

Recent Increase in Foreign Visitors and Impact on Japan's Economy

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Recently, the number of foreign visitors to Japan has been growing significantly, led by the remarkable increase in Asian visitors. A combination of the following factors seems to drive this trend. In addition to the recovery from the sharp post-earthquake decline and recent developments in foreign exchange markets, the increase in foreign visitors has been spurred by the expansion of middle-income households in Asian countries, entry of LCCs, and easing of visa requirements. While the overall economic impact of this increase in foreign visitors remains limited, the increase appears to have had a positive effect on certain consumption related areas to a considerable degree, particularly in light of features in the consumption behavior of foreign visitors in Japan. With the Olympic and Paralympic Games scheduled to be held in Tokyo in 2020 and with various initiatives aimed at increasing foreign visitors and stimulating greater consumption, it is expected that foreign visitors will have a larger positive effect on Japan's economy in the future.

Introduction

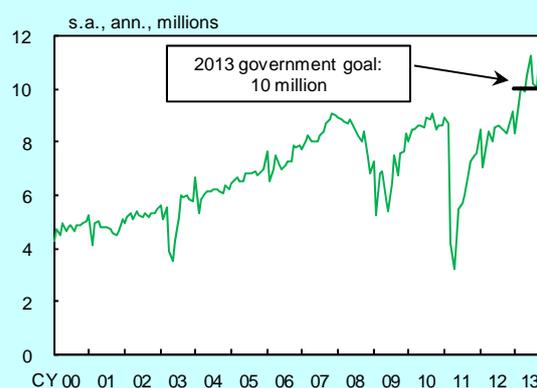
The number of foreign visitors to Japan after 2000 increased steadily until the Lehman Shock, but marked a sharp decline immediately following the Lehman Shock and the Great East Japan Earthquake. More recently, a significant increase has been seen, particularly since the second half of 2012. By the end of 2012, the number of foreign visitors on a seasonally adjusted basis had more or less recovered to the pre-earthquake level, and figures for the first half of 2013 totaled 4.95 million visitors (nearly 10 million on an annual basis), the highest level recorded for the first half of any year (Chart 1).¹

While a review of foreign visitors during the first half of 2013 by country and region points to an uptrend in all areas, a remarkable increase is seen in the number of visitors from East Asia (particularly South Korea, Taiwan, and Hong Kong) and Southeast Asia (particularly Thailand and Indonesia) (Chart 2).

This report begins with a brief review of factors contributing to the recent increase in the number of foreign visitors with a primary focus on the Asian region, followed by a more detailed examination of the consumption behavior of foreign visitors with an eye to differences by country and region. Next, a quantitative analysis of the impact of the growing

number of foreign visitors and their consumption behavior on Japan's economy is presented. The report closes with a review of issues related to future growth in foreign visitors and measures for increasing their consumption.

[Chart 1] Number of Foreign Visitors



Note: Seasonally adjusted by X-12-ARIMA.

Source: Japan National Tourism Organization (JNTO).

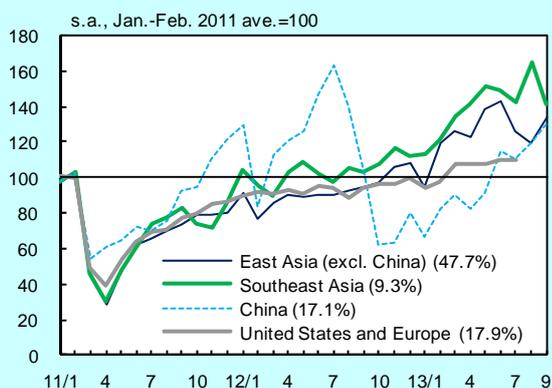
Factors Contributing to the Increase in Foreign Visitors

The recent increase in foreign visitors to Japan can be attributed to a combination of the five factors discussed below.

