Mizuho Economic Outlook & Analysis

July 8, 2019

The number of foreign visitors to Japan in 2020

The yellow light is flashing for the attainment of the 40 million inbound target

< Summary >

◆ The rate of increase in the number of foreign visitors to Japan in 2018 slowed to the single-digit figure under the impacts of a litany of natural disasters. Even to the months of 2019, the growth rate is still languishing because the number of inbound tourists from South Korea, Taiwan and Hong Kong, the biggest sources of visitors, fell from year-before levels.

◆ The factors behind this deceleration include the deterioration of the economic environment in these regions and the falling off of the advantage of a weaker yen, in addition to the diversification of destinations into Thailand, Vietnam and other Southeast Asian countries. South Korean and Hong Kong tourists appear to be shifting their destinations to China and Macao as well.

◆ If the current situation is sustained, the attainment of the target of 40 million inbound tourists in 2020 may stand as a lofty hurdle to clear. Even if the target cannot be achieved, however, it should be highly appreciated that the number of inbound tourists has expanded to the level matching of those of Italy and France.

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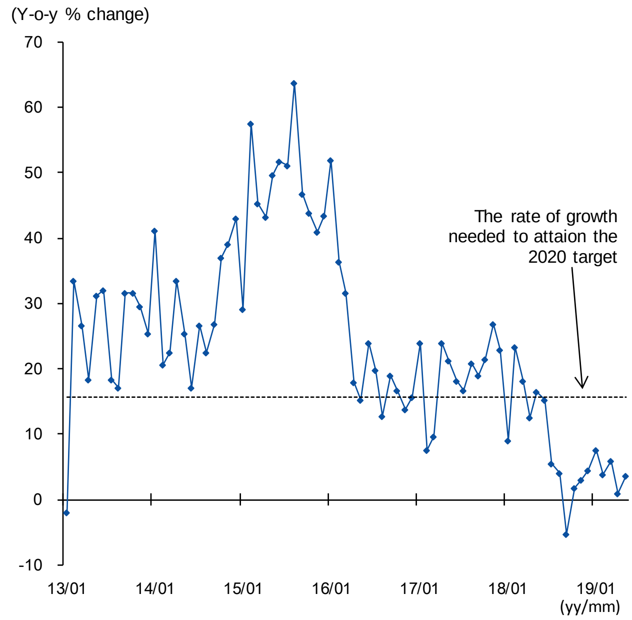
1. The number of inbound tourists still on the decline even 6 months after natural disaster

It is now just over a year to go until the Olympic and Paralympic Games Tokyo 2020. Since the launch of Abenomics in 2013, the number of foreign visitors to Japan increased at an unprecedented rapid pace, with expectations bloating that "the number of inbound tourists will just keep growing until the hold of the Tokyo Olympics." Subsequently, it is well known that many private-sector companies have been taking up businesses to address the increasing inbound tourism. As the government enhanced its policy support by setting the high target of 40 million foreign visitors to Japan in 2020, the number of inbound tourists renewed an all-time high for six consecutive years until 2018. This can be appreciated as the great feat achieved through no less than joint government and private-sector efforts.

However, the rate of growth of inbound tourists in January-May 2019 slowed to the single-digit figure of +4.2% year-on-year (**Chart 1**). The rate of growth for the whole of 2018 also stayed at the single-digit of +8.7% year-on-year. But the major factor behind this was the cancellations of plans to visit Japan following a litany of natural disasters that occurred in succession during summer (the Osaka earthquake, Typhoon No. 21, heavy rains in Western Japan and the Hokkaido earthquake). Thus, we should accept this as somewhat unavoidable. However, despite a lapse of six months after the last natural disasters, we have yet to see any sign of the pace of increase in inbound tourists showing a full-fledged return. For April-May, some are saying that foreign visitors tended to avoid the confusion anticipated at sightseeing destinations as domestic tours by Japanese people increased during the period of 10 consecutive holidays in association of the change of the name of an era to Reiwa. Even if they are right, however, it is necessary to significantly accelerate the pace of increase from here in order to achieve the 2020 target of inbound tourists, and the hurdle to realize the achievement will be anything but low. On the assumption

Chart 1: Number of inbound tourists



Note: Estimated the rate of growth needed to attain the 2020 target by assuming that the rate of growth between June 2019 and December 2020 will be identical.

Source: Made by MHRI based on Japan National Tourism Organization (JNTO), *Visitor Arrivals to Japan and Japanese Overseas Travelers* that the rate of growth of inbound tourists is identical between June 2019 and December 2020, the calculation shows that the year-on-year increase of +15.7% would be needed to attain the 2020 target.

Will it ever be possible to attain the government's target? This paper attempts to examine the possibility of the achievement of the 2020 target of 40 million inbound tourists.

2. Tourists from South Korea, Taiwan and Hong Kong, the biggest origins of visitors to Japan, slowed down sharply

First of all, let us have an up-close look at the current situation. **Chart 2** shows the number of inbound tourists by region. The chart clearly shows that the slowdown of the rate of growth of inbound tourists can be primarily attributable to South Korea, Taiwan and Hong Kong. The inbound tourists from these regions recorded the high growth rate of over +25% year-on-year in 2017, but their numbers have fallen below year-before levels in recent months.

Looking at other regions, the rate of growth of inbound tourists from China, countries of the Association of Southeast Asian Nations (ASEAN) and other regions somewhat slowed down as well, but they still maintain the growth rate of around +10% year-on-year. Inbound tourists from Europe, the US and Australia actually quickened the pace of increase. Based on these results alone, it can be argued that the stagnation of inbound tourists from South Korea, Hong Kong and Taiwan stands out.

