



JETRO Chicago Midwest NEWSLETTER

Japan External Trade Organization

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An Expanded Vision of U.S.-Japan Relations



Guest View

*Dr. Edward J. Lincoln
Director, The Center for
Japan-U.S. Business and
Economic Studies, Professor of
Economics, New York University
Stern School of Business*

The U.S.-Japan bilateral relationship has proven to be close and durable over the past half century. Today it remains so, but faces new challenges in coming years due to the rapidly evolving regional setting in Northeast Asia.

Our two nations are connected through a multidimensional relationship - encompassing both security and economics. The security tie is well known; the bilateral security treaty brought us together as allies in the early phases of the Cold War. That relationship remains despite the collapse of the Soviet Union. Given the remaining security dangers in the region, it is likely that both the United States and Japan will continue to value this bilateral link.

On the economic front, the relationship endured four decades of considerable tension, from the mid-1960s to the mid-1990s. The root of the problem lay in very protectionist policies adopted by Japan (with U.S. acceptance) in the late 1940s. Dismantling those barriers as the nation grew and prospered proved to be difficult, and often involved contentious negotiations with the U.S. government. Some problems of access remain, but today Japan is a considerably more open economy than it was a decade or two ago. As a result, economic problems today generally remain at the working level

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Meet Muneo Takashi, new Chief Executive Director of JETRO Chicago

Mr. Muneo Takashi has been named to head the JETRO Chicago office succeeding Taka Tsuchiya, who has returned to Japan after completing his assignment in Chicago.

As Chief Executive Director, Takashi will oversee JETRO Chicago in facilitating business development between Japan and companies in the 12-state Midwest region.

Mr. Takashi, 58, joined JETRO in 1974, following his graduation from Chuo University's Faculty of Law. He also holds a Master's Degree in International Politics from Aoyama Gakuin University.

Mr. Takashi served as Director of Public Relations at JETRO Singapore from 1984-1988, and was the Director of the Import Activities Division in JETRO's Import Promotion Department from 1996-1999. In this capacity he was in charge of supporting and implementing JETRO's national Export-to-Japan campaigns. From 2001-2005, Mr. Takashi was the Executive Director of the JETRO Los Angeles office. In 2005, he became Chief Director at JETRO's

Akita Prefecture office, a post he held until being assigned to JETRO Chicago.

"As I had travelled to Chicago several times before and during my assignments at JETRO Tokyo Headquarters and JETRO Los Angeles, I now feel quite at home," Takashi commented. "I am familiar with the position of the Midwest as the center of U.S. manufacturing and commodity trading, and now as home to numerous technology clusters. I am extremely excited to be here to help promote JETRO's mission: to strengthen the economic relationship between the U.S. and Japan."

Mr. Takashi can be reached at the JETRO Chicago offices, 312-832-6000.

Upon his return to Japan, Taka Tsuchiya was appointed Director General, Trade and Economic Cooperation Department, JETRO, where he oversees JETRO's activities related to developing countries, helping them strengthen export industries, improve business-related systems and nurture human resources.

"I am enthusiastic about the opportunities that await in serving the Midwest"

It is a pleasure to be here at JETRO's Chicago office. I appreciate the warm welcome I have already received, and I have been assured that the weather will warm up soon, as well!

Although I haven't yet had much of an opportunity to travel around the Midwest, during my assignment at JETRO Los Angeles between 2001 and 2005 I learned a great deal about the people and businesses in the U.S. and was able to visit Chicago and keep up with JETRO's Midwest activities, if from a distance.

Now, just a few years later, I am back in the United States, and very enthusiastic about

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From the Chief Executive Director

*Muneo Takashi
Chief Executive Director,
JETRO Chicago*

JETRO Chicago

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the opportunities that await in serving the twelve Midwestern states in this region. I've already learned so much about the programs that are in place and the cooperation between JETRO, the state governments, the universities and business communities. My predecessor, Takashi Tsuchiya, has told me a great deal about the wonderful people he has met and worked with during his time in Chicago. I will try to maintain the standards he has set, and hope to meet many of the same people, and many others, as well.

