

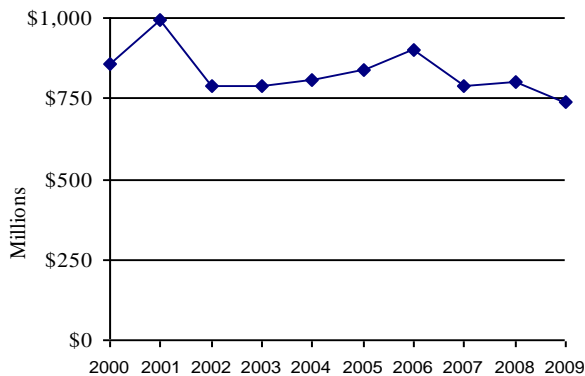
WHY JAPAN?



Major Export Market for Minnesota

Japan is Minnesota's fourth-largest market for exported manufactured goods (\$738 million in 2009) after Canada (\$3.8 billion), China (\$1.3 billion) and Ireland (\$897 million). Between 2000 and 2009, state exports to Japan declined 14 percent, compared to the national export decline of 26 percent to Japan during this time period. During the economic downturn between 2008 and 2009 and an overall state export decline of 15 percent, the state's exports to Japan fell by 8 percent. Japan continues to be one of the state's top export markets despite some periods of declining exports.

Figure 1. Minnesota Manufactured Exports to Japan, 2000-2009



A Leading Exporter to Japan among U.S. States

Japan imported \$491 billion in goods from all countries in 2009. At about \$51 billion, the United States is Japan's second-largest source of goods, accounting for 10 percent of all imports to Japan. (China is the largest source, representing 19 percent of Japan's imported goods from other countries.)

Minnesota is a leading source of exported goods from U.S. states to Japan in 2009:

- ✓ Computers and electronics (ninth among all states, \$165 million)
- ✓ Miscellaneous goods (including medical) (eighth, \$164 million)
- ✓ Machinery (10th, \$114 million)
- ✓ Paper (eighth, \$48 million)
- ✓ Leather products (third, \$19 million)
- ✓ Plastics and rubber products (10th, \$18 million).

One of the World's Largest Economies

Japan's economy is valued at \$5.1 trillion in 2009, up 14 percent since 1999. Japan is the world's second-largest economy (based on gross domestic product), after the United States and closely followed by China (including Hong Kong) at \$5.0 trillion in third place. It is the largest economy in Asia.

A Large Business and Consumer Market with High Purchasing-Power

With a population of 127 million in 2009, Japan is the world's 10th most populous nation in the world. With a per capita GDP of about \$40,000 in 2009, Japan's consumers are among the world's wealthiest consumers and represent an enormous market for Minnesota businesses.

Opportunities for Foreign Direct Investment

The stock of foreign direct investment in Japan was valued at \$205 billion in 2009. In 2009, foreign direct investment was valued at almost \$12 billion in Japan, of which \$1.8 billion came from investors in the United States.

In the converse direction, Japanese investors owned \$200 billion in gross plant, property and equipment in United States-based businesses in 2007 (latest available). Japanese investment in Minnesota companies was valued at \$444 million in plant, property and equipment in 2007 (latest available); these companies employed 3,600 Minnesotans. Japanese-owned companies in Minnesota include Bridgestone, Firestone, Fujifilm Graphics, Firestone Metal Products LLC, McQuay International, Ricoh Americas Corporation, Water Gremlin Company, Ventura Foods, and Hitachi Global Storage Technologies Inc.

A Good Match for Minnesota Products

In 2009, Japan was among the top 10 buyers in the world for exports of Minnesota's:

- ✓ computers and electronics (8th, \$165 million),
- ✓ miscellaneous (including medical) goods (fourth among all countries, \$164 million),
- ✓ machinery (sixth, \$114 million),

- ✓ food (fourth, \$78 million)
- ✓ paper (third, \$48 million),
- ✓ leather products (second, \$19 million)
- ✓ plastics and rubber (seventh, \$18 million),
- ✓ fabricated metal products (seventh, \$13 million),
- ✓ nonmetallic mineral products (fifth, \$13 million),
- ✓ wood products (second, \$6 million).

