

Revitalizing the Regional Economy: Hokkaido Tracks' Investment in Tourism

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This case was developed with the cooperation of Hokkaido Tracks Inc and Kutchan Town Office, solely for educational purposes as a contribution to the Project entitled "Capacity Building for Investment Liberalization and Facilitation" conducted under the auspices of the Asia-Pacific Economic Cooperation (APEC). The case is neither designed nor intended to illustrate the correct or incorrect management of the situation or issues contained in the case.

Executive Summary

Even in developed economies such as Japan, foreign investors and entrepreneurs encounter various problems and challenges in the course of establishing their business, especially when these investments take place in local regions without major previous exposure to foreign investment. This case illustrates such challenges through the experiences of Hokkaido Tracks, an Australian developer and property management firm, which invested in the tourism sector of a local ski resort town in Japan.

After the collapse of the bubble economy, the number of Japanese tourists coming to this town dwindled. At the same time many Australians who used to go skiing in North America and Europe started to look for safer ski resorts after the events of September 11. Sensing a business opportunity, Hokkaido Tracks decided to invest in the local ski resort town and became active in the development and management of condominiums. However, their experience had not been a smooth ride as the business model was still new to Japan. The case describes some of the obstacles the Australian firm faced such as the ambiguity of Japanese laws and regulations, the difficulty in obtaining local funding, attracting foreign and Japanese staff, and relating with the local community, among others.

The case also provides local governments some insights on the strategic utilization of foreign investment including comprehensive planning for sustainable development of both local community and foreign firms.

Introduction

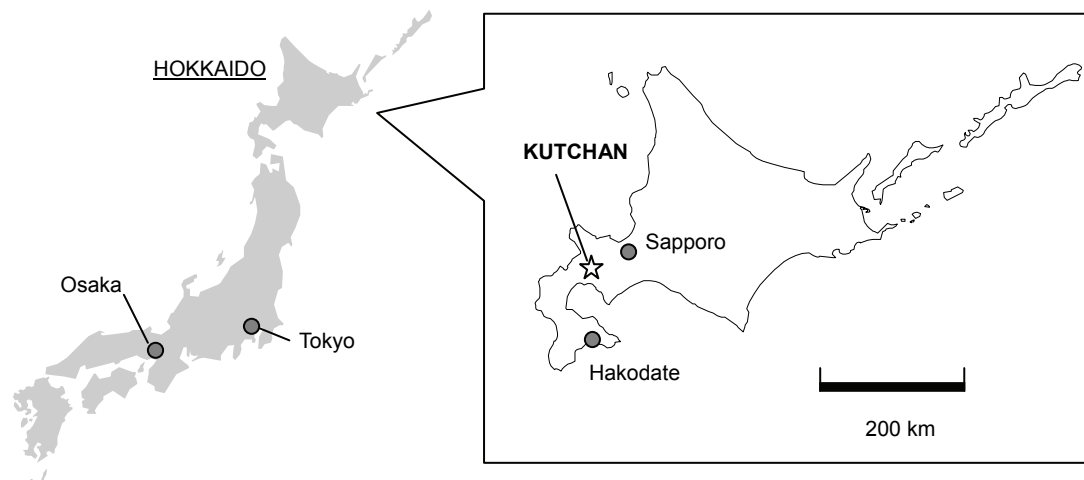
In 2006, the highest price hike for residential land in Japan—a steep 33.3%¹—was recorded not in the three major Japanese cities of Tokyo, Osaka and Nagoya but in a little town in Hokkaido called Kutchan (Figure 1). How could a rural town of less than 16,000 people top the national list?

The driving force behind the Kutchan boom was a group of Australians who were quick to spot the potential for development of the area as an international resort. Taking advantage of tourist concerns over safety following September 11, a group of Australian entrepreneurs selected Kutchan as the ideal spot to build an international resort.