This coming year will present some challenges, as the economies of the United States and Japan have slowed. But this should also be a very active time, as we look for ways to increase mutually beneficial business endeavors. Competition for trade partners and investment is quite intense, and companies in the Midwest and Japan must be able to obtain good, reliable information, so their decisions have the best chance to result in favorable outcomes. It is my hope that this JETRO office will continue to assist in this process.

As I mentioned, I plan to quickly begin meeting the good people of the Midwest. In the meantime, please don't hesitate calling or writing to this office with any questions or thoughts you might have on Midwest-Japan business relations. I look forward to hearing from you.

Contact JETRO Chicago

JETRO Chicago is located at 1 East Wacker Drive, Suite 600, Chicago 60601. Phone: 312-832-6000; Fax: 312-832-6066; website: www.jetro.org

For general information, call the number above, or for a specific inquiry, use the form at www.jetro.org (select "Contact JETRO" from the menu bar at left).

For Invest-in-Japan and robotics information contact Kevin Kalb, at kevin_kalb@jetro.go.jp.

For biotech information, contact Robert Corder, at robert_corder@jetro.go.jp



JETRO Around the Midwest

Seminars, Meetings and Events



On February 29, for the fifth year, JETRO Chicago spoke to Robert Galka's class at DePaul University as they prepare for their annual March visit to Japan. At right, JETRO's Tomonori Shibahara and Kevin Kalb demonstrating a business card exchange to the students.



On March 14, incoming JETRO Chicago Chief Executive Director Muneo Takashi (left) and his predecessor, Taka Tsuchiya (right) met with Illinois Lt. Governor Patrick Quinn.



(Above) On February 22, Minnesota Lt. Governor Carol Molnau met with JETRO Chicago's former Chief Executive Director, Taka Tsuchiya.



(Above) Dr. Edward J. Lincoln, Director, The Center for Japan-U.S. Business and Economic Studies and Professor of Economics, New York University, Stern School of Business and Robert T. Kudrle, Freeman Chair of International Economic Policy, Hubert H. Humphrey Institute of Public Affairs, University of Minnesota speak with a student at the February 22 Japan Lecture Series program in Minneapolis.



(Above) Dr. Durward Hofter, Professor Emeritus, College of Business and Management, Northeastern Illinois University (center) with JETRO Chicago team members Tomonori Shibahara and Ralph Inforzato who spoke at the university's East Asia International Business Conference on February 25.

(Right) Taka Tsuchiya visited the University of Michigan in Ann Arbor on February 2, to address the 18th Asia Business Conference, giving an overview of Japan's economy and JETRO's programs.



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Nippon Sharyo delivers rail cars to Chicago's METRA Rail Service via Japan and Milwaukee

Almost half of the Chicago area's Metropolitan Rail (METRA), commuter passenger cars contain the emblem of Nippon Sharyo U.S.A. The demand for the rail passenger cars in the United States is expanding, and Japanese companies receive high acclaim for both how they utilize high technology and their production process enabling punctual delivery and quality passenger cars.

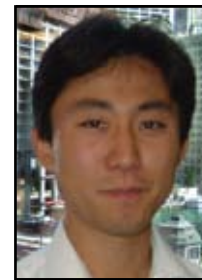
The rise of gas prices and the increase in road congestion perhaps may be leading to a movement where more and more American commuters are opting to take public rail transportation. This trend has resulted in new passenger car demand at 700-800 cars annually.

In the 1980s, the domestic railway vehicle market was sluggish and almost all U.S. manufacturers went out of business. Now Japanese, South Korean, European, and Canadian manufacturers are producing rail passenger cars in the United States.

Railway car manufacturers Bombardier (Canada), Alstom (France) and

Siemens (Germany) have a large presence in this country with South Korean manufacturers taking the offensive by selling at very low prices. As for Japanese companies, Kawasaki Rail Car Inc. is extending its market share in the Northeastern region of the United States, especially in New York, while Nippon Sharyo U.S.A. develops business in the Midwest. Another Japanese company, Kinki Sharyo, specializes in the production of tram cars.