Two common factors have positively affected the

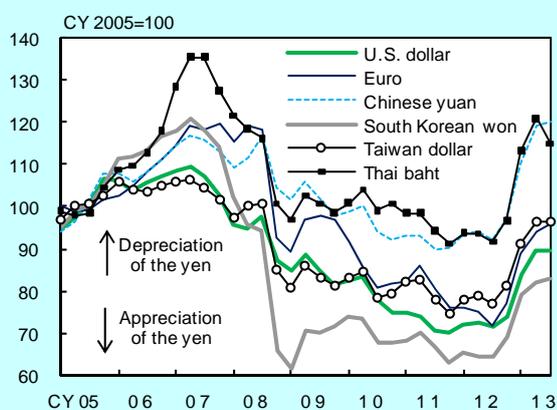
number of visitors from all countries and regions. First, from a longer-term perspective, the number of visitors has recovered from the sharp decline that occurred immediately after the Great East Japan Earthquake (Chart 2). The second common factor is the depreciation of the yen against other currencies, a development that has added further impetus to the growth (Chart 3).

[Chart 2] Number of Foreign Visitors by Region



Notes: 1. Figures in parentheses show shares of each country/ region in the total number of foreign visitors.
 2. East Asia (excl. China) comprises South Korea, Taiwan, and Hong Kong. Southeast Asia comprises Thailand, Singapore, Malaysia, Indonesia, Philippines, and Vietnam.
 3. Seasonally adjusted by X-12-ARIMA.
 Source: Japan National Tourism Organization (JNTO).

[Chart 3] Nominal Exchange Rate of Yen

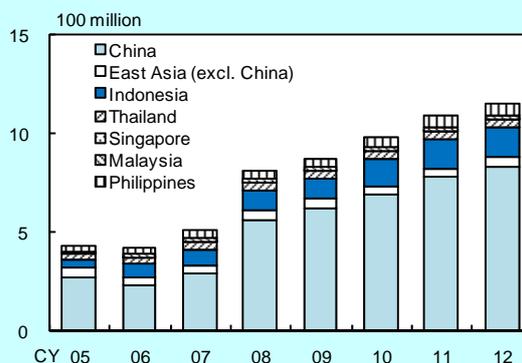


Source: Bloomberg.

A breakdown by country and region indicates that while the number of visitors from the United States and Europe only very recently returned to the pre-earthquake level, the number of visitors from East Asia and Southeast Asia is already well above the pre-earthquake level. In addition to the common factors noted above, several developments appear to have had an important impact on the number of visitors from these two regions. The third contributing factor specific to Asia in recent years is the expansion of middle-income households in Asian countries and the growth of latent travel demand, which appears to

have pushed up the long-term trend in visitors to Japan (Chart 4).²

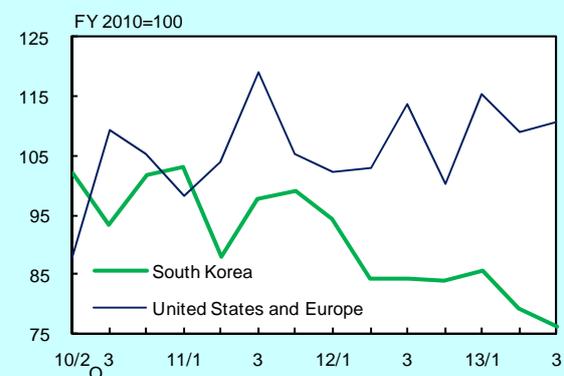
[Chart 4] Middle-Income Households in Emerging Asian Economies



Note: Middle income households are defined as those with an annual disposable income of 5,000-35,000 U.S. dollars. Estimates are derived by multiplying the population of country/ region by the ratio of middle-income households in total households. East Asia (excl. China) comprises South Korea, Taiwan, and Hong Kong.
 Sources: Euromonitor International; IMF.

The fourth and a more regionally specific factor is the increase in LCCs (Low Cost Carriers), particularly those linking Japan and East Asia. The entry of LCCs has increased the supply of seats available on flights between these countries and Japan while reducing the airfare to Japan, developments which appear to have stimulated greater demand (Chart 5).³

[Chart 5] Airfare to and from Japan



Note: Denominated in local currency. Airfare from and to "United States and Europe" (United States, United Kingdom, France, Germany) is simple average.
 Sources: Japan Tourism Agency, "Consumption Trend Survey for Foreigners Visiting Japan"; Bloomberg.

The fifth contributing factor is the easing of visa requirements and introduction of visa exemptions, particularly for Asian countries. For example, the recent sharp increase in visitors from Thailand is probably related to the issuance of multiple entry visas beginning in June 2012 (Chart 6). Furthermore, beginning in July 2013, visa requirements were eased and the scope of visa exemptions was expanded for such Southeast Asian countries as Thailand, Malaysia, the Philippines, Vietnam, and Indonesia. These

developments are believed to have further stimulated demand of late.