With Japan still struggling with the so-called “lost decade” that followed the collapse of the 1980s bubble economy, the entrepreneurs found out that investing in Kutchan was far from being a smooth ride and required them to resolve a succession of problems. At the same time, in absorbing this foreign investment, the local administration and the local community in Kutchan had to rise to challenges well beyond their previous experience in building a relationship with foreign investors.

Kutchan’s Development as a Ski Resort

Kutchan was a comparatively new town. The full-scale settlement launched under the direction of the Meiji administration in the 1890s marked the town’s beginning. Traditionally strong in agriculture, the area was known for its fine Danshaku potatoes. Mountains and forests covered 51% of the land, while 18% was used for agricultural purposes. There was a marked graying of society in Kutchan, with around 20% of the local population aged 65 years or above.

Figure 1 Location of Kutchan

Kutchan had long been renowned for skiing mainly because of the quality and depth of its marvelous powder snow. The area's selection as the site for the National Ski Championship Tournament in 1962 and the 25th National Ski Meet in 1970 secured its status as a national ski field. Together with the neighboring town of Niseko, the ski fields and foothill areas known collectively as "Niseko" had been long-standing favorites with Japanese skiers.

Back when Japan's period of strong economic growth began, the "Niseko" area rode the economic boom to absorb dynamic investment in the local tourism industry. Three ski resorts were opened in quick succession between the late 1960s and the early 1980s: the Niseko Kokusai Hirafu Ski Resort (now the Niseko Mt Resort Grand Hirafu), the Niseko Annupuri International Ski Ground and the Niseko Higashiyama Ski Ground. At the end of the 1980s and in the midst of the bubble conditions, the release of the film "Take Me Out to the Snowland" spurred an unprecedented ski boom that also took the "Niseko" ski industry to new heights.

Hotels, privately-run pensions, traditional Japanese inns (*ryokan*) and various other forms of accommodation sprouted around the ski fields. Just as in many other local tourist areas around Japan, these for the most part offered traditional facilities and services targeting Japanese tourists on short-stay package tours. Most rooms were Japanese-style, with futons laid out on tatami matting, and guests were expected to bathe in communal facilities with men in one room and women in the other. Little effort was made to cater to foreign tourists, particularly Westerners.

Tourism Recession and Government Efforts to Bolster the Tourism Industry

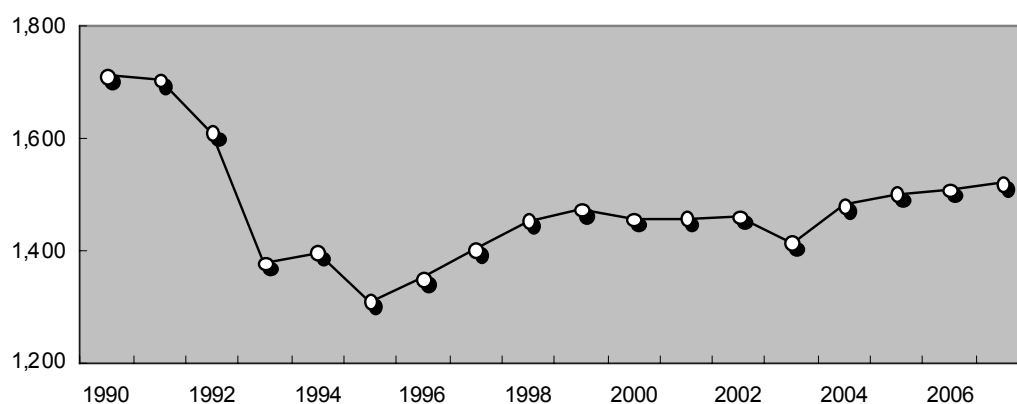
In the 1990s, following the collapse of the bubble economy, circumstances deteriorated. Starting in 1991, the number of skiers visiting Hokkaido had declined, while fewer and fewer visitors were seen in Kutchan (Figure 2). Falling tourist numbers reduced revenues, making it difficult to find the funds for new investment. This in turn pushed tourists further away, creating a vicious cycle. In addition, the ongoing national recession gradually depressed Kutchan's commercial and residential land and real estate prices.

