

## JAPAN'S "DEEP INBOUND TOURISM" TO RELAUNCH

### — THE TREND OF "LOCAL + LUXURY" —

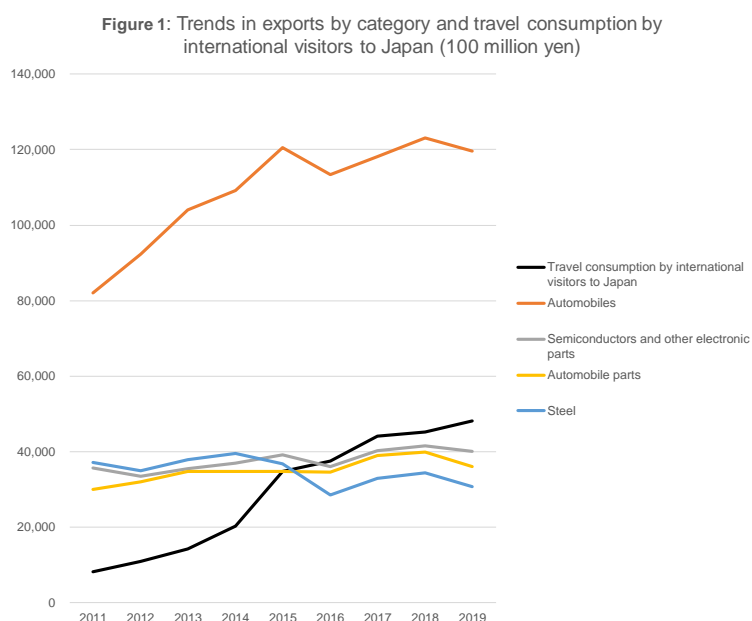
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#### SUMMARY

- Under the Tourism Nation Promotion Basic Plan approved by the Cabinet in March 2023, the government plans to shift from quantity to quality in line with the key phrases of "sustainable tourism," "increase in tourism consumption," and "promote regional attraction." Within the scope of inbound tourism, which is restarting following the COVID-19 pandemic, "deep inbound tourism" is attracting attention as a growth area.
- The factors comprising tourist travel can be divided into experiences, lodging, and transportation. High-value-added travelers (high-end visitors) demand high quality (luxury) in all of these areas.
- It is challenging for local stakeholders to handle the numerous issues impeding the realization of deep inbound tourism. Partner companies from other regions can provide significant support through their business activities and social contribution activities.

#### 1. WHAT IS DEEP INBOUND TOURISM?

A by-category breakdown of Japan's 77-trillion-yen worth of exports in 2019 (prior to the COVID-19 pandemic) shows that automobiles accounted for 12 trillion yen, semiconductors and other electronic parts for 4 trillion yen, auto parts for 3.6 trillion yen, and steel for 3 trillion yen. In contrast, spending by international visitors to Japan in the same year reached 4.8 trillion yen, making inbound tourism the second most important export industry for obtaining foreign currency after the automobile industry (Figure 1).



Source: Compiled by MGSSI based on Trade Statistics, released by the Ministry of Finance, and Survey of Consumption Trends by International Visitors to Japan, released by the Japan Tourism Agency

## 1.1 Definition

Under the Tourism Vision to Support the Future of Japan, compiled in March 2016, the government recognized that tourism is a major pillar of its strategy for economic growth and regional revitalization, and set the goals of attracting 40 million international visitors to Japan, 8 trillion yen in travel consumption, and a total 70 million international visitors lodging outside the three major metropolitan areas<sup>1</sup> by 2020. Although the number of international visitors to Japan reached approx. 80% of the target (31.88 million) by 2019, both travel consumption and the total number of international visitors lodging outside the three major metropolitan areas remained at approx. 60% of the target (4.8 trillion yen and 43.09 million lodgings, respectively). In addition, problems due to overtourism<sup>2</sup> began to occur in popular tourist destinations such as Kyoto City. In light of this situation, under the Tourism Nation Promotion Basic Plan approved by the Cabinet in March 2023, the government decided to shift from quantity to quality. In line with the key phrases of “sustainable tourism,” “increase in tourism consumption,” and “promote regional attraction,” the basic policy was to increase the added value of tourist destinations and the tourism industry and to attract high-value-added travelers<sup>3</sup> who spend large amounts on travel to local areas.