[Chart 6] Easing of Visa Requirements and Visa Exemptions for Asian Region

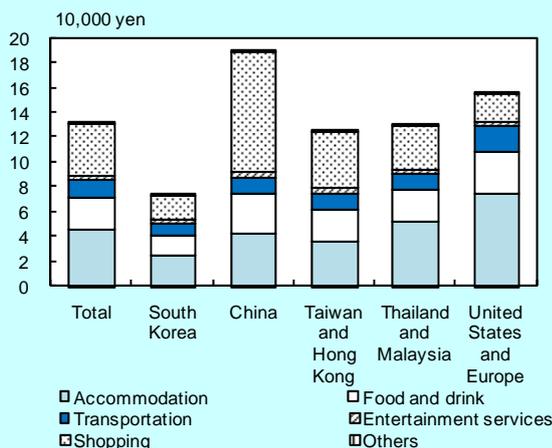
Thailand	
June 2012-	Multiple entry short-term stay visa issued
July 2013-	Visa for short-term stay exempted
Malaysia	
Sept. 2012-	Multiple entry short-term stay visa issued
July 2013-	Visa for short-term stay exempted
Philippines	
July 2013-	Multiple entry short-term stay visa issued
Vietnam	
July 2013-	Multiple entry short-term stay visa issued
Indonesia	
Sept. 2012-	Multiple entry short-term stay visa issued
July 2013-	Extended period of stay for multiple entry short-term stay visa

Source: Ministry of Foreign Affairs.

Features of Consumption Behavior of Foreign Visitors

A review of the consumption behavior of foreign visitors indicates that, on average, foreign visitors spend 130,000 yen during their stay in Japan (Chart 7). However, considerable differences are seen in overall expenditures and breakdown of expenditures by country and region. For example, visitors from China spend more on shopping than visitors from other countries and regions, while their overall expenditure is also relatively high at 188,000 yen per visitor.⁴

[Chart 7] Per Capita Expenditure of Foreign Visitors



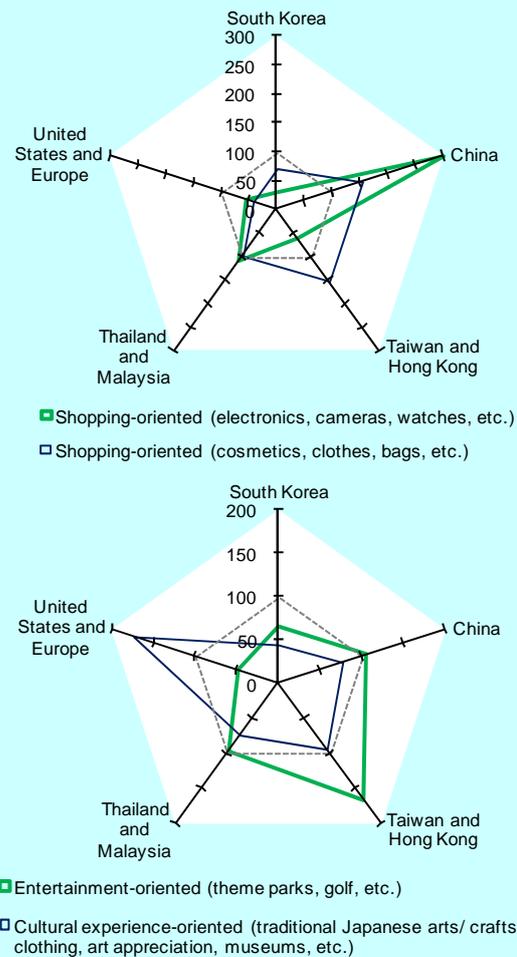
Note: Figures are from the 2012 survey. Figures for "Taiwan and Hong Kong," "Thailand and Malaysia," and "United States and Europe" (United States, United Kingdom, France, Germany) are simple averages.

Source: Japan Tourism Agency, "Consumption Trend Survey for Foreigners Visiting Japan."