In 2002, with the protracted domestic recession stultifying domestic demand, the Japanese government came up with the "Global Tourism Strategy." This formed the basis for the "Visit Japan Campaign," which set the ambitious goal of attracting 10 million foreign tourists to Japan by 2010. Where around 16 million Japanese traveled abroad annually,

foreign visitors to Japan numbered only one-third of that level, or around five million. The ‘Visit Japan Campaign’ sought to reduce this disparity as rapidly as possible. The government’s aim was to use tourism to kick-start the economy. The Japan National Tourist Organization calculated that 10 million foreign visitors to Japan would spend 2.48 trillion yen.

In conjunction with the formulation of this campaign, the Hokkaido Government launched an international tourism promotion program in 2005 entitled “Welcome to Hokkaido,” aiming to increase the number of foreign tourists from 290,000 in 2003 to 540,000 by the end of 2007.² Intensive advertising and upgrading of local tourist facilities saw that goal already exceeded in 2006, when 590,000 foreign tourists visited Hokkaido. Japan as a whole was visited by 8.35 million foreign tourists in 2007.³

Figure 2 Kutchan Tourist Inflow (1,000 persons)

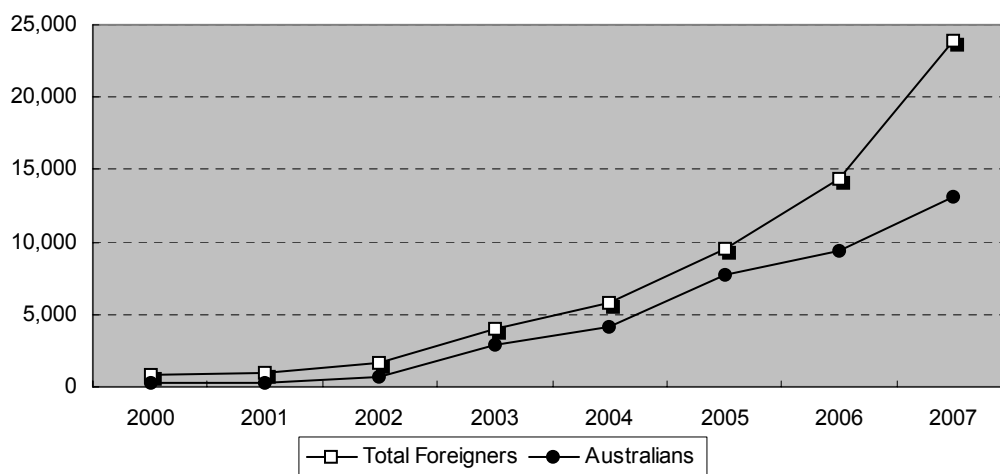


Source: Kutchan Town Office

Australian Tourists and Increased Investment

It was around 2002 when the number of Australian tourists visiting Kutchan began to increase. In 2007, Kutchan welcomed around 24,000 foreign tourists, way over the town’s own population. Some 55% of these tourists were from Australia (Figure 3).

Figure 3 Foreign visitors staying in Kutchan (Number of persons)



Source: Kutchan Town Office

The number of Asian tourists from Chinese Taipei; Hong Kong, China; Singapore; and elsewhere had also been growing, but Australians were enjoying their time in Kutchan in an entirely different manner. Asian tourists primarily arrived on 3- or 4-nights ski package tours, whereas Australians came as part of family groups for longer stays averaging 7.5 nights (2006 statistics).⁴ Because they stayed much longer, they tended to prefer condominium-style self-contained rooms with beds and cooking facilities.

