JAPAN: POTENTIAL OF THE TOURISM BOOM

The easing of restrictions and the recent opening of borders in Japan could lead to a potential tourism boom during the year-end season and a likely influx of domestic and foreign travelers.

Latent demand and a weak yen make Japan an attractive destination. However, without Chinese tourists, the country will have to wait a little longer for a full tourism recovery. Against this backdrop**, potential investment opportunities appear to be emerging, particularly in travel and tourism-related sectors such as airlines, transportation services, travel agencies**, and listed real estate investment companies (SIICs).

Reopening Borders

After three years of closure, Japan is reopening its borders and allowing travel without visas and outside the tourist circuit. As of October 11, the Japanese government has effectively removed all border controls in place since the COVID outbreak. As a result:

No visa is required for foreign nationals entering Japan for business purposes for less than three months, for short-term tourism or for long-term stays. The visa waiver regime will resume for 68 countries/regions.

No testing or quarantine will be imposed on visitors from most countries.

The daily ceiling of entries in the country was raised from 20,000 to 50,000 visitors on September 7.

Non-tourist tours are once again allowed for visitors from all countries, whereas since June only tour packages were allowed.

These measures will open the doors to Japan to a large number of domestic and international travelers as the important end-of-year tourism season approaches. Perhaps the only remaining hurdle is the proof of vaccination, which is still required to enter Japan, while many European countries have waived this requirement.

However, given the high level of vaccination worldwide, this is only a small hurdle, and Prime Minister Kishida's policy of continuing to "live with COVID," i.e., overcoming the rise in infections without imposing work or mobility restrictions, shows a clear intention.

Domestic Tourism

Japanese tourists still have to take a few things into consideration before traveling abroad. They face high travel costs due to the weak yen and rising fuel prices. Caution still makes them reluctant to take advantage of the border reopening. The Japanese authorities seem to be taking advantage of this situation to stimulate domestic tourism demand by launching local and national discount programs and a campaign to reduce ticket prices for events until the end of December.

Weak Yen Makes Japan Attractive

Almost a year after the first lifting of pandemic-related restrictions in Asia, tourist demand is still latent. Many travelers, frustrated since the beginning of the pandemic, are eager to resume their explorations. According to a May 2022 YouGov survey, Japan remains Singapore's favorite travel destination.

Moreover, with the yen near a 24-year low against the dollar and the SGD/JPY exchange rate at a high of over 1/100, the destination is even more attractive to bargain hunters, especially at a time when high demand and high fuel prices are driving up airfares.

The Bank of Japan's policy divergence from the Fed suggests that yen weakness may continue, while U.S. yields continue to rise this quarter. It is worth noting that tourist arrivals to Japan tripled to 32 million between 2013 and 2019, while the yen lost more than 20% of its value.

Investment Opportunities and Tourism Boom in Asia

In 2019, Japan had 10 million Chinese visitors, or about 30% of tourists. Full tourism recovery may therefore be a long time coming until the Middle Kingdom reopens its borders. But the weak yen may stimulate duty-free spending, partly offsetting the absence of Chinese tourists. A widespread increase in travel spending is also very likely in Asia, with many other countries taking small steps in the direction of living with COVID and full reopening.

For Japan, this provides investment potential in a wide variety of sectors. Terminals such as Narita and Haneda in Tokyo can capture a large share of domestic and international travelers. Haneda also has a high domestic traffic and international passenger base of at least 50% Japanese, and could benefit from latent Japanese travel demand.

Airlines such as ANA and Japan Airlines, as well as railways such as JR West and JR Kyushu, could also benefit from increased passenger flows, while the situation could also benefit travel agencies such as HIS and entertainment players such as Oriental Land, the operator of Tokyo Disneyland. **Higher hotel occupancy could mean profits for hotel REITs like Japan Hotel REIT.** Finally, retail and restaurant chains such as Pan Pacific, Takashimaya, Isetan Mitsokoshi, and consumer goods companies such as Shiseido, Kao, and Kose may have to wait for Chinese tourists to return.

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