Many of the electric rail cars of Chicago's METRA commuter service are made by Nippon Sharyo U.S.A. METRA operates commuter rail service between the downtown Chicago business district and 224 Northeast Illinois communities over 12 routes totaling 500 miles of service territory. The



Director's Dialogue

Yuji Shiozaki,
Director of Industrial
Machinery,
JETRO Chicago

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JETRO Surveys look at foreign investment/expansion in Japan, and Japanese companies' foreign expansion plans

Two recently released JETRO surveys point to optimism among both foreign companies doing business in Japan, and Japanese companies looking to expand their foreign operations. The first shows that foreign firms in Japan are counting on continuing success in the next year, while the other survey suggests that Japanese companies are considering increased expansion, particularly in Asia.

On February 19, 2008 JETRO released the results of its latest survey of foreign-affiliated firms operating in Japan, conducted between September and October 2007. According to the survey, 63.1% of respondents plan to expand their business in Japan in the future, up six points from last year's survey. This is the highest level since the survey began in 1996, reflecting current favorable economic conditions and a strong market performance in Japan. The percentages of respondents planning to "maintain current status" or "reduce scale of business" were just 31.4% and 1.5%, respectively.

Additionally, the percentage of respondents reporting increased year-on-year sales (for fiscal year 2006) reached 65.1%, the highest figure since the survey began; the percentage reporting decreased sales was just 15.7%, the lowest figure yet recorded.

Among firms indicating plans to expand their business in the Japan market, 73.8% will do so to "strengthen their sales function", followed by "launch a new product/service" (62.9%) and "enhance production capabilities and services" (52.3%).

The survey also polled firms about challenges in setting up/expanding business in Japan. As in last year's survey, "difficulty in securing personnel" ranked highest, at 66.2%, suggesting that firms still struggle with increased competition for qualified staff amidst Japan's improved business climate. Notably, such perennial challenges as "expensive business costs" (60.2%), "high demand level by users" (59.6%), and

"closed nature and uniqueness of the Japan market" (50.6%) ranked lower in this year's survey.

Asked about their future business expansion plans for Asia as a whole, the majority of respondents (75.5%) plan to expand, compared to just 17.1% who plan to "maintain current status". This suggests that more than 90% of respondents view Asia as a key business location.

You can read the entire English-language press release that summarizes this survey at www.jetro.org/content/522.

For more information, please contact: invest-japan@jetro.go.jp

On March 26, 2008 JETRO released the results of its annual survey on the international operations of Japanese firms, conducted between November 2007 and January 2008, with replies from 733 firms in manufacturing, trading (imports/exports) and wholesale/retail. Firms were polled on their international and domestic operations, plans to expand business in China and views on business environments in Asia.

The majority of respondents (70.9%) have overseas bases, of which 77.9% have bases in China, 52.9% in the US and 39.4% in Thailand. The percentage of respondents planning to expand their business overseas (make new/additional investments) in the coming three years or so was 66.4%, compared to 50.2% who plan to expand operations domestically. For overseas expansion plans by country/region and function, China again ranked at the top in all categories, although the figure for firms planning to expand production functions there continued on a downward trend.

You can read the entire English-language press release that summarizes this survey at www.jetro.org/content/555. Additional information on Japanese businesses and their plans can be downloaded at www.jetro.go.jp/en/news/releases/20080326078-news/data.pdf. For more information, email dai_higashino@jetro.go.jp or kohei_shiino@jetro.go.jp, in JETRO Tokyo's International Economic Research Division.

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bi-level stainless steel gallery passenger cars primarily made by Nippon Sharyo U.S.A. are used by approximately 150,000 people daily.

Nippon Sharyo U.S.A. was established in 1982. To strengthen the railway business in the Midwest, the manufacturing base was placed in Milwaukee, Wisconsin. To date it has approximately thirty employees for two locations, an office in the Chicago suburbs and the vehicle assembly facility in Milwaukee. The actual assembling work is consigned to a local Milwaukee company, with Nippon Sharyo U.S.A. managing parts procurement and an extensive quality control process including technical guidance. It completed a delivery of 300-passenger cars and an additional 26 train cars to METRA and now is developing passenger cars for the Northern Indiana Commuter Transportation District and the Virginia Railway Express. Since passenger trains in the United States use the same railway track as heavy freight cars, it is critical that U.S. passenger cars be much stronger than those used in Japan.