The following factors appeared to have spurred the boom in visitors arrival from Australia to “Niseko”:⁵

- The high quality of the area’s natural resources, epitomized by what Australian outdoor industry businesses and tourists described as the “world’s best powder snow.”
- Since the events of September 11, Australians who used to go to North America during their summer months had been looking for safer ski fields. Japan’s “Niseko” was increasingly being selected as their alternative destination.
- A superior location compared to Canada and Europe in terms of the time zone and the appeal of the different lifestyle and ambience that Japan had to offer (e.g. culture, food, hot springs, etc.).
- The economic boom in Australia, which has lasted for more than a decade, and the steep rise of its currency against the Japanese yen.
- Australians who have visited “Niseko” and experienced its wonderful natural environment have spread the word to other Australians, while local tour operators have also been actively promoting the area.

The rise in the number of Australian tourists had been accompanied by an influx of foreign capital and firms. As shown in Figure 4, while there were only four foreign firms in Kutchan in 2001, this had grown to 44 by 2007. Most of the foreign firms were Australian.

Foreign investors in the “Niseko” area could be roughly divided into four generations according to the date their firms were established. The first generation comprised Australians who originally came to the area as tourists, fell in love with its natural beauty, and stayed on to launch skiing, rafting and other outdoor businesses in the mid-1990s. Their testimonies spread the name of “Niseko” rapidly among other Australians. The second generation attracted by the success of the first generation, established travel services such as travel agencies and tour guide services at the end of the 1990s. The third generation consisted of tourists who came to “Niseko” using the services of the first and second generations, spotted business opportunities in the area, and set up accommodation and real estate businesses around the year 2000. Professional developers noting the success of the third generation began to move to “Niseko” around 2005. They described themselves as the fourth generation.⁶

Figure 4 Foreign firms established in Kutchan (As of the end of December 2007)

Year	Number of Firms Established
Up to 2001	4
2002	1
2003	3
2004	7
2005	7
2006	8
2007	14
Total	44

Source: Kutchan Town Office

Investment in Kutchan by Hokkaido Tracks

Hokkaido Tracks Operations

One of the trailblazers for the third generation was Hokkaido Tracks, which was quick to spot the potential of investing in “Niseko” real estate. Launched in 2003 by Australian couple Simon and Joasia Robinson, the company built and sold condominiums in the “Niseko” area.

The firm has developed 150 units in 30 blocks by the end of 2007. While each two- or three-bedroom unit was priced a steep 50 to 80 million yen (about US\$420,000 to 670,000), this was still cheap compared to luxury resorts in Europe and North America. Consequently, business was booming, with all units already sold as of January 2008. The units were generally put up for sale before they were completed. Apparently, many of the buyers were foreign investors with investments all over the world who acquired “Niseko” properties as new additions to their portfolios. Rather than use their properties for vacationing, these investors rented them out to recover their investments.

To serve this need, Hokkaido Tracks established another key business as a separate firm to handle property management, condominium maintenance and rental advertising for these property owners. When a unit was rented out, the firm collected 15% to 20% of the rental fee (accommodation fee) as management commission. The property owners collected five to six percent operating yield on the units, which apparently represented a high operating ratio by international standards.

As of January 2008, not one Japanese investor had purchased a condominium from Hokkaido Tracks. Because the concept was new and unfamiliar in Japan, the Japanese tended to regard condominiums as personal-use vacation homes. As a result, they viewed the price of a “Niseko” condominium as rather expensive for that purpose. It was also foreigners who tended to rent the condominiums, with Australians dominating the winter months between December and March and an influx of Asians coming over during the Chinese New Year. In summer, however, the Japanese accounted for more than half of bookings.