The number of visitors to Japan from South Korea, Hong Kong and Taiwan accounts for about a little less than half of the total number of inbound tourists, representing the important sources of inbound tourists for Japan. Thus, in order to move forward for the achievement of the target of 40 million inbound tourists, a recovery of the number of visitors to Japan from the three regions is essential. The noticeable factors behind the slowdown of inbound tourists from South Korea, Taiwan and Hong Kong were the cancellations of plans to visit Japan from these regions geographically close to Japan following the successive occurrences of natural disasters in the summer of 2018. However, the fact that no sign of recovery in the rate of growth is seen in 2019 suggest that this may be the results of other factors at work.

The particular cause for concern is the fact that the number of inbound tourists from South Korea, the major origin of visitors to Japan rivaling China, has fallen sharply (**Chart 3**). The visitor arrivals from South Korea posted the steep year-on-year rise of over +40% in 2017, but in 2019, at least at the current moment, they stand below year-before levels. If the visitors to Japan from South Korea stay at the present levels, it seems difficult for Japan to achieve the target of 40 million inbound tourists in 2020.

Other regions may cover some of the declines, but it should be recognized now that the yellow light started flashing for the achievement of the target.

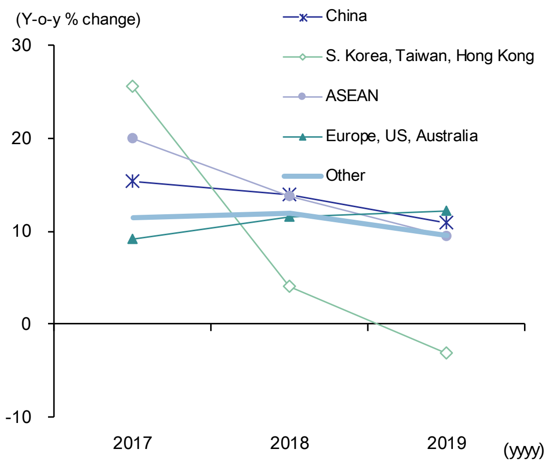
3. Primary factor was the diversification of destinations due to the deteriorating economic environment and the dissipation of the weak yen effects

Now, let us consider the factors behind the slowing flows of inbound tourists from South Korea, Taiwan and Hong Kong. If we present our conclusions first, the factors include: quantitative factors such as (1) slower growth of overseas travelers due to the deterioration of the economic conditions, and (2) the dissipation of the advantages of the weaker yen; and factors prompting the shift in tour destinations such as (3) improved access due to better infrastructure, and (4) the rising popularity of Southeast Asia that offers better cost performance.

(1) The growth rate of resident departures slowing for South Korea and Taiwan

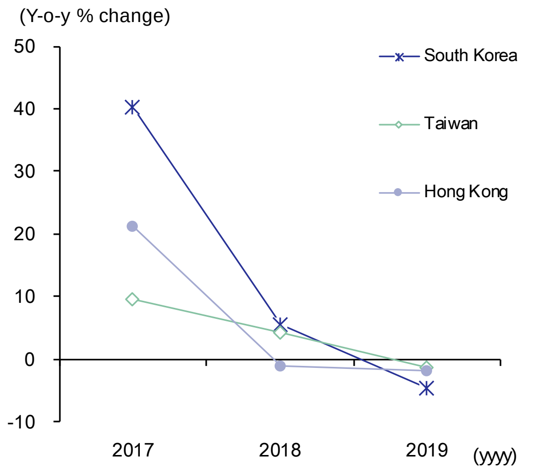
If the numbers of people who leave South Korea, Taiwan and Hong Kong on overseas travels are not growing in the first place, it is only natural that the number of visitors to Japan remains stagnant. So, let us first check the rate of growth of overseas travelers from the three regions. **Chart 4** shows that the rate of growth of resident departures itself decreased in 2018-2019 for South Korea and Taiwan. Behind this is the deterioration of the economic conditions.[1] The exports-driven economies of these regions are particularly vulnerable to the global manufacturing cycle. The two regions also have the

Chart 2: Visitor arrivals to Japan by region



Note: 2019 shows the number for January-May.
Source: Made by MHRI based on Japan National Tourism Organization (JNTO), Visitor Arrivals to Japan and Japanese Overseas Travelers

Chart 3: Visitor arrivals to Japan from South Korea, Taiwan and Hong Kong



Note: 2019 shows the number for January-May.
Source: Made by MHRI based on Japan National Tourism Organization (JNTO), Visitor Arrivals to Japan and Japanese Overseas Travelers

[1] See Mizuho Research Institute, *Mizuho Emerging Market Quarterly*.

IT sector, including semiconductors, as their major industry. Thus, the slowdown of the Chinese economy and the semiconductor market since the second half of 2018 appears to be working as the adverse wind.

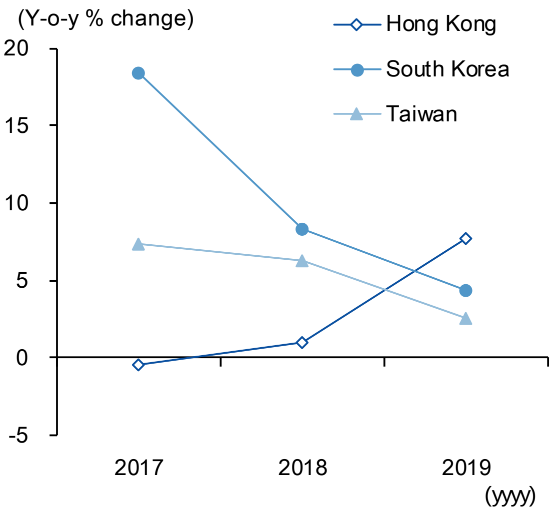
The economy of Hong Kong, which is also exports-driven just like South Korea and Taiwan, has been slowing in recent years and the number of resident departures from Hong Kong has shown little growth year-on-year., Exceptional recovering of overseas travelers in 2019 is attributed to the effects of the development of infrastructure that links Hong Kong to Macao and mainland China and there is no change in the economic conditions surrounding the number of resident departures.