In other words, the government’s new tourism strategy targets high-value-added travelers (“high-end visitors”), inviting them to attractive areas “deeper in Japan” away from the three major metropolitan areas, and aims to develop tourism destinations that provide travelers with “deeper experiences” that are only available in such locations at prices commensurate with their value. This report refers to this type of tourism destination development and travel format as “deep inbound.”

## 1.2 Current situation

According to surveys by the Japan Tourism Agency<sup>4</sup>, there are approx. 53 million high-net-worth individuals<sup>5</sup> worldwide possessing assets of 1 million USD or more, and the number is expected to increase. Most high-end visitors are wealthy.<sup>6</sup> They are generally well-educated, intellectually curious, and highly inquisitive, and tend to focus on deepening their own knowledge by experiencing local traditions, cultures, and natural environments. Visiting non-touristy areas has been cited as a recent trend. They are also said to place a high value on the importance of time.<sup>7</sup>

According to the Japan Tourism Agency’s estimates<sup>8</sup>, high-end visitors to Japan in 2019 from a total of six countries, comprised of China and five Western countries (the UK, Germany, France, the US, and Australia), only accounted for 0.9% of all international visitors to Japan in terms of number (approx. 290,000 people) yet accounted for 11.5% (approx. 550 billion yen) in terms of consumption. There remain significant opportunities for expansion in attracting high-end visitors, and an increase in their number will contribute to an increase in the volume of consumption. In addition, in 2020, a large percentage of high-end visitors visited the three major metropolitan areas, with 76.7% visiting Tokyo and 32.7% visiting Osaka, while most other regions received a smaller percentage (less than 10%).

<sup>1</sup> Regions outside the three major metropolitan areas (Saitama, Chiba, Tokyo, Kanagawa, Aichi, Kyoto, Osaka, and Hyogo Prefectures).

<sup>2</sup> Adverse effects on the lives of residents caused by congestion, etc., due to tourists.

<sup>3</sup> Travelers who spend more than one million yen locally per person per trip, excluding international airfare.

<sup>4</sup> Surveys under the Action Plan for Developing High-Value-Added Inbound Tourism Destinations in Local Regions (May 2022).

<sup>5</sup> High-net-worth individuals include royal families, aristocrats, famous entertainers, athletes, entrepreneurs, investors, corporate executives, and many others who comprise the leadership of each country.

<sup>6</sup> High-end visitors include not only high-net-worth individuals but also travelers who are frugal in their daily lives in order to spend more on travel.

<sup>7</sup> Refer to the Japan Tourism Agency’s “Report: Toward the Creation of High-quality Inbound Tourism Services” (June 2021) and “Action Plan for the Development of High-value-added Inbound Tourism Destinations in Local Regions” (May 2022).

<sup>8</sup> Estimates published in the “Action Plan for the Development of High-value-added Inbound Tourism Destinations in Local Regions” (May 2022).