Best Prospects for U.S. Companies

The U.S. Department of Commerce's Country Commercial Guide identified the following promising export areas to Japan for 2010:

- Aerospace
- Computer Software
- Cosmetics/Toiletries
- Education and Corporate Training
- Electronic Components
- Healthcare Information Technology
- Nanotechnology
- Biotechnology
- Medical Equipment
- Pharmaceuticals
- Renewable Energy
- Safety and Security
- Soil Remediation/Engineering Services
- Telecommunications Equipment
- Travel and Tourism

Japan has led the world for the past twenty years in Research and Development spending as a percentage of GDP, and Japanese firms consequently stand at the leading edge of a large number of tomorrow's technologies. Strategic alliances with Japanese companies, especially in highly innovative products and services, may enable U.S. firms to leverage their own advantages. Japanese companies continue to expand their market reach throughout East Asia and their established networks provide U.S. business partners with smooth access to these important markets.

In particular, highlights in some of these areas are:

- **Healthcare Information Technology:** In 2008 the market size for healthcare IT systems in Japan totaled \$3.8 billion. According to Japan's Ministry of Health, Labor and Welfare the adoption rate for electronic medical records (EMRs) among Japanese hospitals and general clinics in 2008 was just 10.8 percent and 13.1 percent respectively. The adoption of EMRs is both a major priority in Japan and a major opportunity for U.S. suppliers of related equipment, software, and services. Healthcare IT is an emerging sector in Japan

and promising areas for U.S. exporters include security and data integration solutions as well as mobile applications.

- **Electronic components:** Although offshore production (particularly in China) by Japanese consumer electronics companies is growing rapidly, electronic component exports from Japan are outpacing local production in terms of growth. As a result, the total market size appears to be decreasing. Japanese consumer electronics manufacturers' share of world production, however, remains high and, therefore, Japan should still be considered an important market for U.S. suppliers because key purchasing decisions for component and subassemblies are generally made in Japan. Important product areas with good prospects include MEMS (Micro-Electro-Mechanical Systems), solar batteries and RFID (Radio Frequency Identification).
- **Nanotechnology:** According to Japan's Ministry of Economy, Trade and Industry (METI) and New Energy and Industrial Technology Development Organization (NEDO), the size of the Japanese nanotechnology-related product market will reach an estimated \$144 billion by 2020. The report identified major nanotechnology application sectors such as nano electronics (ICT), nano bio (life science) and green nano (environment and energy).
- **Medical equipment:** The Japanese market for medical equipment is estimated at \$32 billion for 2009. Medical equipment is one of the few sectors where the United States has consistently enjoyed a sizeable trade surplus with Japan. U.S. products were estimated to hold around a 60 percent share of the import market, thus accounting for roughly 30 percent of Japan's total medical equipment market, and were valued at approximately \$6.2 billion in 2008.
- **Biotechnology, particularly medical biotechnology:** The Japanese biotechnology industry has made remarkable strides in recent years due to close cooperation between the Japanese public and private sectors and academia. In 2008, the total market size of the Japanese biotechnology industry was \$24.3 billion. Currently medical biotechnology is the leading sub-sector, creating a good match for Minnesota.
- **Renewable Energy:** Renewable energy technologies (or to use the Japanese term "New Energy Power Generation") such as photovoltaic solar panels, wind turbines, and biomass/biofuels (including bio-ethanol), are promising sectors in the Japanese market. The major emphasis in Japan continues to be on solar and fuel cell technology. Due to Japan's geography and population density, there is a limited market for wind power.
- **Senior Market:** The population of those sixty years and older was about 38 million in 2009, representing 30 percent of the population. As the elderly population increases, it will create lucrative markets for medical or welfare products and services, including in-home care devices, technologies, and health IT related products and self-care and preventive care health products. Demand for leisure products and activities that add to

quality of life is also expected to be strong. The interest by senior citizens in overseas experiences is increasing. The strength of the Japanese yen in recent years translates into good opportunities for U.S. schools to attract seniors (who have time and money) to short-term, adult-oriented educational programs.

Notable Business Presence and Experience in Japan

While there are countless Minnesota companies doing business with Japan today, some of the more notable ones are 3M, Cargill, Donaldson, General Mills, Lawson, Medtronic, Hormel, Imation, Ecolab, Carlson Companies, Hutchinson Technologies, St. Jude Medical, and UnitedHealth Group Information Services (UnitedHealth Group).

