other countries, simply hail them on the street. If the red sign in the lower left corner of the windshield is lit, the taxi is available. From the beginning of your journey, until you get to the 2km mark, the initial fare is usually ¥710. From then on, for every 274 m traveled, add on another ¥80. If you get stuck in traffic, not an unheard of eventuality in Tokyo, you can add on another ¥80 for approximately every 2 minutes of stationary time. Taxi doors open and close automatically. Get in from the left side of the taxi. Always try to have a map in Japanese (ask your hotel to draw or provide one, or ask someone at the destination to fax/e-mail one to you) of where you want to go, as often the taxi drivers may not be able to find the destination based on the written address and most drivers do not speak English.

Several bus companies also run buses inside and outside of Central Tokyo. The Highway Bus Network stretches to major cities from Tokyo. For details, please have a look at this website.

(<http://www.jrbuskanto.co.jp>)

6.5.5. Osaka

Kansai International Airport

Osaka's nearest airports are Kansai International Airport (KIX), as well as Itami Domestic Airport (ITM) and Kobe Domestic Airport



Figure 31: beautifully designed Kansai Airport

(UKB) which are only for domestic flights. Kansai International Airport is an offshore airport, located about 50 km south of downtown Osaka. There are various modes of transport from Kansai International Airport into Osaka: limousine bus, taxi, ferry, shuttle bus

and passenger trains, such as the JR Haruka train and the Nankai Railways Rapito train. For details, visit the English website of Kansai International Airport.

(<http://www.kansai-airport.or.jp/english>)

Itami Domestic Airport

From Itami Airport, there are several limousine airport buses shuttling passengers directly into downtown Osaka. For more information, please visit the following English website of Itami Airport.

(<http://osaka-airport.co.jp/en>)

Bullet Train (Shinkansen) and Japan Rail Pass

More information about the shinkansen in Osaka region, operated by West Japan Rail (JR), can be found here.

(<http://www.westjr.co.jp/global/en>)

Wherever you need to go in Osaka, the subway system usually has it covered. There is also a JR Loop line which links well with key subway stations. Prepaid day-cards are also available for unlimited subway and city bus travel. English information on the Subway in Osaka is available here.

(<http://www.kotsu.city.osaka.lg.jp/foreign/english>)

Osaka also has an extensive bus network, which uses the same ticketing system as the subway. Taxi stands can be found in front of most train stations, and it is possible to hail a cab on busy streets.

7. Recommended readings

Informative

- ✓ *Japan Company Handbook*, detailing listed companies is published quarterly in two sections by Toyo Keizai Inc.
- ✓ *Japan Trade Directory*, information on Japanese companies. Covering 24,000 products and services, and around 2,000 companies, published by JETRO.
- ✓ *Setting Up Enterprises in Japan – Guidelines on Investment, Taxation and Legal Regulations, the 4th edition*, by JETRO.

Business Culture

- ✓ *Japanese Etiquette & Ethics in Business*, by Boye Lafayette De Mente, McGraw-Hill/Contemporary Books.
- ✓ *Doing Business With the Japanese: A Guide to Successful Communication, Management, and Diplomacy*, by Alan Goldman, State Univ of New York Press.
- ✓ *Business Guide to Japan: Opening Doors, and Closing Deals*, by Boye Demente, Boye Lafayette De Mente, Charles E Tuttle Co.
- ✓ *Successful Gaijin in Japan: How Foreign Companies Are Making It in Japan*, by Nagami Kishi, Nagami Kishii, Ntc Business Books.

History/Culture

- ✓ *The Japanese Today, Change and Continuity*, Charles E. Tuttle Co.
- ✓ *Japanese Culture*, by H. Paul Varley, Charles E. Tuttle Co.
- ✓ *The Chrysanthemum and the Sword: Patterns of Japanese Culture*, by Ruth Benedict,
- ✓ *Appreciations of Japanese Culture*, by Donald Keene, Kodansha International.
- ✓ *The Modern History of Japan*, by W.G. Beasley, Charles E. Tuttle Co.

Literature

- ✓ *The Temple of the Golden Pavilion*, By Yukio Mishima, Vintage Books.
- ✓ *Snow Country*, by Yasunari Kawabata, Perigee.
- ✓ *Kokoro*, by Natsume Soseki, Regnery Publishing.

Politics/Society

- ✓ *Politics The Japanese Way*, by Jon Woronoff, Yohan Publications, Inc.
- ✓ *The Japanese Today: Change and Continuity*, by Edwin O. Reischauer

Economy/Industry

- ✓ *Between MITI and the Market: Japanese Industrial Policy for High Technology*, by Daniel I. Okimoto, Stanford University Press.

Newspapers on line

- ✓ *The Japan Times*, <http://www.japantimes.co.jp/>
- ✓ *The Asahi News*, <http://www.asahi.com/english/english.html>
- ✓ *Nihon Keizai Shimbun*, <http://www.nni.nikkei.co.jp/>
- ✓ *Daily Yomiuri*, <http://www.yomiuri.co.jp/index-e.htm>
- ✓ *Mainichi Daily News*, <http://mdn.mainichi.co.jp/>

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5. *Japan Economic Data, 2012*, European Commission-Trade
6. *Doing Business in Japan*, 2011, PKF
7. *Doing Business in Japan*, 2011, Grant Thornton Japan
8. *Doing Business in Japan*, March, 2010, RSM International
9. *International Business and Tax Guide: Japan*, 2010, Deloitte
10. *The Nikkei Weekly*, from the Nikkei Net Interactive
11. *Country Briefings*, from The Economist
12. *Six Critical steps to Business Development in Japan*, HTM in the AEA Newslines
13. *Japanese Lifestyles*, JETRO
14. *Business In Japan*, Eurotechnology Japan KK
15. *Japan Carts outlining the economic and financial conditions of the Japanese economy*, by the Federal Reserve Bank of New York
16. *Japan Country Briefs*, New Zealand Trade & Enterprise
17. *Japan Economy*, Japan Economy News & Blog
18. *Doing Business in Japan*, Japan-guide
19. *Japan Economic Weekly*, Kazuhiko Ogata
20. *Laws & Regulations on Setting Up Business in Japan*, JETRO
21. *EU-bilateral Trade and Trade with the World: Japan*, Eurostat
22. *Japan-Language, Culture, Customs and Etiquette*, Kwintessential
23. *Japan Trade and Investments Statistics*, JETRO

24. *General Statistics of Japan*, Ministry of Internal Affairs and Communications
25. *General statistics on Japanese Economy*, Economic and Social Research Institute, Cabinet Office
26. *Industrial and commercial statistics on Japanese economy*, Ministry of Economy Trade and Industry
27. *Statistics on Japanese economy*, The Bank of Japan
28. *Analysis of Japan's Economic crisis and Its Aging Population Problem*, Japan Economic Watch,
29. *Key Aspects of Japan*, Sugiura Yoichi, John K. Gillespie, *Trade Statistics*, Ministry of Finance
30. *Statistics on Japan*, OECD
31. *Aspects of Popular Culture*, Lee A. Makila
32. *Modern Japan*, Japanzone
33. *Japan*, Wikipedia, the free encyclopedia
34. *Modern Japan*, japanlink
35. *Interesting Facts About Japan*, Buzzle.com
36. *The World Factbook*
37. *Japan's GDP and Economic Trend – Weathering the Gloom*, Fujitsu Research Institute
38. *The Japanese Economic Review*, the Japanese Economic Association