To a certain degree, differences in consumption behavior by country and region reflect differences in the purpose of travel to Japan. Seen from the perspective of expenditures on consumer items, such

as shopping and entertainment services, an analysis by country and region of the ratio of visitors making related purchases points to three very general categories corresponding to the purpose of expenditures. These are shopping-oriented, entertainment-oriented, and cultural experience-oriented travel (Chart 8).

[Chart 8] Consumption Behavior of Foreign Visitors



Note: Figures are from the 2012 survey. Calculated as overall average=100. Figures for "Taiwan and Hong Kong," "Thailand and Malaysia," and "United States and Europe" (United States, United Kingdom, France, Germany) are simple averages.

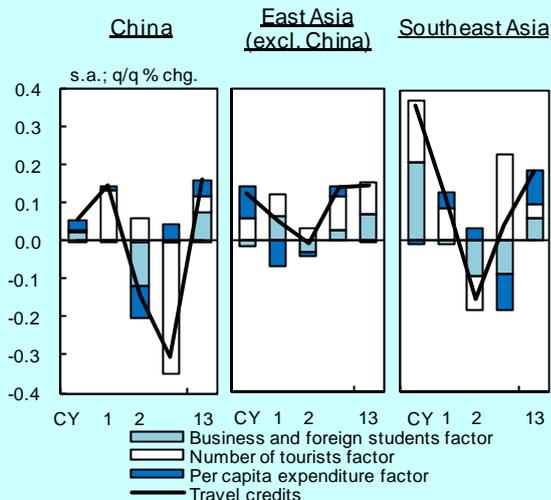
Source: Japan Tourism Agency, "Consumption Trend Survey for Foreigners Visiting Japan."

The following general tendencies can be identified. Visitors from China and other East Asian countries include many shopping-oriented visitors who purchase home electronic products at electronics retail stores, and cosmetics and fashion related products, such as clothing and bags at department stores and other retail businesses. Visitors from China show a particularly strong interest in purchasing home electronic products, which is linked to a high ratio of shopping in their total expenditure previously mentioned. Additionally, visitors from Asia show a strong interest in theme

parks, golf courses, and other amusement facilities. On the other hand, visitors from the United States and Europe tend to show an interest in experiencing traditional Japanese culture, including the purchase of traditional Japanese arts and crafts as well as clothing, and the appreciation of cultural sites and assets.

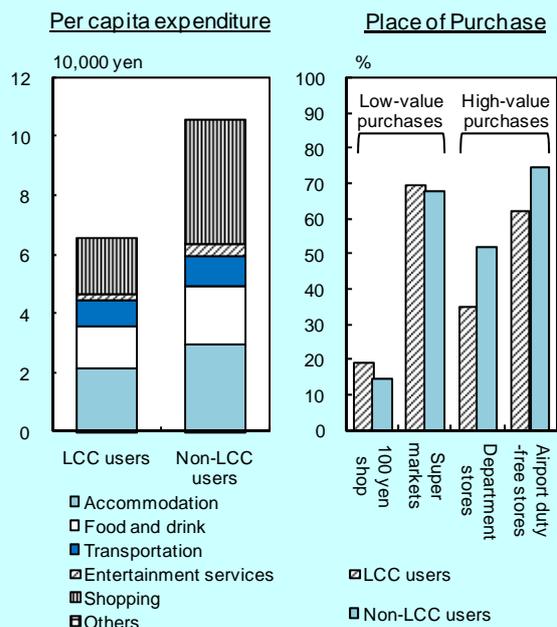
Changes in consumption behavior by country and region can be traced by breaking down travel credits (amount spent by foreign visitors on goods and services in Japan) by the number of visitors and visitors' per capita expenditure (Chart 9). This analysis shows that for China and Southeast Asia, both the number of visitors and per capita expenditure have been increasing since the start of 2013. For East Asia excluding China, the number of visitors is increasing but per capita expenditure has been flat. This may be due to the increase in the number of visitors from this region using LCCs, as visitors using LCCs appear to be cost-conscious not only with regard to airfare but also with regard to expenditures in general while in Japan (Chart 10).

[Chart 9] Travel Credits by Region



Notes: 1. Seasonally adjusted by X-12-ARIMA.
 2. East Asia (excl. China) comprises South Korea, Taiwan, and Hong Kong. Southeast Asia comprises Thailand, and Malaysia.
 3. Figures for "Business and foreign students" expenditures comprise expenditures by foreigners visiting Japan for business, study, training, and diplomatic / official purposes; they also includes errors in seasonal adjustment.
 Sources: Japan Tourism Agency, "Consumption Trend Survey for Foreigners Visiting Japan"; Ministry of Finance and Bank of Japan, "Balance of Payments"; Japan National Tourism Organization (JNTO).