Fourth-largest Market for U.S. Agricultural Goods

Japan purchased \$11 billion in U.S. agricultural goods in 2009, is the nation's fourth-largest market (behind Canada) and accounted for 11 percent of U.S. exports of these goods. (Note: The U.S. Department of Agriculture defines agricultural goods include bulk and intermediate agricultural commodities, as well as processed food products.)

Japan was the third-largest market for U.S. soybeans and related products, behind Mexico and China. Exports of these goods to Japan were valued at \$1 billion in 2009 and represented 7 percent of U.S. exports of soybeans and related products.

Over the past decade (2000-2009), U.S. exports of agricultural products to Japan increased by 20 percent, with most of this growth driven by exports of bulk and intermediate agricultural commodities (which grew 54 percent during this period to \$6.7 billion in 2009) rather than processed food (which fell 10 percent to about \$4.5 billion in 2009). In particular, exports of soybeans to Japan jumped 45 percent during this period.

Minnesota exported approximately \$5.5 billion in bulk and intermediate agricultural commodities and related processed food products in 2008 (Fiscal year, most recent available) and was the seventh-largest exporting state of these goods. The largest exported product group was soybeans and related products, valued at \$1.7 billion; Minnesota was the third-largest state exporter of soybeans. According to DEED's preliminary estimates, the state exported about \$526 million in agricultural goods to Japan in 2009.

Education Connections

The University of Minnesota, along with many other Minnesota state colleges and universities and private colleges, is attended by students from Japan and students of Japanese descent. The University of Minnesota's Department of Asian Languages and Literature offers undergraduate and graduate students coursework to study cultural aspects of Asia and Asian languages, including Japanese, and opportunities to study abroad at universities in Japan.

In 1990, Minnesota State Colleges and Universities (MNSCU) established Minnesota State University-Akita which offered coursework in English in Akita, Japan, and was a remarkable

cross-cultural exchange between Japanese and American students. Although it closed in 2002, it was locally re-established in 2004 as Akita International University. Winona State University, St. Cloud State University and Hamline University have partnership agreements with Akita International University through which Minnesota students can study in Japan, and Japanese students can study in Minnesota for part of their studies.

Enhancing Cultural Ties

Groups such as Japan America Society of Minnesota, the Asian Pacific Cultural Center and the Japan Student Association at the University of Minnesota work to celebrate and promote appreciation of Japanese culture. The Minneapolis Institute of Arts has hosted numerous exhibitions of Japanese art, and Mu Daiko, based in St. Paul, is a nationally-recognized Japanese taiko drumming ensemble.

Minnesota cultural ties to Japan have a long history. St. Paul and Nagasaki share the oldest sister-city relationship in the United States. Other Minnesota-Japan sister-city relationships are Anoka-Taishin Village, Duluth-Ohara, Bloomington-Izumi City, Minneapolis-Ibaraki City and Winona-Misato.



JAPAN: *QUICK FACTS*

GOVERNMENT LEADERSHIP

<i>Head of State:</i>	Emperor AKIHITO
<i>Head of Government:</i>	Prime Minister Yukio HATOYAMA
<i>Ambassador to the U.S.:</i>	Ambassador Ichiro FUJISAKI
<i>U.S. Ambassador to Japan:</i>	Ambassador John V. ROOS

PROFILE

<i>Population:</i>	127,078,679
<i>Capital:</i>	Tokyo
<i>States:</i>	47 prefectures
<i>Form of Government:</i>	Parliamentary government with a constitutional monarchy
<i>Independence:</i>	660 B.C. (traditional date of the founding of the nation by Emperor JIMMU; first recognized by Emperor Meiji in 1873)
<i>Land Size:</i>	377,915 sq km (61 st largest)
<i>Ethnic Groups:</i>	Japanese 98.5%, Koreans 0.5%, Chinese 0.4%, other 0.6%
<i>Religions:</i>	Shinto 83.9%, Buddhism 71.4%, Christianity 2%, other 7.8%
<i>Literacy:</i>	99%
<i>Language:</i>	Japanese

