Oversea Toursists and Foreign Investment in Tourism in Kyushu

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Summary

• Overseas tourist arrivals in Kyushu are increasing, with a striking rise in the number from Asia.
• While local governments work to attract tourists, the Kyushu Tourism Promotion Organization encourages island-wide integrated tourism projects.
• The combination of growing Asian tourist traffic with Kyushu’s abundant tourist attractions offers opportunity and accounts for the upward trend in foreign investment.

In this report, we look at Kyushu’s efforts to attract overseas tourists and the involvement of foreign firms in the tourism industry.

Kyushu is Japan’s fourth largest economic region (after Kanto, Kinki and Chubu), accounting for 10% of national GDP, and has a high growth rate compared to the national average. In industry, regional development strategy has grown semiconductor and automotive sector clusters, while concurrently developing the region as a base for exports to Asia.

Meanwhile tourism, primarily from Asia, has also grown steadily, based on geographical and historical factors coupled with abundant tourism resources.
1. Growing exchanges between Kyushu and Korea

In 2005, 7.45 million foreign visitors entered Japan, a second consecutive annual record and a 10.3% year-on-year increase. The Kanto and Kansai regions accounted for more than 70% of total visitors, with 4.07 million (+5.7% y-o-y) and 1.39 million (+5.9%), respectively. Reasons for the popularity of Kanto and Kansai include their many historically famous tourist attractions and a high number of business travelers. (Visitor numbers are based on immigration statistics from the Ministry of Justice, and include those with re-entry permits.)

In terms of visitor numbers, Kyushu (including Okinawa) came third after Kanto and Kansai with 720,000 (+11.5%), or nearly 10% of the total. Geographical attractions played a role in the increase in Asian tourists, and visitors to Kyushu reported a high level of satisfaction. In 2004, 61% of total overseas visitors to Kyushu, or 340,000 (+16%), came from Korea (Table 1). Korea’s current golf boom played an important role in this, with many golfers taking advantage of the nearness of Kyushu. Other factors included the attraction of Kyushu’s cities, the great outdoors and hot springs. The 80,000 (+50%) visitors from Taiwan ranked second with a 15% share; representing a recovery from the 2003 SARS scare.

The 520,000 visitors from the entire Asian region, including Korea and Taiwan, amounted to an increase of 24% and a 93% overall share. In 2000, the share of Asian visitors was 87% (330,000). This increase in Asian travelers is a positive result of easier procedures for obtaining visas to Japan.

2. Integrated Kyushu tourism promotion efforts

Kyushu has worked proactively to attract Asian tourists. Local government initiatives include charter buses, timed to coincide with Korean Air (KAL) arrivals, from Oita Airport to hotels in

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Table1 Kyushu Visitors by Nationality (2004)

<table>
<thead>
<tr>
<th>Nationality</th>
<th>Number</th>
<th>Year-on-year increase (%)</th>
<th>Share of total (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>564,026</td>
<td>23.9</td>
<td></td>
</tr>
<tr>
<td>Asia</td>
<td>522,567</td>
<td>23.7</td>
<td>92.6</td>
</tr>
<tr>
<td>Korea</td>
<td>343,651</td>
<td>16.0</td>
<td>60.9</td>
</tr>
<tr>
<td>Taiwan</td>
<td>84,508</td>
<td>50.1</td>
<td>15.0</td>
</tr>
<tr>
<td>China</td>
<td>43,466</td>
<td>36.2</td>
<td>7.7</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>12,282</td>
<td>92.8</td>
<td>2.2</td>
</tr>
<tr>
<td>U.S.</td>
<td>14,066</td>
<td>29.1</td>
<td>2.5</td>
</tr>
<tr>
<td>Europe</td>
<td>16,433</td>
<td>22.6</td>
<td>2.9</td>
</tr>
</tbody>
</table>

Source: Ministry of Justice

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1 According to the Japan National Tourist Organization’s “Customer Satisfaction Survey of Foreign Visitors, June 2005.” Kyushu locations Mt. Aso, Huis ten Bosch, and Kitakyushu accounted for three of the top five destinations in terms of customer satisfaction, taking the visitor ratio into account.