(2) In addition, the advantages of the weaker yen fell off

Another important factor in considering the trends of the numbers of inbound tourists from South Korea, Taiwan and Hong Kong is foreign exchange rates. As Ichikawa and Tadaide (2015) points out, because of their proximity to Japan, people in South Korea, Taiwan and Hong Kong find it easy to make tour reservations at the last minute and tend to make visits to Japan at the timing of best cost performance. As such, they are particularly sensitive to foreign exchange rates. In other words, when the yen advances in value, people in these regions feel that travels to Japan are relatively expensive and the number of tourists who choose destinations other than Japan increases.

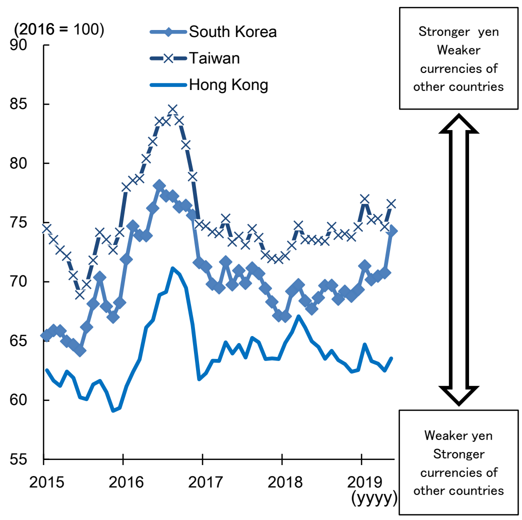
Real exchange rates against the Japanese yen are shown in **Chart 5**. The chart indicates that the yen rose sharply in 2016, when Brexit, or the United Kingdom's departure from the European Union (EU), was decided, but then turned around and

Chart 4: Resident departures of South Korea, Taiwan and Hong Kong



Note: 2019 shows the rate of growth for January-May.
Source: Made by MHRI based on CEIC Data

Chart 5: Real exchange rates (against JPY)



Source: Made by MHRI based on CEIC Data

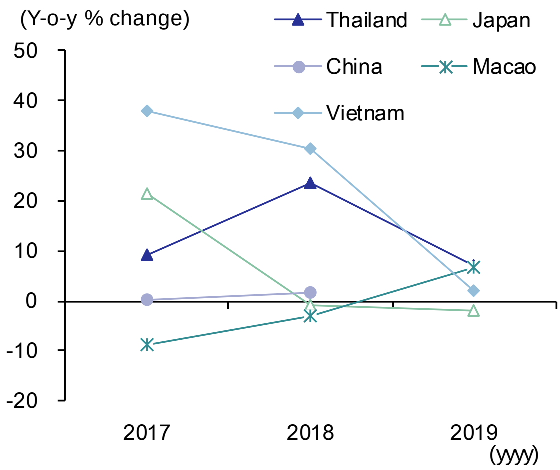
weakened until the end of 2017. At the time, the weaker yen apparently helped increase the numbers of inbound tourists from South Korea, Taiwan and Hong Kong. Since 2018, however, the yen steadily strengthened against the South Korean and Taiwanese currencies. It is a development that excludes any tailwind in terms of foreign exchange rates.

But the yen is not strengthening against the Hong Kong dollar. Despite this, the number of inbound tourists from Hong Kong is falling. This is a different reason for this, as described in the following section.

(3) Hong Kong tourists may be shifting destinations from Japan to Macao and China

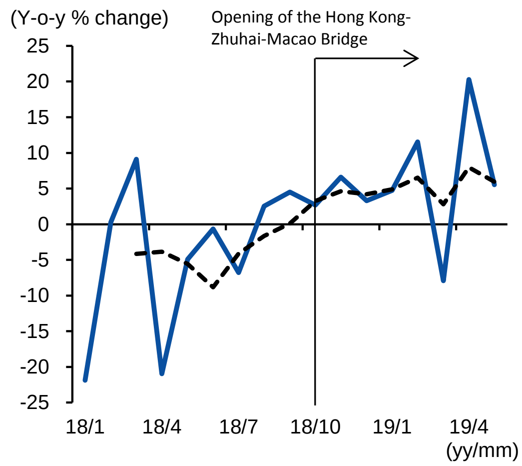
So, we look at the number of resident departures from Hong Kong by destination in **Chart 6**. The chart clearly shows that Macao has grown significantly as the destination of Hong Kong tourists in 2019. The factor behind this is the opening of the Hong Kong-Zhuhai-Macao Bridge on October 24, 2018. While it previously took about one hour by ferry between Hong Kong and Macao, but the opening of the Hong Kong-Zhuhai-Macao Bridge shortened the time required to just around 35 minutes by bus. In fact, if we look at the number of tourists from Hong Kong to Macao on a monthly basis, it is apparent that that number rose significantly over year-before levels after the opening of the Hong Kong-Zhuhai-Macao Bridge (**Chart 7**). It is also inferable that infrastructure improvements, including the opening of the Guangzhou-Shenzhen-Hong Kong Express Rail Link on September 23, 2018, which shortened the time required between Hong Kong and Guangzhou, Guangdong Province, to about 50 minutes, and the opening of the Hong Kong-Zhuhai-Macao Bridge, which shortened the time required

Chart 6: Number of tourists from H.K.