[Chart 10] Consumption Behavior of LCC Users

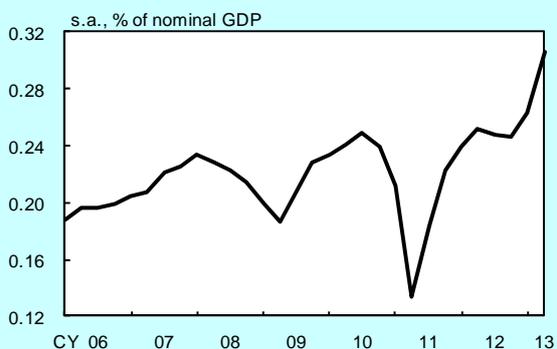


Notes: 1. Figures are from the Jan.-Mar. 2013 survey. Based on weighted average of figures for South Korea and Taiwan.
 2. Per capita expenditure does not include packaged plan participation fees paid to Japan.
 Source: Japan Tourism Agency, "Consumption Trend Survey for Foreigners Visiting Japan."

Economic Impact of Growing Number of Foreign Visitors

Next, we examine the macroeconomic impact of the growing number of foreign visitors. The nominal GDP ratio of travel credits has been rising since bottoming out immediately after the earthquake. However, the most recent ratio is still at around 0.3 percent and is notably lower than those of other countries (Charts 11 and 14).

[Chart 11] Travel Credits to Nominal GDP Ratio

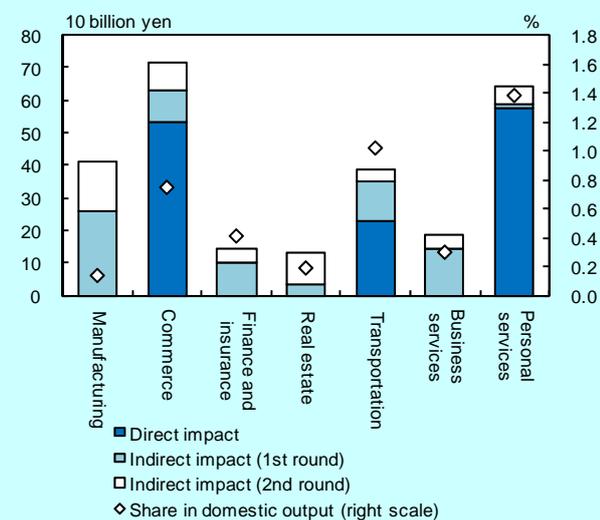


Sources: Cabinet Office, "System of National Accounts"; Ministry of Finance and Bank of Japan, "Balance of Payments."

The impact of expenditures by foreign visitors on output and employment can be estimated using the input-output analysis. Based on data through the first half of 2013, the analysis indicates that total induced

output amounts to about 3 trillion yen (of which gross value added amounts to about 1.6 trillion yen [approximately 0.3 percent of nominal GDP]), while the number of induced employment exceeds 200,000 (about 0.3 percent of total employment) (Chart 12).⁵

[Chart 12] Economic Impact of Expenditures by Foreign Visitors



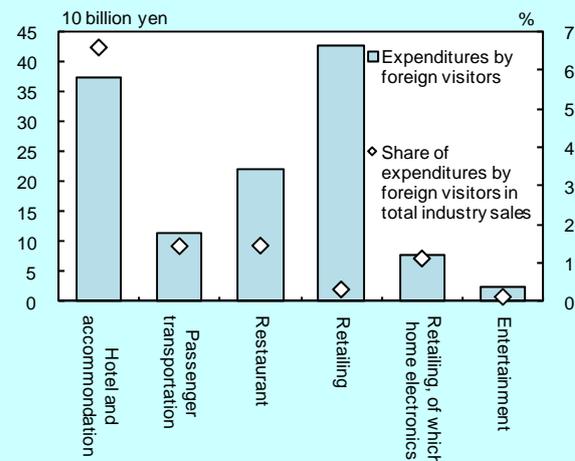
Note: Estimated based on annualized CY figures for first half of 2013. Sources: Ministry of Finance and Bank of Japan, "Balance of Payments"; Japan Tourism Agency, "Consumption Trend Survey for Foreigners Visiting Japan"; Ministry of Internal Affairs and Communications, "2005 Input-Output Tables," "Labor Force Survey," "Family Income and Expenditure Survey"; Ministry of Economy, Trade and Industry, "The 2011 (Previews) Updated Input-Output Table."