2 Data for 2004 have been used because 2005 visitor data based on nationality were unavailable as of the end of June 2006.
Beppu City. This occurs from November (with events such as the Japan-Korea amateur golf tournament) through March, when the number of golf package tours rises. During this period, central government subsidies allow for cheaper fares than usual.

Miyazaki Prefecture, which has scheduled flights to and from Korea, has run an aggressive PR campaign, resulting in the filming in the prefecture last year of a Korean TV drama -“wedding”-. More honeymooners from Korea are expected in the future.

Government and the private sector have also been actively cooperating. Specifically, Kyushu’s seven prefectures and members of industry set up the joint government and private sector Kyushu Tourism Promotion Organization in April 2005. Attracting people from East Asia to Kyushu was declared one of its main objectives.

To raise Kyushu’s brand recognition in East Asia, DVDs of Kyushu’s hot springs and other natural attractions have been distributed among travel agencies and the media in Korea, China, and elsewhere. The intention is to create more recognition at major international events such as the Beijing Olympics and Shanghai Exposition.

In addition, the ban on group visas for tourists from China has been completely lifted. PR efforts focus on end-of-school tours for students, because there are comparatively fewer visitors from China than from Korea and Taiwan. The Organization’s efforts in this regard bore fruit in the signing of a tourism exchange agreement with China’s Jiangsu Tourism Bureau in November 2005³.


3. Foreign capital revives tourism industry

Resorts and tourist activities have been developed cooperatively by public and private sector organizations across Japan. This activity was triggered by the 1987 resort law (Law for Development of Comprehensive Resort Areas), which granted exemptions from local taxes and allowed special local bond issues in specified priority development areas. However, the subsequent bursting of the “bubble” and the recession that followed left many localities heavily in debt due to such investments. At the same time, traditionally popular spas and hotels also experienced a debilitating drop in corporate demand. As tourist attractions and resorts are the face that a locality presents to the world, tourism restructuring became a priority in regional revitalization.

Some foreign-affiliated firms were quick to step forward as buyout and turnaround partners leveraging Kyushu’s geographical advantages. The following section demonstrates the example of Ripplewood Holdings LLC, a U.S.A (the present RHJ International). investment corporation that
blazed a trail in restructuring major Kyushu tourism ventures, and Korean firms whose pioneering investments were based on Korean tourists as their main customers.

Case study 1: Phoenix Seagaia Resort — operational expertise comes to the rescue

Ripplewood (the present RHJ International) took over the large resort facilities of bankrupt Seagaia Group’s three companies in Miyazaki City in 2001. With the prospect of 200 million potential visitors within a two-hour flight radius of Miyazaki—from Korea, Taiwan, and other parts of Asia—Ripplewood purchased the assets and put Seagaia Group in charge of management. The operation of facilities other than golf courses was contracted to Starwood Hotels and Resorts Worldwide, Inc. of the U.S. (owners of the Sheraton brand). The tourism industry, government, business, and local residents, as well as the resort’s employees, were all supportive when the Seagaia rescue was announced, as they could see the potential benefits.

Seagaia’s restructuring plan was divided into three phases: the golf courses, then the hot springs, and finally the Ocean Dome indoor water park.

Troon Golf, an American golf course management firm, was contracted to upgrade and manage the Phoenix Country Club. Troon upgraded the course, renovated the clubhouse and pro shop, and created a new brand. The course now regularly hosts the Dunlop Phoenix Tournament, where Tiger Woods plays. His presence encourages even non-golfers to visit as spectators and helps revitalize the city. Tour groups from Korea, now in the midst of a golf craze, have also contributed to higher golf course attendance.

Banyan Tree Hotels & Resorts (headquartered in Singapore) took over renovation and management of the hot spring. Banyan Tree is known for incorporating the culture of the location into spa facilities—in this case blending bamboo and Japanese washi paper designs—and offering the ultimate relaxation experience.