Note: 2019 shows the numbers for January-May.
Source: Made by MHRI based on CEIC Data

Chart 7: Number of tourists from H.K. to Macao (monthly)



Note: The dotted line shows the three-month moving average.
Source: Made by MHRI based on CEIC Data

between Hong Kong and Zhuhai, Guangdong Province, to about 45 minutes), pushed up the number of Hong Kong tourists to China (the number of tourists from Hong Kong to China in 2019 has yet to be released at the time of writing). As seen above, regarding Hong Kong, it is highly likely that the number of inbound tourists to Japan decreased as travel demand shifted to mainland China and Macao.[2]

(4) Destinations of South Korean and Taiwanese tourists shifting to Thailand, Vietnam and other Southeast Asian countries

As seen above, the rate of growth in inbound tourists from South Korea and Taiwan has been slowing down due to the slowdown of their economies and the dissipation of the advantages of the weaker yen. In Hong Kong, in addition to the economic factor, improved infrastructure linking it to mainland China and Macao is shifting its travel demand from Japan to China and Macao.

On top of this, under these circumstances, it should also be noted that people in South Korea and Taiwan are shifting destinations of their overseas travels from Japan to other regions offering better cost performance. Alternative destinations chosen other than Japan are Southeast Asian countries, such as Vietnam, Thailand and Malaysia. According to the rankings of booming overseas destinations for South Korean and Taiwanese travelers in 2018 as released by Expedia[3], Asian resorts such as Nha-trang, Da-nang, Cebu and Kota Kinabalu, are all ranked high. This indicates that the interest of people making overseas travels is spreading to Southeast Asia.

The shift to travel destinations in Southeast Asia can be confirmed in statistics.

First, we look at South Korea.[4] Looking at the changes in South Korean tourists to Southeast Asia in 2018-2019 (**Chart 8**), while the number of tourists to Japan fell below year-before levels, the number of tourists to Vietnam kept increasing.

Though the level of the rate of grow is slowing, the increasing trend of over +20% year-on-year has been maintained. The good cost performance of Da-nang and Nha-trang beaches in Vietnam is popular among South Koreans[5], apparently indicating the ongoing diversification of travel destinations, a shift from the previous devotion to Japan.

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[2] However, since tensions between Hong Kong and mainland China are heightening, including large-scale demonstrations against the Fugitive Offenders and Mutual Legal Assistance in Criminal Matters Legislation (Amendment) Bill, since late June, there is the growing risk that the number of tourists from Hong Kong to China may take a plunge going forward.

[3] See PR Times,"*Travel destinations whose popularity is rising rapidly are South Korea and that city in Russia!? Expedia announces the rankings of popular overseas travel destinations in 2018*."

[4] Estimates with the use of the World Tourism Organization of the United Nations (UNWTO), etc. show that major overseas travel destinations of South Korean tourists in 2018 were Japan with 26%, China with 15%, Vietnam with 12%, the US with 8% and Thailand with 6%, etc.

[5] The Okinawa Times + Plus (an article dated August 27, 2017) reported that based on the number of people who made hotel reservations as released by Expedia, South Korean tourists have chosen Vietnam over Okinawa as the popular resort.

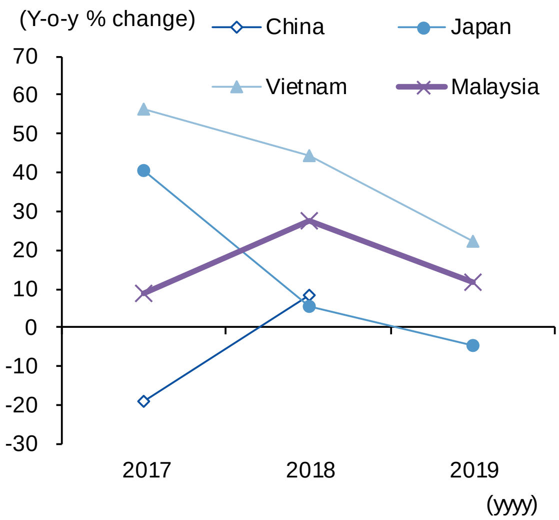
Malaysia is also said to be accepting a growing number of South Korean tourists, helped by the popularity of resorts in Kota Kinabalu.

In recent years, economic relations between South Korea and Vietnam have been deepening as seen, for example, with the establishment of a large-scale smartphone plant in Vietnam by Samsung Electronics, and this apparently is contributing to the increase in the number of visitors to Vietnam from South Korea.

The trends with tourists from Taiwan are shown in **Chart 9**.[6] The chart shows that Taiwanese tourists to Thailand and Vietnam have been growing at the rates in excess of double-digit increases, in stark contrast to the clear slowdown in the number of Taiwanese visiting Japan. Taiwanese tourists to the Philippines have also been rising acceleratingly in 2019. As with the case of South Korea, these Southeast Asia countries have been chosen as travel destinations with better cost performance. In addition, under the Taiwanese government's New Southbound Policy, low-cost carriers are increasing flights to Southeast Asian countries, presumably helping enhance the convenience of tourists in terms of access.