As these results indicate, while the number of foreign visitors has been increasing, the macroeconomic impact of this increase remains limited. However, it can be assumed that the increase has had a positive impact to a considerable degree in certain fields and industries.

This possibility can be examined by estimating the weight of foreign visitors' expenditures in total sales by industry. For instance, in the hotel and accommodation, the expenditure by foreign visitors already claims a weight of 6-7 percent (Chart 13).⁶ The weight is also relatively high in restaurant and passenger transportation. Actually, it is highly likely that the recent improvements in the business conditions of personal services, in the hotel industry in particular, reflect the increase in the number of foreign visitors. Anecdotes by firms in these areas attest to this fact. Estimates of the spillover effects using the abovementioned input-output analysis also indicate that the positive impact was significant in personal services, followed by transportation and commerce (Chart 12). Besides, though the quantitative impact is not large, it should be borne in mind that a wide range of industries, including manufacturing industries, are benefiting from the increasing number of foreign

visitors.

[Chart 13] Domestic Expenditures of Foreign Visitors by Industry

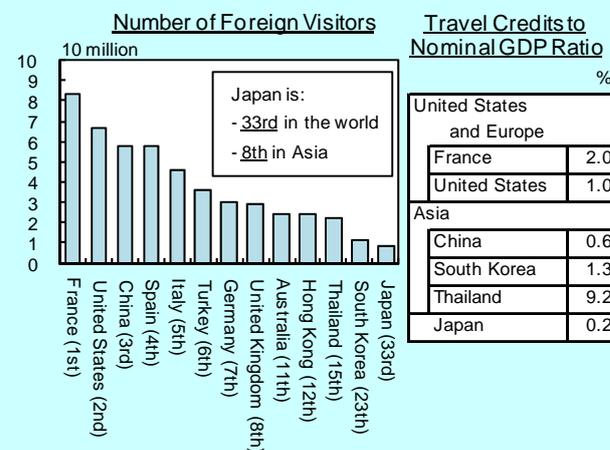


Note: Estimated based on figures for 2012. Sources: Ministry of Finance and Bank of Japan, "Balance of Payments"; Japan Tourism Agency, "Consumption Trend Survey for Foreigners Visiting Japan"; Ministry of Internal Affairs and Communications, "Survey on Service Industries"; Ministry of Economy, Trade and Industry, "Current Survey of Commerce."

Concluding Remarks

This report points to the significant increase in the number of foreign visitors of late and confirms that this development is due to a combination of factors. Specifically, in addition to the recovery from the sharp post-earthquake decline and recent developments in foreign exchange markets, the increase in foreign visitors has been spurred by the expansion of middle-income households in Asian countries, entry of LCCs, and easing of visa requirements. However, the number of foreign visitors remains lower than those of other countries, indicating that considerable potential continues to exist for further increases (Chart 14).

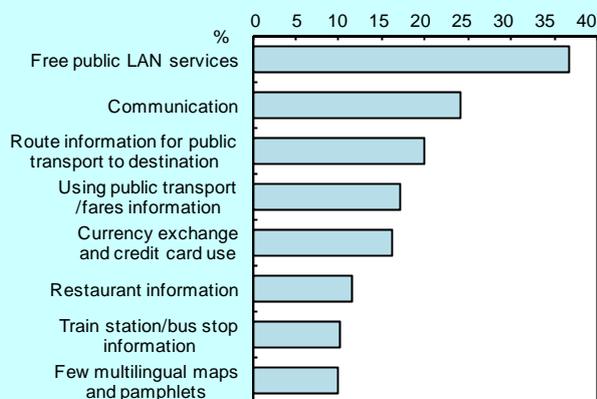
[Chart 14] International Comparison (2012)



Sources: Japan National Tourism Organization (JNTO); IMF.