The budget of the United States federal government is allocated to various regional commuter railway authorities. In this case, the Buy American Act requires the final assembly of passenger cars must be completed in the United States and that a minimum of 60% of the passenger car's parts and materials be purchased in the U.S. Nippon Sharyo U.S.A.



Kelly Denewelles, Steve Vullo, Cathleen Moore of JETRO Chicago with Mr. Yasuhiko Frank Mochizuki, President of Nippon Sharyo U.S.A., Inc. at a February visit.

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in government, without much exposure in the media. In addition, firms of both countries have become more deeply embedded in the other through investment. While investment into Japan remains low, American firms are important in some industries such as finance. And Japanese firms have invested heavily in the United States, including numerous factories in the Midwest. The bilateral economic relationship, therefore, is much more solid and deeply intertwined today.

The near-term issue facing the relationship is the upcoming U.S. presidential election. The good news for Japan is that nothing will change in the bilateral relationship as a result of the election. Japan is simply not an issue in this election, a tribute to the strength of the relationship. Many in Japan feel that Democrats are protectionists, and Republicans free traders. To be sure, both Democratic candidates have made somewhat protectionist sounding remarks while campaigning in the Midwest. The reality of the past three decades, however, is that Democratic presidents rarely invoke protectionist policies after election despite occasional protectionist rhetoric, and Republicans sometimes do, despite their free-trade rhetoric. The real differences in policy have been negligible and there is no reason to suppose that the next administration will deviate from this pattern. Even if the new President does take a somewhat different policy stance on trade, the changes would affect issues such as China or NAFTA, not Japan.

China, in fact, provides the crux of the argument for using the bilateral U.S.-Japan relationship as a cooperative base for dealing

procures the main shell for the passenger car from Japan (less than 40% of the entire procurement) because it would like to make the best use of various processing technologies, especially welding techniques that are done only in Japan.

Nippon Sharyo U.S.A. Utilizes Original Manufacturing Technique "San-tei"

Nippon Sharyo U.S.A. has approximately ten Japanese engineers who always work as a team with locally hired employees. The assembly of the passenger car consists of about 4,000 parts and components. At the beginning of this process, the teams faced various challenges such as language barriers and differences in common understandings because the factory employs an ethnically diverse group of people. "It was necessary to illustrate common sense in drawings," Yasuaki Hirose, Site Manager of the Milwaukee office said. In addition, they devised various ideas such as selecting tools and designing the production line in such a way that tasks would be nearly mistake proof. Finally, the teams created a unique manufacturing method called

with other regional issues in Asia. Some Japanese have worried that United States pays more attention to China than Japan, and were upset that a recent article in Foreign Affairs by Hillary Clinton called China the most important bilateral relationship for the United States over the next century. But her emphasis on China comes from the potential for problems if we fail to deal adequately with the challenge China poses—a rapidly rising economic power with nuclear weapons, a Communist government at odds with its increasingly market-driven economy, rising consumption of global raw materials, and an increasing contribution to air pollution and global warming. If we "get it wrong," China could be an enormous and dangerous problem. If we "get it right," we can integrate China into a peaceful, prosperous, and environmentally stable world over the next century.

The United States and Japan share the goal of peaceful engagement with a dynamic China. We can deal with China independently, but should we? Working together, we stand a much greater chance of "getting it right" because we bring different but complementary abilities to the negotiating table. The same is true of other issues around the region. To be sure, our two countries do not always agree on some regional issues. But the opportunities for cooperation are substantial, and the need to cooperate for the economic, political, and security benefit of East Asia is strong. In the past, the bilateral relationship focused mostly on strictly bilateral issues, but the time has come to expand the dialogue and cooperation as we face these broader regional challenges.

"San-tei" (3 FIX) which is a process of work method that fixes; (1) a specific task at; (2) a fixed position to be completed within; (3) a fixed period of time (3 FIX). By utilizing this San-tei method, the company was able to raise efficiency.

President Yasuhiko Mochizuki said, "Our strong point is observance of the delivery date" in the U.S market; many times the actual delivery of product is delayed but this is never the case for Nippon Sharyo. The company's production line is divided into approximately ten stations. A person who is called a Tech Leader is allocated to be in charge of each station and completes his tasks within four days. Even if a delay occurs at only one station, it will have an impact across the entire network of work stations. In this case overtime work and holiday work will be done to keep the delivery date. This flexibility is essential since there is no labor union. In the end, the acquisition results and repetition of orders best illustrate the high trust received from the Nippon Sharyo's customers.