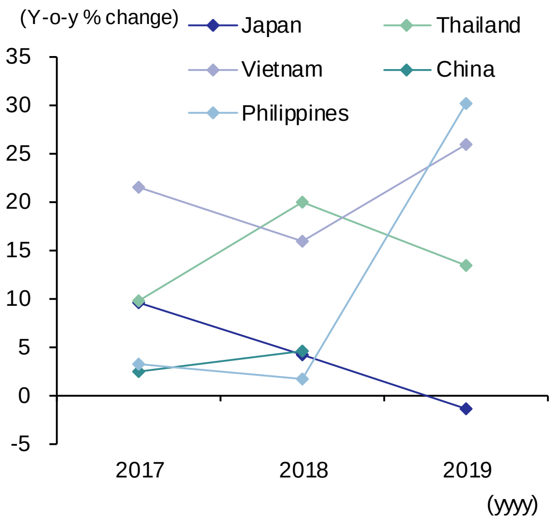
Moreover, **Chart 6** cited earlier shows[7] that Hong Kong tourists going to Thailand and Vietnam grew significantly in 2018 while visitors to Japan decreased, pointing the possibility that these Southeast Asian countries became popular as travel destinations

Chart 8: Number of tourists from S. Korea



Note: 2019 shows the numbers for January-May, but for Malaysia, the numbers for January-March.
Source: Made by MHRI based on CEIC Data

Chart 9: Number of tourists from Taiwan



Note: 2019 shows the numbers for January-May, but for Malaysia and the Philippines, the numbers for January-March.
Source: Made by MHRI based on CEIC Data

[6] Estimates with the use of the World Tourism Organization of the United Nations (UNWTO), etc. show that major overseas travel destinations of Taiwanese tourists in 2018 were China with 36%, Japan with 27%, Hong Kong with 12%, and Thailand and Vietnam both with 4%.

[7] Estimates with the use of the World Tourism Organization of the United Nations (UNWTO), etc. show that major overseas travel destinations of Hong Kong tourists in 2018 were China, Macao, Japan and Thailand in that order, but China's share is an overwhelming 86%, followed by Macao with some 7%.

alternative to Japan.

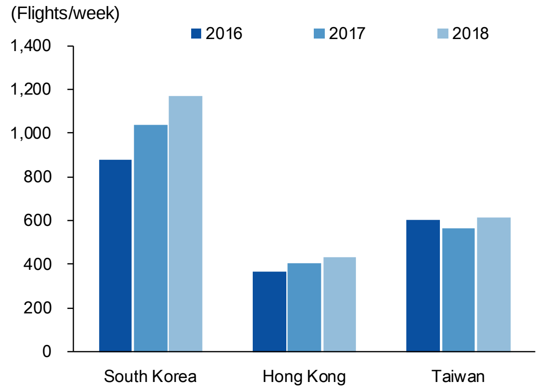
(5) Taiwanese tourists capped in part by stagnant rise of direct flights to Japan (supply-side drag)

Amid the ongoing shift of travel destinations, for Taiwan, the stagnant growth of the number of direct flights in recent years has been capping the increase in the number of tourists to Japan. Here, let us look at the changes in international flights linking the three regions to Japan. **Chart 10** shows that while the number of linking international flights is on the increase for South Korea and Hong Kong, that number all but stayed flat for Taiwan.

In the background is Taiwan's current promotion of its New Southbound Policy, which is making it a little harder to increase direct flights to Japan. The New Southbound Policy is the initiative launched in 2016 to enhance relationships with 18 countries covered, including ASEAN countries, South Asia, Australia and New Zealand. Beyond economic cooperation, this policy is designed to deepen partnerships in terms of people-to-people exchanges and sharing of resources, including tourism. In line with the policy, the Taiwanese government is focusing on exchanges with the target countries, and it is possible that this is resulting in the stagnant rise in the number of direct flights to Japan.

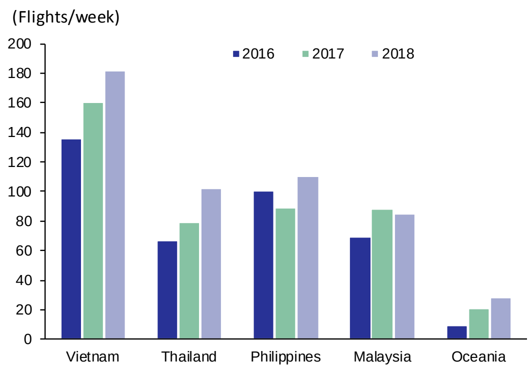
In fact, while the number of direct flights to Japan is facing the difficulty increasing, the numbers of regular flights between Taiwan and the countries covered by the policy are rising significantly. According to statistics provided by the Civil Aeronautics Administration of the Ministry of Transportation and Communications of Taiwan (**Chart**

Chart 10: Number of Japan's international flights



Note: The figures show the averages of planed summer and winter direct flights
Source: Made by MHRI based on materials released by the Ministry of Land, Infrastructure, Transport and Tourism

Chart 11: Number of Taiwan's international flights



Note: The figures show the planned numbers of direct flights
Source: Made by MHRI based on Civil Aeronautics Administration, Ministry of Transportation and Communications

11), the numbers of flights to Vietnam and Thailand are particularly growing. The flights to Malaysia and the Philippines are also increasing on average, an indication that Taiwan's international flights to Southeast Asia are on the increase. While the numbers of flights are still low, Taiwan's flights to Oceania, including Australia and New Zealand, are on the increase. In short, the clear relationship can be recognized between the target countries for enhanced exchanges under the New Southbound Policy and the increasing numbers of flights linking Taiwan to them.