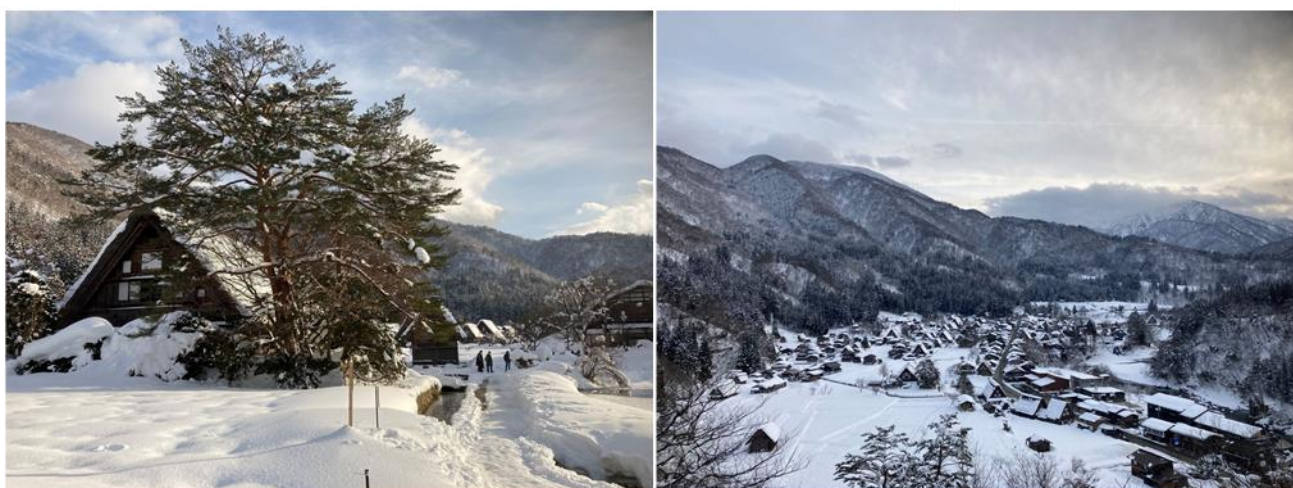
## 2. FACTORS NECESSARY FOR DEEP INBOUND TOURISM AND THE CHALLENGES FACED

The factors comprising tourist travel can be divided into experiences (e.g., activities, dining, shopping), lodging, and transportation. High-end visitors demand high quality (luxury<sup>9</sup>) in all of these areas.

### 2-1. Deep experiences

To achieve deep inbound tourism, it is necessary to attract high-end visitors deeper into Japan and impress them by providing high-quality, non-fictional experiences<sup>10</sup> that take advantage of each region's unique tourism resources. Deep in Japan<sup>11</sup>, there are untapped rich natural environments and diverse cultures that can serve as the foundation for deep experiences that appeal to the intellectual curiosity and inquisitiveness of high-end visitors. These must be uncovered, refined, and commercialized so that they can be better advertised. However, it is often difficult for local residents to recognize these potential resources and turn them into high-value-added products on their own.

Figure 2: Shirakawa-go Gassho-zukuri Village close-up (left) and in the distance (right)



Source: Photo taken by the author

### 2-2. Luxurious Lodgings

Hotels, inns (ryokans), and other lodging facilities not only serve as focal points of travel connecting travelers with the local area but also as important 'stage sets' that present the charm and narrative of the region through the exteriors, interiors, facilities, hospitality, cuisine, and activities that they offer. Deep inbound tourism requires the type of luxurious lodgings that are chosen by high-end visitors who have traveled the world and experienced true hospitality. However, such lodging facilities are in short supply outside of metropolitan areas<sup>12</sup>.

<sup>9</sup> The term "luxury," as used in this report, refers to high quality that, in addition to comfort and security, can satisfy higher-level human needs such as the to make new discoveries, learn, and achieve personal growth by being surprised and impressed by special and profound experiences.

<sup>10</sup> Popular theme parks, on the other hand, could be said to offer high quality fictional experiences.

<sup>11</sup> Japan is an elongated island nation extending approx. 3,000 km north to south, divided down in the center by a 2,000- to 3,000-meter-high spine of mountains, with mountainous areas extending all the way to the coast. The country has 111 active volcanoes. The climate is diverse, with four distinct seasons, lots of rain and snow, and well-developed forests. Isolated small basins and plains have formed in the mountainous and coastal areas, respectively; and villages are scattered throughout. Unique cultures have developed in these villages over their long histories, with differences so great that even the language spoken by those a single mountain pass away could be different.

<sup>12</sup> In the Japan Tourism Agency's "Report: Toward the Creation of High-quality Inbound Tourism Services" (June 2021), travel agents for overseas high-end visitors point this out (although they are referred to as "wealthy travelers" in the report). Analyses of the credit card payment data of international visitors to Japan also confirm that lodging facilities in such areas are rarely used.