Company Background and its Decision to Invest in Kutchan

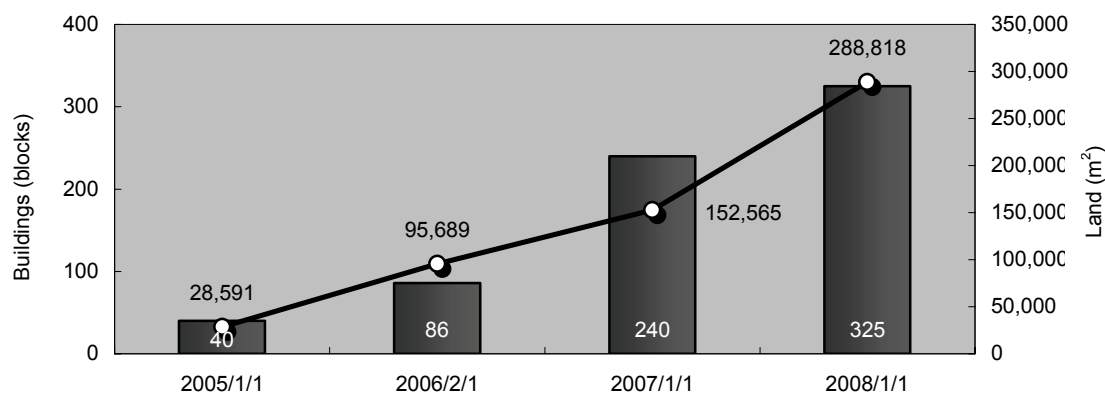
The Robinsons originally operated a restaurant in Australia’s capital city of Canberra, but a massive bushfire in 2002 destroyed all their assets. On a ski trip the previous year they fell in love with the champagne powder snow of “Niseko” and decided to move there to make a new start. They set up a resort real estate company in Kutchan.

The Robinsons noted that by world standards “Niseko” area’s snow was top-class, but its accommodations were poor. They decided to depart entirely from the old Japanese-oriented accommodation (ryokan inns and hotels) and instead introduced the condominium concept which had been the key to their success. This was the catalyst for a condominium-building spree among other Australian real estate firms, sparking a sudden condominium construction boom. As a result, land prices soared around the Yamada district in the town which had been the epicenter of the boom, from around 40,000 yen (about US\$300) per *tsubo* (approximately 3.3 m²) in 2003 to around 300,000 yen (US\$2,500) in 2006.⁷

When the “Niseko” boom occurred in Australia, there was a lot of cheap land available. Fortunately for the investors, Japan had almost no regulations on real estate acquisition by foreigners.⁸ In addition, front-running Australian entrepreneurs were already experiencing success in their local operations. The first-generation outdoor businesses in particular had

expanded the area's attractions from only skiing to include rafting, trekking and other summertime activities, gradually transforming "Niseko" into a year-round resort. Figure 5 shows the growth in the number of buildings and land acquisitions by foreigners in Kutchan.

Figure 5 Building and Land Acquisition by Foreigners in Kutchan



Source: Kutchan Town Office

Another source of attraction was the relatively short history of Hokkaido's land development, which made it more receptive to the new ideas than other parts of Japan. The Robinsons could have set up their business in Niseko Town, which was next door to Kutchan Town, but because of Kutchan's infrastructure such as waterworks, power and optical fiber networks, they ultimately elected to make their base in Kutchan. They also took into account Kutchan's superior restaurants, convenience stores and leisure facilities.

Laws and Regulations

Hokkaido Tracks had experienced remarkable growth such that in 2006 it received an award from the Director-General of the Hokkaido Bureau of Economy, Trade and Industry for promoting investment in Hokkaido and helping stimulate the local economy. The success of the company was so widely known that the names of company president Simon Robinson and Hokkaido Tracks regularly appeared in the media not only in Hokkaido but throughout Japan. Achieving this growth, however, had not necessarily been easy.

In establishing their business in Kutchan, the Robinsons sought to cover every base. They had no business experience in Japan and spoke no Japanese. They were also newcomers to the real estate business itself. Consequently, whenever a problem occurred, they consulted lawyers, administrative scribes, the local authorities and the relevant associations to ensure that they were doing the right thing.