Also, in the background to the increasing number of flights is rising demand for travels to Taiwan helped by the easing of visa issuance requirements for the policy target countries. Since August 2016, Taiwan has exempted entry visas or eased visa issuance requirements for tourists from the target countries.[8] With the popularity of Taiwan as the tourist site rising globally in the first place[9], the easing of visa issuance requirements appeared to have pushed up demand for visits to Taiwan and encouraged airline companies to increase the numbers of flights to Taiwan.

In addition, for 12 of the target countries of the New Southbound Policy, landing fees at Taichung and Kaohsiung airports were reduced in January 2018.[10] This is also considered to be contributing to the increase in the numbers of flights to Taiwan. It is fair to assume that these policy-oriented tailwinds led to the lifting of the number of Taiwanese tourists to Southeast Asia.

In response to an expanding demand for traveling, Scoot, VietJet Air and other LCCs of the target countries are embarking on the expansion of business operations in the Taiwanese market.[11]

As a result of the increases in flights by airlines one after another, Taoyuan Airport, in particular, appears to be approaching the limit on its capacity.[12] With supply constraints tightening, airline companies are facing increasingly tough competition in their efforts to secure the number of flights to Taiwan. As Taiwan have given greater importance to the target countries of the New Southbound Policy, the negative consequences have spread to affect the number of direct flights to Japan.

[8] According to Taiwan Today (dated September 2, 2016), etc., Taiwan applied conditional entry visa exemptions (the application of online visa requests and expansion of terms and conditions) to tourists from Thailand and Brunei from August 2016 and to tourists from Myanmar, Cambodia and Laos from September 2018, in addition to those from India, Indonesia, the Philippines, Vietnam, Singapore and Malaysia, and also applied the simplification of visa issuance to group tourists from these countries.

[9] According to Taiwan Today (dated May 20, 2019), in the rating of major cities in the world conducted by US business travel magazine "Global Traveler," the City of Taipei was chosen as "the most excellent destination in Asia for leisure-oriented trips" for the second consecutive year.

[10] See Y's News Taiwan (dated February 19, 2019).

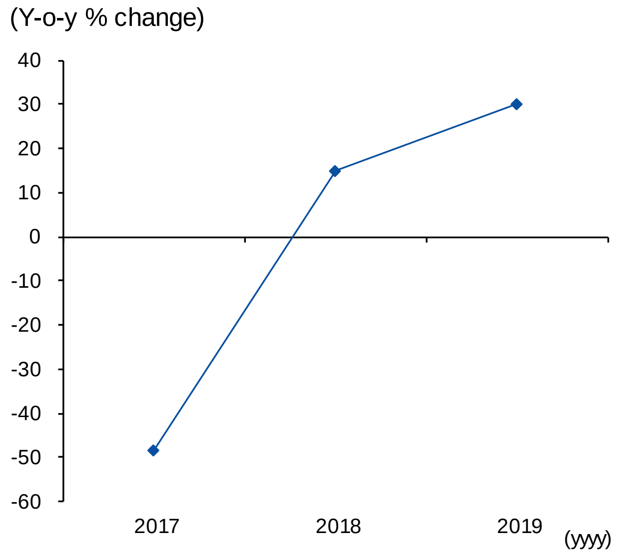
[11] See Y's News Taiwan (dated January 10, 2018) and Focus Taiwan (dated April 5, 2019).

[12] According to Y's News Taiwan (dated March 13, 2019), Taiwan Taoyuan International Airport, one of major airports in Taiwan, is experiencing a shortage of aprons. The airport now has a total of 86 aprons, but in the most recent two to three years, over 100 airplanes are using the airport late at night every day. At one time, a maximum 113 airplanes used the airport.

(6) South Korean tourists may be shifting destinations due to improved ties with China

As for South Korea, the likelihood that the number of tourists to China has been recovering may be one factor behind the decline of inbound tourists from South Korea. The number of South Korean tourists to China plunged by around -20% year-on-year in 2017, but turned to increase in 2018 (see Chart 8 again). This apparently reflects the fence-mending of the relationship between South Korea and China. Some of readers may remember that the previous South Korean government of President Park Guen-hye decided in 2017 to introduce THAAD (Terminal High Altitude Area Defense) missiles from the United States in addressing the North Korean issue. This invited the furious opposition from China, deeply chilling the relationship between the two countries. In retaliation, the Chinese governments pressed Chinese travel agents to place voluntary restraints on sales of South Korea-bound travel products, delayed visa procedures, and even restricted concerts in China by South Korean vocal performers. As a result of all these measures, the numbers of tourists between China and South Korea declined dramatically. Recently, however, China started making moves to improve its ties with South Korea, and there is speculation that the Bangtan Sonyeondan (BTS), the South Korean boys' singing group, may be permitted to perform in China for the first time in two years.[13] In the wake of this thawing atmosphere, it is possible that the travel demand of South Koreans may be shifting partially to China. The number of South Korean tourists visiting China in 2019 has yet to be released at the time of writing, but the number of Chinese tourists to South Korea has been growing substantially (**Chart 12**), indicating a recovery of people-to-people exchanges between the two countries.

Chart 12: Number of Chinese tourists to South Korea



Note: 2019 shows the numbers for January-May.
Source: Made by MHRI based on CEIC Data

13 See Record China (an article dated February 21, 2019), etc.

4. Japan's only hope is Chinese tourists, but the economic slowdown risk needs to be watched in response to the intensification of China-US trade tensions

As discussed above, the declines in the numbers of inbound tourists from South Korea, Taiwan and Hong Kong should be ascribable largely to the shift of tour destinations to Southeast Asia, Macao and China, not so much to the continuing avoidance of visits to Japan because of natural disasters. Then, it would be too optimistic to expect the numbers of inbound tourists from those regions will recover significantly to show the high rates of growth matching those of 2017 in the latter half of 2019 as well.