ECONOMY

Economic Overview: In the years following World War II, government-industry cooperation, a strong work ethic, mastery of high technology, and a comparatively small defense allocation (1% of GDP) helped Japan develop a technologically advanced economy. Today, measured on a purchasing power parity basis, Japan is the third-largest economy in the world after the US and China; measured by official exchange rates, however, Japan is the second largest economy in the world behind the US. Two notable characteristics of the post-war economy were the close interlocking structures of manufacturers, suppliers, and distributors, known as keiretsu, and the guarantee of lifetime employment for a substantial portion of the urban labor force. Both features are now eroding under the dual pressures of global competition and domestic demographic change. Japan's industrial sector is heavily dependent on imported raw materials and fuels. A tiny agricultural sector is highly subsidized and protected, with crop yields among the highest in the world. Usually self sufficient in rice, Japan imports about 60% of its food on a caloric basis. Japan maintains one of the world's largest fishing fleets and accounts for nearly 15% of the global catch. For three decades, overall real economic growth had been spectacular - a 10% average in the 1960s, a 5% average in the 1970s, and a 4% average in the 1980s. Growth slowed markedly in the 1990s, averaging just 1.7%, largely because of the after effects of inefficient investment and an asset price bubble in the late 1980s that required a protracted period of time for firms to reduce excess debt, capital, and labor. In October 2007 Japan's longest post-war period of economic expansion ended after 69 months and Japan entered into recession in 2008, with 2009 marking a return to near 0% interest rates. The Japanese financial sector was not heavily exposed to sub-prime mortgages or their derivative instruments and

weathered the initial effect of the global credit crunch, but a sharp downturn in business investment and global demand for Japan's exports in late 2008 pushed Japan further into a recession. The 10-year privatization of Japan Post, which has functioned not only as the national postal delivery system but also, through its banking and insurance facilities, as Japan's largest financial institution, began in October 2007, marking a major milestone in the process of structural reform; however, in December 2009, the Democratic Party of Japan-led government passed a law to freeze future sales of Japan Post shares, halting the privatization process begun by Liberal Democratic Party governments. Debate continues on the role of and effects of reform in restructuring the economy and funding to stimulate consumption in the face of a tight fiscal situation. Japan's huge government debt, estimated to have reached 192% of GDP in 2009, and an aging and shrinking population are two major long-run problems.

GDP (PPP):	\$4.141 trillion (2009 est.)
GDP- real growth rate:	-5.7% (2009 est.)
GDP – per capita:	\$32,600 (2009 est.)
GDP – by sector:	Agriculture (1.6%); industry (23.1%); services (75.4%)
Unemployment rate:	5.6%
Major Industries:	Motor vehicles, electronic equipment, machine tools, steel and nonferrous metals, ships, chemicals, textiles, processed foods
Major Agricultural Products:	Rice, sugar beets, vegetables, fruit, pork, poultry, dairy products, eggs, fish
Exports:	\$516.3 billion (2009 est.) – transport equipment, motor vehicles, semiconductors, electrical machinery, chemicals
Major Markets:	US 17.8%, China 16%, South Korea 7.6%, Taiwan 5.9%, Hong Kong 5.1%
Imports:	\$490.6 billion (2009 est.) – machinery and equipment, fuels, foodstuffs, chemicals, textiles, raw materials
Major Suppliers:	China 18.8%, US 10.4%, Saudi Arabia 6.7%, Australia 6.2%, UAE 6.1%, Indonesia 4.3%

Sources:

- Central Intelligence Agency, The World Factbook (<https://www.cia.gov/library/publications/the-world-factbook/index.html>)
- Economic Research Service, U.S. Department of Agriculture (Minnesota Fact Sheet, <http://www.ers.usda.gov/StateFacts/MN.htm>)
- Foreign Agriculture Service (GATS), U.S. Department of Agriculture (<http://www.fas.usda.gov/>)
- Japanese External Trade Organization (JETRO), foreign direct investment (<http://www.jetro.go.jp/en/reports/statistics/>)
- Buyusa.gov (<http://www.buyusa.gov/japan/en/doingbusinessinjapan.html>)
- Bureau of Economic Analysis, U.S. Department of Commerce, Operations of U.S. Affiliates of Foreign Affiliates, preliminary 2007 data (http://www.bea.gov/scb/account_articles/international/iidguide.htm#page12)
- Dun and Bradstreet, Foreign-owned companies in Minnesota, 2008
- Foreign Trade Division, Census Bureau, U.S. Department of Commerce and World Institute of Social and Economic Research (WISER)
- Sister Cities International (www.sister-cities.org/directory/index.cfm)
- U.S. Commercial Service, U.S. Department of Commerce: “2010 Country Commercial Guide for U.S. Companies: Doing Business in Japan” (www.buyusainfo.net/docs/x_900209.pdf)
- World Bank Group (www.worldbank.org, “Data & Research”)