However, because the business model of resort condominium development and property management was entirely new to Japan, many aspects fell outside existing legal procedures. In addition, because local authorities and legal specialists had virtually no experience in working with foreign companies, unlike their counterparts in Tokyo and other big cities, it was rare to get a clear and consistent response from them. For example, when the company pursued procedures for management of investment properties as a rental company, the Kutchan town Health Protection office informed them that its activity was classified under the 'ryokan business' category (which would require securing a ryokan management license). Just to be sure, the Robinsons checked with the Municipal Health Protection office in Sapporo, which said that such properties were short-stay apartments, and therefore came under the category of rental rather than ryokan business. The Robinsons tried to avoid

management blunders by validating their information from various quarters, but differing views expressed by the various agents often led them to suspend procedures as new information came to light.

There were many instances when what foreigners perceived as ambiguities in Japanese laws (and particularly in local ordinances) brought them to grief. Western laws clearly stipulated what you could and could not do, but Japanese laws tended to take on more the nature of guidelines that focused on trust and respect, and had no punitive provisions. As a result, the Robinsons often found it difficult to know what to do. There were also a number of unwritten local business practices that were recognized only within the local community which perplexed the Robinsons.

The year 2006 saw Hokkaido Tracks business booming, with the area where its condominiums were clustered achieving the highest rate of increase in land prices in the whole of Japan. This was also the year when the Ordinance for the Protection and Fostering of Kutchan's Scenic Landscapes was revised. When the ordinance was first enforced in 1992, no concrete standards were stipulated, but the 2006 revisions introduced restrictions on aspects such as the building-to-land ratio and building height. The introduction of new regulations and of stricter provisions in existing regulations increased the risk for developers, but for the Robinsons, it also meant that provisions which were formerly only vague guidelines were gradually being clarified as actual rules.

To protect itself from current laws and regulations, Hokkaido Tracks had been acquiring all licenses even those with the slightest relevance. The company had secured a residential housing trading license, an authorization under the Hotel Business Law, registration under the Travel Agency Law, and an owner-driver taxi license in order to pick up and drop off guests. According to acquisitions manager, Minoru Okubo, their acquisition of all the licenses and authorizations that could possibly be relevant would be the company's strength in dealing with potential risks.

Financial System and Infrastructure

One problem that often confronted foreign entrepreneurs investing in Japan was the reluctance of Japanese banks to deal with foreigners. Because of the recession, Japanese interest rates had been kept virtually at zero for a number of years. Foreign entrepreneurs sought to take advantage of these low rates by procuring funds in Japan, but there was a strong tendency among Japanese banks to shun foreigners. Simon Robinson also struggled to find the funds for condominium development. Having safely sold off his first and second condominiums, he planned to construct two more buildings and tried to source funding from within Japan. However, Japanese banks, having suffered as a result of the Japanese economic bubble, remained suspicious of the Australian development boom in "Niseko" and refused to lend. As a result, most business funds were procured from offshore investment groups.

Other Australian entrepreneurs had struggled with this problem too. Colin Hackworth, managing director of Nihon Harmony Resorts, bemoaned the difficulty of getting financial support in Japan. Like Hokkaido Tracks, Nihon Harmony Resorts was a development firm based in Kutchan and backed by Australian capital. The company bought 180 hectares of Kutchan land from Tokyu Land Corporation in 2004. It announced a large-scale development plan for an approximately 50-billion-yen ski field with attached accommodations. While the company wanted to build a facility inspired by Canada's Whistler Resort, it was unable to find tie-up partners to provide funds, and the project remained on the drawing board. In September 2007, Hong Kong telecom major Pacific Century Cyberworks (PCCW) bought the firm and after reviewing the development plan, started to work on a new plan.⁹

Hokkaido Tracks cooperated with local developers to negotiate the financing for its development plans. In February 2008, a tie-up with a Hokkaido construction company for a new condominium and pension construction project enabled Hokkaido Tracks to take out a syndicate loan with a local bank as the agent, securing a credit line with a ceiling of 500 million yen.¹⁰