Currently, the global economy is expected to moderately slow down toward 2020, but if the US-China trade tensions intensify further, there is the risk of the global economy sliding down sharply. On top of that, if the yen keeps following the strengthening trend amid mounting expectations of an interest rate cut in the United States, it could become a further adverse wind against potential inbound tourists. It is safe to expect the trend of shifting tourist destinations to such countries as Vietnam and Thailand by giving top priority to cost performance will continue in some time to come. As for South Korea and Hong Kong, tour destinations are being diversified to China and Macao because of their respective particular factors, both of which are likely to press down the number of inbound tourists to Japan.

Given these circumstances, it is unlikely that the numbers of inbound tourists from South Korea, Taiwan and Hong Kong will recover the momentum any time soon. We thus believe that the yellow light started flashing for the achievement of the target of 40 million inbound tourists in 2020. As discussed earlier, since the numbers of inbound tourists from South Korea, Taiwan and Hong Kong account for some 50% of the total, even if the numbers of inbound tourists from ASEAN countries, Europe, the United States and Australia, etc. gather speed, they would be inadequate to entirely cover the declines in the inbound tourists from the three regions.

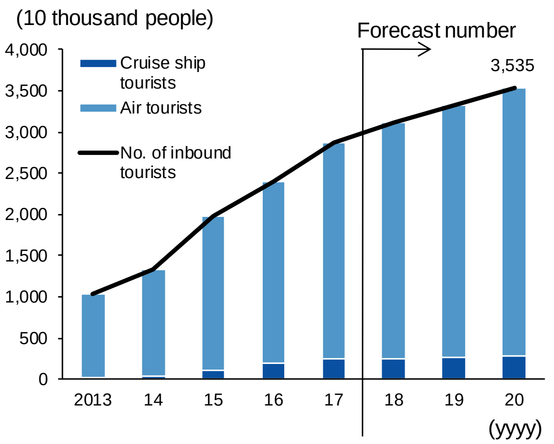
We should not place excessive expectations on visitors from China, which seems to be Japan's last hope for the attainment of the target. Currently, the inbound tourists from China are maintaining double-digit increases year-on-year, but much of this can be traced to the effects of the relaxation of visa requirements from January 2019, including streamlined procedures for multiple entry visas for repeaters. In addition to the fact that these effects of the easier visa requirements lack sustainability, the US-China trade tensions are currently showing signs of getting protracted and there is the lingering concern that the inbound tourists from China may be affected by their repercussions. If the US-China confrontation makes the slowdown of the Chinese economy worse than initially expected, it should be noted that there is a considerable risk of the number of inbound tourists from China taking a plunge. Combined with the declining numbers of visitors on cruise ships, it would be better to think that the growth of the inbound tourists from China alone is difficult to help the achievement of the 2020 target. Should the inbound tourists from China slow down significantly as did those from South Korea, Taiwan and Hong Kong, the hoped-for achievement of the target would face the red light, let alone the yellow light.

When we updated the simplified estimates from the supply side using the increases in the number of international flights and cruise ships shown in Miyajima and Hirayoshi (2018b), we got the result that the number of inbound tourists in 2020 would be around 35 million (**Chart 13**). But as the estimates just extended the recent developments by estimating the rate of increase in the recent numbers of international flights and the rate of growth of passengers per flight as constant, a sense of the slowdown of the global economy intensifies, there is the risk that the estimated number for 2020 could swing down further.

5. Japan should seek medium-term regional dispersion and higher unit prices instead of clinging to the target of the number of inbound tourist

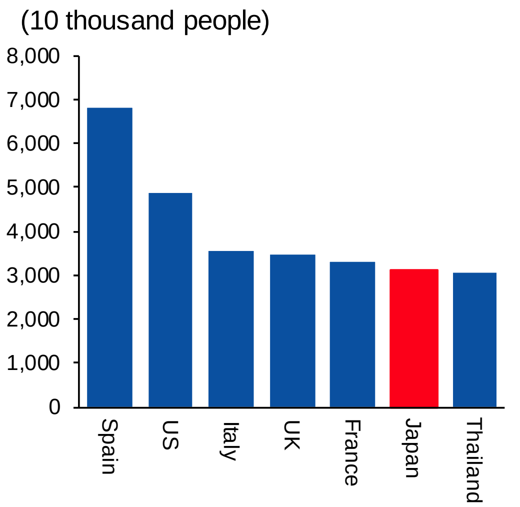
We have presented the view that it is becoming difficult to achieve the target of 40 million inbound tourists in 2020. Even if Japan fails to achieve this target, it does not mean that the inbound policy taken so far should be cast away. Rather, it deserves the

Chart 13: Estimated number of inbound tourists



Note: See Addendum A (2) of Miyajima and Hirayoshi (2018) for details of the estimates.
Source: Made by MHRI based on Japan National Tourism Organization (JNTO), *Visitor Arrivals to Japan and Japanese Overseas Travelers*, materials released by Ministry of Land, Infrastructure, Transport and Tourism