Questionnaire surveys conducted to identify problems and inconveniences experienced by foreign visitors during their stay in Japan indicate that in many instances improvements in infrastructure and other necessary changes may prove to be effective in increasing the number of foreign visitors (Chart 15). The selection of Tokyo as the site for the 2020 Olympics is attracting global attention to Japan as a destination for tourism and business travel. Against this backdrop, a further increase in foreign visitors can be achieved through unified overseas public relation activities by the government and private sector and through greater emphasis on developing an environment matching the needs of foreign visitors.⁷

[Chart 15] Problems Experienced by Foreign Visitors in Japan



Source: Working Group on Tourist Information Centers for Foreign Tourists, "Results of Questionnaire Survey for Foreign Visitors (2011)."

Regarding the impact on Japan's economy, in addition to increasing the number of foreign visitors, initiatives for encouraging increased per capita expenditure are also important. Private enterprises are already engaged in various initiatives aimed at stimulating consumption of foreign visitors (Chart 16). It is hoped that these activities combined with government measures for increasing the number of foreign visitors will continue to magnify the positive impact on Japan's economy.

[Chart 16] Some Private Enterprise Initiatives

Shopping-Oriented	Issue cards to store customers including Asian customers for receiving discounts and special services when shopping in Japan. Gather and analyze information on card use to improve services, products, and sales promotion activities. (Department stores)
	Install computerized systems for tax-free processing for speedy refund of consumption tax to foreign visitors. (Department stores)
Entertainment-Oriented	Meet halal standards by serving pork-free and alcohol-free food to increase visitors from Thailand, Indonesia, and other Islamic countries for which visa requirements have been eased. (Amusement parks)
Cultural Experience-Oriented	Offer optional tours featuring "uniquely Japanese" experiences (making sushi, tours of anime related spots)

Sources: Bank of Japan, "Regional Economic Report - Sakura Report (Oct. 2012)" and other reports.

¹ In "Japan Revitalization Strategy: Japan is Back" (Cabinet Decision on June 14, 2013), the government of Japan has adopted the goal of increasing the number of foreign visitors to Japan to 10 million in 2013, and to more than 30 million by 2030.

² The UNWTO (2013) confirms that intra-regional travel accounts for the majority of cross-border travel. (For details, see United Nations World Tourism Organization, *UNWTO Tourism Highlights*, 2013.) Thus, it can be said that Japan enjoys a geographic advantage in absorbing Asian travel demand.

³ Additionally, the growing number of signatories to open sky agreements (bilateral agreements allowing airlines to freely determine their international routes and the number of flights, replacing the former system of determination through inter-government negotiations) is seen to have also contributed to the increased supply of seats.

⁴ Differences in per capita expenditure by country and region also reflect distances to Japan and the resulting difference in length of stay. Thus, on average, visitors from the United States and Europe spend more days in Japan, while visitors from closer Asian countries, particularly South Korean tourists, spend fewer days. To a certain degree, differences in breakdown of expenditures can be explained by differences in length of stay. For instance, the share of expenditures on accommodations in total expenditures by tourists from the United States and Europe is higher than for other regions. Differences are also observed in per-day expenditure, with Chinese tourists' expenditure more and South Korean tourists' expenditure less per day, indicating that differences in consumption behavior cannot necessarily be explained by the length of stay alone.

⁵ Estimates are based on the 2005 input-output tables. Figures of induced output are the sum of consumption of final goods and services by foreign visitors (direct effect); increased output in related industries resulting from supply of final goods and services (indirect effect [1st round]); and increased consumption resulting from increased income generated by increased output (indirect effect [2nd round]). Induced employment is the sum of regular employment, temporary employment, and daily employment.

⁶ Domestic expenditures of foreign visitors by industry are estimated by multiplying travel credits in "Balance of Payments" by weights derived from the breakdown of travel

expenditures in “Consumption Trend Survey for Foreigners Visiting Japan.” International passenger airfare to and from Japan is not included.

⁷ For example, as host of the 2020 Olympics, the Tokyo Metropolitan Government has already formulated an action plan for 2013-2015. In preparation for the upcoming increase in the number of foreign visitors during this period, this plan includes initiatives for “PR campaigns in Asia,” “promoting the hosting of international conferences in Tokyo,” and “installation of free public LAN services.” For details see the Tokyo Metropolitan Government’s “Action Program for 2013: Towards Tokyo in 2020.”

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