Another finance-related problem that the company cited was the slow pace in installing automated teller machines (ATMs) and other finance infrastructure in the area. Australian firms had constantly urged local authorities and banks for improvements, but still there were very few ATMs in Kutchan that would accept international or foreign cards. According to the “Living in Kutchan Guidebook” which the Kutchan Ward Office had put out for foreigners, there were only 12 ATMs in Kutchan. Six could take international or foreign cards (three in post offices and three in Seven-Eleven outlets), and all six were located in the center of town, some 20 minutes away by car from the area where most skiers stayed. As a result, foreign skiers did not have ready access to cash. At the same time, no more than 10% of Kutchan restaurants and stores had the facility to take credit cards.¹¹ For Australians in particular, who tended to come for longer periods of time, it was a case of not being able to use money even if they wanted to.

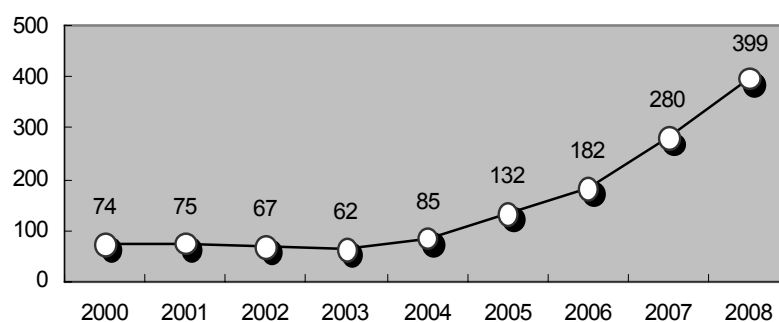
Efforts to have more ATMs accepting international or foreign cards had been continuing in Kutchan for the last 10 years, and Hokkaido Tracks had also tried petitioning and negotiating with the concerned institutions. However, because of issues with existing laws and the various procedures that needed to be undertaken, the only machines that were installed over the last decade were those in the Seven-Eleven stores which were installed in 2006.

In recent years, spurred by the increase in the number of Australian skiers coming to Kutchan, other ski areas such as Furano City have also launched active campaigns to attract foreign tourists from Australia and elsewhere. The degree by which an area was prepared as an international tourist spot to receive foreigners presumably had some impact on tourists’ choice of holiday destination. Whether or not Kutchan was able to match rival ski cities as a tourist spot would also impact directly on its attractiveness as an investment destination. As such, this was an issue that Hokkaido Tracks could not afford to overlook.

Employing Staff

The “Niseko” boom brought talented professionals to Kutchan from within Japan and around the world. In January 2008, Hokkaido Tracks had 52 personnel, 40 of whom were foreigners. Most (80%) were Australians while others came from Chinese Taipei; Canada; New Zealand; the United Kingdom; and the United States. The total number of foreigners registered as living in Kutchan had likewise continued to increase annually since 2003 (Figure 6).

Figure 6 Number of foreigners registered in Kutchan (As of the end of March 2008)



Source: Kutchan Town Office

However, even if there were top-class personnel looking for jobs, getting a working visa in Japan was not easy. Working visas for one to three years were available to foreigners for the following 15 types of professions: professor, artist, religious activities, journalist, investor/business manager, legal/accounting services, medical services, researcher, instructor, engineer, specialist in humanities/international services, intra-company transferee, entertainer, skilled labor, and designated activities (the category into which working holidays fall).¹²

In the case of companies like Hokkaido Tracks, most foreign staff used ‘specialist in humanities/international services’ visas. However, this visa category required a certain level of academic qualification in an area related to the type of work to be undertaken, or at least 10 years’ work experience in that area (at least three years in the case of interpreting, public relations, and design, etc.). With the bar set so high, it was difficult even for high-quality personnel to secure visas. In addition, ski instructors, hotel staff and many other job types associated with the tourism industry were extremely difficult to categorize under Japan’s current visa system, which did not yet include working visa/working permits aimed specifically at the tourism sector.