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Chicago Powdered Metal Products – Building Trust in Japan

Established in 1948, Chicago Powdered Metal Products Company is a family-owned and operated business that is dedicated to unsurpassed product quality and customer satisfaction. The company, currently in the midst of implementing the Toyota Production System, is one of the largest independent powdered metal parts manufacturers in the United States and is located in Schiller Park, IL, near Chicago's O'Hare International Airport.

In July 2007, Chicago Powdered Metal Products (CPMP) established its first international office in Nagoya, Japan. Max E. Rumbaugh III, Sales Manager for the company, shares his insights on why this medium sized manufacturer made the commitment to establish a presence in the Japanese market.

It's About Building and Maintaining Trust – As Defined in Japan

Mr. Rumbaugh indicated that the North American subsidiaries of Japan's automotive original equipment manufacturers [OEMs] had recently become interested in CPMP's technology. The company is focused on serving the Japanese automotive OEM community in North America. CPMP's expertise in customer support, manufacturing quality and engineering quality has made them one of the best in the metal forming industry category. Mr. Rumbaugh indicated that while CPMP could provide customer service and sales support for the North American subsidiaries of Japanese automakers from the Chicago area, they did not believe this would be sufficient to communicate its engineering quality to Japanese OEMs in the Midwest and Japan. After careful consideration, the company decided to articulate its engineering excellence directly to the automotive supply companies' sales engineers in Japan. The firm then initiated to study how best to establish a business presence in Japan.

Rumbaugh said that developing a business plan for Japan must be done in a Japanese manner. For example, he explained, "for American businesses, we would typically use a 38-page PowerPoint presentation. In Japan, we retooled our presentation into a precise, clean-looking brochure, almost a storyboard, for use in Japan customer meetings. Also, the Japanese customers like to examine samples of our parts at these meetings."



Max E. Rumbaugh III, Sales Manager for Chicago Powdered Metal Products

PRESS 62 IS UNDER 5S CONSTRUCTION

The Pillars of 5S

Steps	Japanese Word	Translation	English Interpretation
1	Seiri	Organization	Sort
2	Seiton	Orderliness	Set in Order
3	Seiso	Cleanliness	Shine
4	Seiketsu	Standardize	Standardize
5	Shitsuke	Discipline	Sustain

The sign above reflects CPMP's implementation of 5S improvements at a quick change die set press work area.

By establishing a subsidiary in Nagoya, CPMP is within a two-hour radius of approximately 80% of the company's potential Japanese customers. Mr. Rumbaugh said, "With its central location in Japan, Nagoya is an excellent location for us. It also has attractive costs, international airport access and an excellent transportation network within Japan."

Rumbaugh noted that the company's presence in Japan allows it to foster a level of trust with Japanese sales engineers that would otherwise be impossible. The key role for CPMP's Japan office is to keep their customer's design engineers in Japan informed and up-to-date on the company's parts and technologies so CPMP's components will be in a better position to serve their Japanese subsidiary companies in North America. As a result of having a business presence in Japan, Mr. Rumbaugh cites a tremendous increase in the number of meetings with potential customers by Max Kataoka, manager of CPMP's Nagoya office.

Challenges – On Utilizing Powdered Metal Parts

Japanese engineers historically have had a conservative view towards the use of powdered metal sintered components. They have resisted utilizing powdered metal parts out of concerns over the metal's strength barrier. In the past, powdered metal parts may have been too brittle and were at risk of crumbling under stress.

However, continuous research and development by CPMP has resulted in greater strength and durability of the metal parts. Employing new techniques, the company can now achieve a core metal density of 7.5g/cc, far beyond the typical density of 6.8g/cc for sintered parts. With one additional operation, certain critical areas of a part can be raised to a density of 7.8g/cc.. With this localized strengthening, the powdered metal piece is equal to fully dense iron or greater than cast iron.