Chart 14: Number of inbound tourists by sea and by air



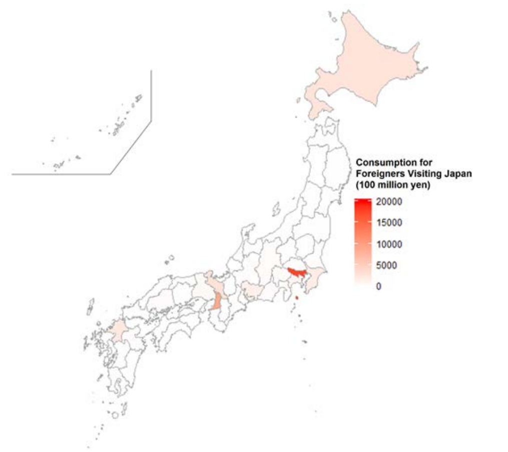
Note: 1. The 2018 numbers for Japan and the 2017 numbers for other countries.
2. The numbers of higher-level countries of those countries that release the numbers of inbound tourists by sea and by air.
Source: Made by MHRI based on UNWTO, Japan National Tourism Organization (JNTO), *Visitor Arrivals to Japan and Japanese Overseas Travelers*

positive assessment that Japan was able to come very close to achieving the lofty target of 40 million inbound tourists.

In the first place, the target of 40 million is the considerably lofty hurdle for Japan, an island nation, because, unlike European tourism superpower such as France and Italy, it is impossible to visit Japan by land. **Chart 14** compares the number of inbound tourists by sea and by air by country. This chart shows that even if the number of inbound tourists to Japan in 2020 stands at around 35 million, that still places Japan on par with Italy and France. Given the geographical constraints, Japan’s efforts until now to increase the number of inbound tourists should be evaluated as massively successful.

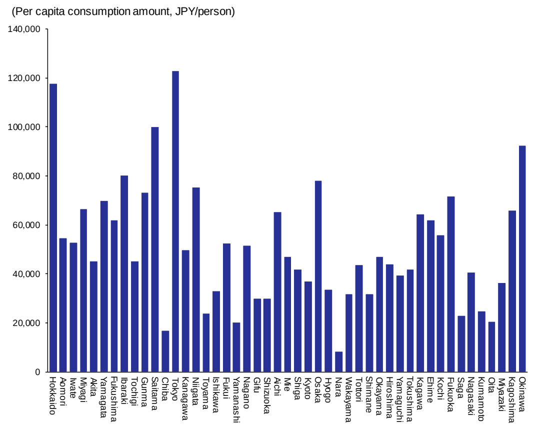
The issue for Japan going forward is the policy that focuses on the quality, not the quantity, of inbound tourists. More specifically, the important thing is the revitalization of consumption by inbound tourists in regions. As discussed in Miyajima and Hirayoshi(2018a), the ratio of the number of overnight guests in regions to the total number of inbound tourists is gradually rising, and when compared with such countries as Spain and France, the number of foreign visitors to regions is on the rise. However, even if the number of foreign visitors to regions increases, the economic effects would not get large unless they increase consumption in these regions. **Chart 15** shows consumption of foreigners visiting Japan by prefecture. The chart indicates that the amount of their consumption is sizable in the three major metropolitan areas, centering on Tokyo, Aichi and Osaka, as well as Hokkaido and Fukuoka, both of which have regional urban centers, with tremendous gaps existing with other prefectures. Instead of

Chart 15: Consumption for Foreigners Visiting Japan



Note: The figures for 2018, estimated by MHRI.
Source: Made by MHRI based on Japan National Tourism Organization (JNTO), *Visitor Arrivals to Japan and Japanese Overseas Travelers*, Japan Tourism Agency, *Consumption Trend Survey for Foreigners Visiting Japan*

Chart 16: Per capita tourism consumption by foreigners visiting Japan by prefecture



Note: The figures for 2018, estimated by MHRI.
Source: Made by MHRI based on Japan National Tourism Organization (JNTO), *Visitor Arrivals to Japan and Japanese Overseas Travelers*, Japan Tourism Agency, *Consumption Trend Survey for Foreigners Visiting Japan*

clinging to the target for the number of inbound tourists for Japan as a whole, the priority issue going forward should be to revitalize consumption by inbound tourists in regions and spread the benefits to every corner of Japan.

The large regional differences in consumption stems from the gap in per-capita tourism consumption. Per-capita tourism consumption by prefecture is shown in **Chart 16**. The chart shows marked differences between urban areas and regional areas. The correction of this situation would require longer stays by foreign visitors by making circular tours take firm root. The keys to this are the creation of tourism resources unique to regions centering on “koto (experiential)” consumption that places values in experiences, entertaining aspects and story-lines through a product or service one purchases and the improvement in the environment of receiving inbound tourists, such as transportation and other infrastructure and accommodation facilities.

The attraction of tourists who prefer longer stays offers benefits other than higher unit prices of their spending. For example, it can avoid “over-tourism” issues, such as the lower satisfaction of visitors because of overcrowded tourist spots and the inconveniences to the everyday life of local residents. And the acceptance of a large number of foreign tourists who prefer short stay will become increasingly difficult in regions where there is the acute sense of manpower shortage. The increase in the number of nights to stay is efficient in seeking the promotion of inbound tourism while reining in the problems associated with the shortage of employees.

As we discussed in Miyajima (2018), looking beyond the Tokyo Olympics, there remains a large room for the growth of inbound tourists particularly in regions. Instead of clinging to the achievement of the 2020 target of inbound tourists, the important thing is to consistently make medium-term efforts toward regional dispersion for sustainable promotion of tourism and the raising of unit prices of spending by inbound tourists.

Reference

Refer to the original Japanese report by clicking the URL below for the reference material

https://www.mizuho-ri.co.jp/publication/research/pdf/insight/jp190708.pdf