The fruits of this rehabilitation, leveraging the expertise of globally renowned management companies, have steadily become apparent with increasing profitability.

Case study 2: Korean corporate investors follow the flow of people

Since the RHJ International turnaround, foreign investment in hotels and other properties has increased. In recent years a virtuous cycle has developed in which influxes of overseas tourists have attracted capital investments from their countries of origin, in turn further boosting the numbers of visitors. One such example is a rise in Korean golfers leading to investments of Korean capital (Fig. 1).

4 Seagaia’s restructuring has proceeded smoothly and with 1.05 million customers in fiscal 2002, 1.07 million in 2003, and 1.17 million in 2004, it has steadily continued to draw visitors. (February 15, 2006 Nihon Keizai Shimbun regional economies section)
In 2004 two Korean companies bought golf courses in Nagasaki Prefecture. They targeted properties located near an airport offering flights to/from Korea, with good playing conditions during fall and winter (when many golfers visit from Korea) and with easy city access. Seoul-based golf products company Korean Industrial Co., Ltd. bought Peninsula Owners Golf Club, and the Hanwha Group bought Nagasaki Country Club. Other Korean golfing investments have covered most of Kyushu, including Fukuoka and Kumamoto prefectures. These have been cooperative acquisitions, based on the view that, if the use of Korean capital improves access by Korean golfers to Kyushu golf courses, this will yield local economic benefits from lodging and shopping, and at the same time develop strong ties between Japan and Korea.

Korean investment has gone beyond just resort properties to related industries. Dr. trip sightseeing bus Co., Ltd., incorporated in September 2004 to capitalize on the increase in Korean visitors to Kyushu, offers its own flights and charter bus tours to places popular with Koreans, such as the Aso region, well known for its hot springs and golf.

This type of investment cycle—where people (tourists) attract capital, which in turn attracts more people—is expected to develop even more.
### Table 2: Examples of Tourism Industry Revitalization through Foreign Investment

<table>
<thead>
<tr>
<th>Prefecture</th>
<th>Target company 1</th>
<th>Investor 1</th>
<th>HQ location</th>
<th>Commencement date</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Phoenix Kokusaikanke Co., Ltd.</td>
<td>Kitago Phoenix Resort, Ltd.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fukuoka</td>
<td>Hawks Town Corporation</td>
<td>Colony Capital, LLC</td>
<td>U.S.</td>
<td>April, 2004</td>
</tr>
<tr>
<td>Nagasaki</td>
<td>Peninsula Owners Golf Club</td>
<td>Korean Industrial Co., Ltd.</td>
<td>Korea</td>
<td>March, 2004</td>
</tr>
<tr>
<td>Nagasaki</td>
<td>Nagasaki Kukou Country Club</td>
<td>Hanwha Group</td>
<td>Korea</td>
<td>August, 2004</td>
</tr>
<tr>
<td>Fukuoka</td>
<td>-</td>
<td>Dr. Trip (new investment)</td>
<td>Korea</td>
<td>September, 2004</td>
</tr>
<tr>
<td>Okinawa</td>
<td>Loisir Hotel Okinawa, Ltd.</td>
<td>Lone Star Funds</td>
<td>U.S.</td>
<td>September, 2005</td>
</tr>
</tbody>
</table>

Note: Hawks Town Corporation is the renamed Fukuoka Dome Inc. and Fukuoka Daiei Real Estate Inc., a development project of Daiei, Inc. in Fukuoka.

Source: various news reports

### 4. Foreign capital investment benefits both investor and locality

The increase in tourists primarily from Asia in recent years has presented opportunities for foreign investment. At the same time, the application of advanced novel business models has doubtless helped to attract domestic customers. In addition, the creation of this cycle, where investment attracts more people, has had substantial ripple effects on production and employment in local peripheral industries, and thus has helped to revitalize these regions.