### 2-3. Seamless and comfortable transportation

Attracting time-conscious, high-end visitors deeper into Japan requires the provision of seamless and comfortable transportation to and from Japan as well as within Japan. Therefore, it is necessary to be able to accommodate private jets<sup>13</sup> and superyachts<sup>14</sup> (when entering and exiting the country as well as when traveling domestically), as well as personal means of transportation such as helicopters and limousines from airports and ports to and from tourist destinations.

Japan is said to be unable to adequately accommodate private jets and superyachts, so the government and industry are working to improve this environment.<sup>15</sup> For helicopters, issues have been pointed out such as connectivity with aircraft, the number of heliports and other facilities, accessibility, and the degree of freedom when used for sightseeing.<sup>16</sup> For limousines, issues include restrictions on operating areas, difficulty in making reservations outside of metropolitan areas due to the limited number of vehicles available, the limited availability of luxury vehicles, and the fact that few drivers can speak English.

### 2-4. Destination management organizations

Realizing deep inbound tourism requires establishing systems to manage tourist sites in an entire region by linking the above-mentioned elements locally (hereinafter “destination management organizations”). The focus for this should be on Destination Management Organizations (DMOs)<sup>17</sup> as well as regional trading companies.<sup>18</sup>

It is necessary to promote the development of tourist sites, marketing, advertising, and improved management of tourist sites, in a manner that brings together local governments, lodging operators, food and beverage businesses, and other local stakeholders, with destination management organizations at the center.

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## 3. ROLES REQUIRED OF PARTNER COMPANIES

It is challenging for local stakeholders alone to solve the numerous issues described in the previous section that stand in the way of realizing deep inbound tourism. There are opportunities for “partner companies” from other regions to provide support through their business activities and social contribution activities.

### 3-1. Commercialization of the deep experiences

Fundamentally, it is up to local stakeholders well versed in the region to uncover and refine the resources for deep experiences. However, the support of partner companies with perspectives from outside of the region, various areas of expertise, and human resources will boost the efforts of local stakeholders. In May 2022, West Nippon Expressway Company<sup>19</sup> entered into a partnership agreement with Takaharu Town in Miyazaki

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<sup>13</sup> Also called business jets. Refers to air transportation used by companies, organizations, or individuals for commercial or personal purposes. Types of operation include “private operation” using owned aircraft and “own-use charter” using commercial aircraft such as those owned by airline companies. Capacity is from 5 to 20 passengers.

<sup>14</sup> Large cruisers 80 feet (approx. 24 meters) or more in length, generally privately owned by wealthy international visitors.

<sup>15</sup> In regard to private jets, the advance notification period for customs, immigration, and quarantine (CIQ) procedures has been shortened (from two weeks to one week, in principle, and at some airports to three days). Various other procedures have been improved (the application deadline for foreign-registered private jets for tourism purposes has been shortened from ten days to three days, in principle), and airports have been made more convenient by increasing the number of landing and takeoff slots and by constructing dedicated traffic lanes and terminals. In regard to superyachts, immigration and customs procedures were simplified in 2021.

<sup>16</sup> Kinki District Transport Bureau, Ministry of Land, Infrastructure, Transport and Tourism “Report on Emergency Measures Project for Improving Accommodate of International Visitors to Japan (Demonstration Project) Wide-Area Tourism Feasibility Study Using Helicopters for Inbound Wealthy Tourists” (March 2019)

<sup>17</sup> Abbreviation for Destination Management/Marketing Organization.

<sup>18</sup> Refer to “Trends in Regional Trading Companies Leading Regional Revitalization: Three Areas of Potential to Watch” ([MGSSI Monthly Report, October 2022](#)).

Many regional trading companies are involved in the tourism business (some are also DMOs), and since they are familiar with regional resources, including local products, they show promise in developing synergies between goods and services.