There have also been significant breakthroughs in the sintering process that allow specific parts to be precisely heated but without any warping or dimensional change to the part. Mr. Rumbaugh said, "when the part comes out of the sintering furnace, it's very close to what the customer needs as a final part compared to a metal casting or iron forging which requires added cost in the form of machining and additional operations to obtain a final product."

Powdered metal processing offers a low-cost, high quality alternative

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to traditional die-cast iron or forged iron and because powdered metal products require less additional machining, it also is a quicker process. New innovations in powdered metals allow for innovations in the design and manufacture of automotive parts. This is compelling news to Japanese sales engineers. Mr. Rumbaugh indicated that, "once they understand our sintering technology process, you immediately obtain a sense of how they might have used our powdered metal parts on past projects." This is the challenge for the company's Nagoya office, articulating these innovations in the sintering process and explaining the benefits of these developments to potential customers in Japan.

The process of setting up an office in Japan was very smooth, Mr. Rumbaugh said. The company spent a lot of time evaluating the costs, benefits, and capabilities of Japan's different business structures.

The management thoroughly researched the different business structures and meticulously examined the pros and cons of a representative, branch or subsidiary office. The firm reached out to JETRO, who supplied a great deal of assistance. Mr. Rumbaugh said, "JETRO was a large part [of our entry into Japan]. Their guidance was a tremendous benefit to us."

The trust that was built between Chicago Powdered Metal Products and JETRO was just as important as their business research. JETRO assisted the company with questions regarding incorporation and site selection. Later, when the firm was ready to hire a manager in Japan, JETRO's Nagoya office introduced the firm to a number of candidates. Because the company had been working with different groups within JETRO, including JETRO Chicago, it was easy for them to trust the recommendations of personnel, which made the difficult process of hiring the right person much smoother. It was through JETRO Nagoya's efforts that CPMP found Max Kataoka, the company's Japan manager. Mr. Rumbaugh said that, "after speaking via teleconference with my president (John Miller), Max became our first employee of CPMP's Japan Branch."

Guidance for American Companies on Developing Business with Japanese OEMs

Rumbaugh indicated that it is very important to first develop a relationship with a Japanese customer and then business will come along. "When your company's Japanese customer contact rotates away from you and into a new position, he will make sure that the same level of trust you have with him is transferred to his successor." Therefore,

the person may change, but the relationship between your company and his does not. Mr. Rumbaugh puts a two to three year timeframe into developing trust with a Japanese customer. If nurtured properly, this relationship will last for a decade or more.

Rumbaugh also stressed that "being up front and open with Japanese OEMs is the key to building partnerships. Inform them immediately if delivery will be delayed for one or two days. They will understand if you inform them ahead of time and don't wait until the last minute to call. Do not overreach or over-promise what you can do for a Japanese company, only to admit later that you cannot keep your commitment."

Rumbaugh advises American companies initiating investment in Japan to keep office staff small until increasing business demand enables the company to hire an additional associate. There's no need for an initial investment in Japan to include three to four people in the office. He also said that it is important to have your Japan-based manager in place three weeks to a month prior to establishing a business presence in Japan in order to respond in a timely manner during the process of incorporation. Rumbaugh said that having Max Kataoka on board during the final push to incorporate was a tremendous benefit, and something that most foreign companies overlook. Most importantly, firms that want to do business in Japan need to do their homework in advance and learn as much as they can.

CPMP's Timeline for Establishing a Business in Japan

December 2005 – Contacted JETRO Chicago

- Obtained market outlook on Japan's auto industry & information on Japanese business practices

May 2006 – Visited JETRO Tokyo's Invest Japan Business Support Center (IBSC)

- Obtained advice on market entry

October 2006 – Visited JETRO Nagoya's IBSC

- Identified office location
- Interviewed manager
- Utilized temporary office

July 2007 – Established Japanese Branch Office



Ask
JETRO

What's new with the JETRO USA website?

If you haven't seen the JETRO USA website in a while, it's time for a return visit. Head over to www.jetro.org, and take a look at the fresh, new design, along with many new features.

Along with established features such as success stories, advice on business partnerships, and lists of upcoming events, you'll find new information on the trends and opportunities that make Japan truly special.

And be sure to check the Newsletter section, where among other bulletins, you'll find a back issue library of the JETRO Midwest Newsletter.