<sup>19</sup> The company is working to solve local issues through regional co-creation, leveraging the functions and services of expressways.

Prefecture and a local trading company<sup>20</sup>, both of which are attempting to realize deep inbound tourism. The company is supporting the development of tourism products that take advantage of local resources such as the natural environment and mythology of the Kirishima Mountains.

It is also conceivable that industrial heritage sites, including coal mines, mines, and plants preserved by a company, along with company-managed infrastructure facilities and forests could serve as local tourism resources.

### 3-2. Lodging services

Luxury lodging facilities, the core of deep inbound tourism, need to be developed by partner companies with expertise and experience in cooperation with local stakeholders.

Under the unified brand of NIPPONIA and in cooperation with local stakeholders throughout Japan outside of metropolitan areas, NOTE Co., Ltd. is engaged in quaint town development projects centered on lodging facilities that have been restored from old private homes and historical buildings.<sup>21</sup> This development model, also known as decentralized hotels<sup>22</sup>, is being used by Chanter Corporation in the post town of Yakage-chou in Okayama Prefecture, where it operates old private house hotels and other facilities<sup>23</sup>. In March 2021, Adrian Zecha, founder of Aman Resorts and worldwide luxury resort hotel developer, opened Azumi Setoda, a 22-room Japanese-style inn renovated from a former residence, on Ikuchi Island in Onomichi, Hiroshima Prefecture, together with his former Japanese colleagues to develop the Azumi brand of luxury inns<sup>24</sup>. Tokyo Tatemono Co., Ltd. is also investing in and participating in the project.

### 3-3. Transportation services

The government and industry are working to accommodate services related to private jets (operation, charter flight arrangements, ground operation support<sup>25</sup>, catering, etc.) and superyachts (port entry and departure procedures, maintenance, tourist support, etc.) to meet the growing demand. Potential new services include yacht and cruiser charters using sea stations and other facilities throughout Japan, and helicopter and flying car services using off-field takeoff and landing sites<sup>26</sup> as sky stations. It is also possible to create tours that advertise seamless transportation as a selling point<sup>27</sup>.

### 3-4. Support for information dissemination and digital transformation

Other possible services by partner companies to support destination management organizations include providing high-end visitors with information on tourist sites via videos, etc., attracting visitors by providing e-tickets for experience products, supporting cashless shopping, and improving the management of tourist sites by destination management organizations using various forms of data (traffic, purchases, etc.). Additional possible examples include aiding lodging operators in improving profitability through dynamic pricing and

<sup>20</sup> Okukirishima Chiiki Shousha Tsunagaru Takaharu Inc.

<sup>21</sup> As of August 2022, 165 lodging facilities, etc. have opened in 31 areas.

<sup>22</sup> Inns, made from renovated old private homes, are scattered throughout the villages, etc. in the area. The inns are regarded as rooms and the streets as corridors, to the extent that visitors can use the restaurants and public bathhouses located near the inns for meals and bathing. The entire area is imagined as a single lodging facility, and the whole community works together to develop it as an area-wide tourist site. This concept is similar to Albergo Diffuso implemented in Italy since the 1990s.

<sup>23</sup> The Yakage-ya INN AND SUITES lodging facilities, etc. were recognized by the Italian Albergo Diffuso Association as the first Albergo Diffuso in Asia in June 2018.

<sup>24</sup> It offers numerous community-based activities, such as lemon harvesting (a specialty of Ikuchijima Island), yacht cruises on the Seto Inland Sea, and cycling tours along the Shimanami Kaido, with the goal of being an inn that brings lively cooperation to the community.

<sup>25</sup> Ground support services such as refueling, maintenance, various procedures, and coordination with related agencies. Operators that have their own facilities at airports and provide one-stop services are called fixed based operators (FBOs).

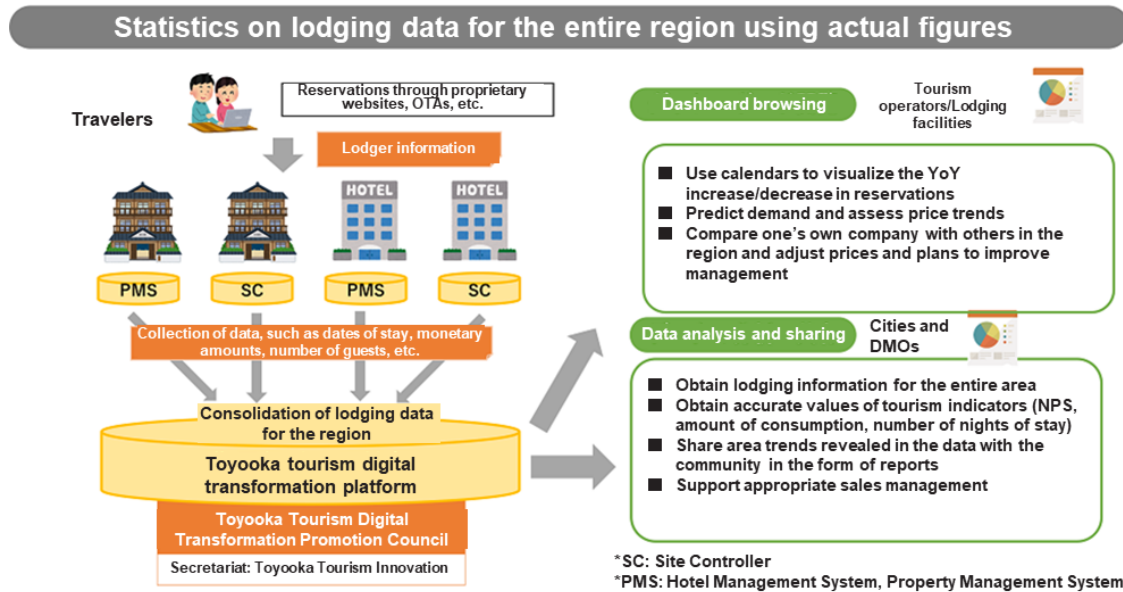
<sup>26</sup> Temporary takeoff and landing sites that operators must have permission from the Minister of Land, Infrastructure, Transport and Tourism in order to use. In many cases, golf courses and sports grounds are used. These are most often established as helicopter takeoff and landing sites.

<sup>27</sup> Honda Motor Co., Ltd. is collaborating with inbound travel agency Japanticket to develop deep inbound tours that offer seamless transportation via a combination of helicopter and limousine rides, centered on the use of HondaJet.

revenue management, promotions that make use of Metaverse to target overseas residents, and measures to address labor shortages via remote customer service using avatars.

At Kinosaki Onsen in Toyooka City, Hyogo Prefecture, Toyooka Tourism Innovation, a destination management organization, took the lead in constructing the Toyooka tourism digital transformation platform, which automatically collects and analyzes reservation and lodging data from multiple inns. The system launched in March 2022<sup>28</sup> (Figure 3). Tap Co., Ltd., a hotel management system developer, and multiple other companies also participated in constructing the system<sup>29</sup>.

Figure 3: Overview of the Toyooka tourism digital transformation platform



Source: Translated by MGSSI based on Toyooka Tourism Innovation's website <https://corp.toyooka-tourism.com/kankou-dx-suishin/> (accessed August 31, 2023)

#### 4. CONCLUSION

This report refers to Japan's inbound tourism strategy being re-launched following the COVID-19 pandemic as "deep inbound," and discusses the challenges it faces and the roles required of partner companies. It is hoped that collaboration between local stakeholders and partner companies will lead to the development of numerous deep inbound tourism activities and promote both economic growth and regional revitalization.

<sup>28</sup> The aims are to improve profitability, sustainable development, etc., by instantly obtaining data for the entire region and conducting effective marketing. It covers more than 50% of the total number of rooms. The data is shared among participating inns, and each inn uses it to predict future occupancy rates and numbers of guests, and to set prices.

<sup>29</sup> HIGH-FIVE, Paak Inc., DataStrategy Inc.