The easiest solution was to get a working holiday visa, but because this one-time visa was intended primarily for vacation-oriented stays, it allowed only a brief 6- to 12-month stay, which was not long enough for skilled personnel to establish themselves. It was also difficult to switch over to a work visa. In the light of Japan’s ambition to draw in foreign tourists, the existing regulation was at odds with the need for foreign employees in the tourism sector.

Japanese staff were no easier to employ. As of January 2008, only 20% of Hokkaido Tracks’ staff were Japanese. While long-term Australian tourists tended to prefer the Western-style accommodation and facilities that they were familiar with, having come all the way to Japan, these same tourists also wanted a Japanese experience at the same time. Hence, the company wanted to employ more Japanese staff.

Thanks to the Australian-led boom, Kutchan’s industry also flourished such that the number of job openings topped the number of job seekers for the first time in 14 years in 2007. This gap had since widened.¹³ However, there were apparently still very few Japanese applicants for the accommodation and outdoor-related jobs offered in the business areas where Australian firms were clustered. Walker Scott, who ran Scott Adventure Sports in Kutchan, claimed that this was because leisure-related jobs such as working at a hotel or as a ski instructor were not regarded as proper “careers” in Japan. Historically, long-term employment relationships were valued in Japan, and high job mobility which was a typical characteristic for employment in the tourism sector was not conceived positively. Foreign entrepreneurs willing to hire Japanese employees should approach the employment issues in the context of the cultural preference for stable employment.

Relations with the Local Community

Resort Image

The condominiums built by Hokkaido Tracks and other foreign firms stood out because of their strong design component and unique appearance. This level of variation in architecture was important in attracting foreigners who had firsthand experience of resorts around the world. In Tokyo and other big Japanese cities, this type of structures could doubtless have been welcomed with open arms as “designer apartments.” However, in Kutchan, where ski accommodation facilities had traditionally been earth-colored wooden buildings with steep

roofs, local residents initially regarded the new condominiums as eyesores. Recently, after many rounds of discussion among townspeople, local authorities and developers, certain rules relating to building standards have been established.

Business Chances for Local Firms

Even as foreign firms rush to build condominiums in Kutchan, most of the construction work was subcontracted to businesses from other parts of Hokkaido. Local construction firms had little interest in the condominium construction work available from foreign firms despite the major business opportunities these projects represented. Kutchan firms took on only 10% of orders and projects.¹⁴

This reluctance was ascribed to problems that earlier arose between Hokkaido Tracks and a contracted local construction company because of differences in business practices between Australia and Japan and the misunderstandings created by the language difference. The local company ended up having to cover the costs for additional work. Already struggling with shaky finances, it subsequently went bankrupt.

Other local firms observing this incident decided that dealing with foreign firms was too difficult and too risky. Foreign firms, on the other hand, generally did not believe that local firms had the technological acumen or the experience to execute their designs, which was another reason why local contracting had not been increasing.

Hence, in addition to breaking down the language barrier and improving understanding of differences in business practices, another key issue that needs to be addressed is the enhancement of local firms' capacities in terms of technology, global design and proposal preparation.

Impact on Local Lifestyles

Since 2004, the growing number of foreign visitors to Kutchan had spurred a succession of problems involving foreigners. Buoyed by the sense of freedom that tended to accompany a trip away from home, there had been cases of foreign travelers in restaurants partying loudly into the small hours, and fighting or picking quarrels with local Japanese. Most of these incidents were too minor to require reporting to the police.

The growing number of foreigners settling in for long stays at condominiums also meant an ongoing stream of nuisance behavior, such as putting out unseparated garbage. Since concerned locals launched a town patrol in conjunction with the local police in 2006, the number of incidents had dropped to a third of the peak level.¹⁵ The "Living in Kutchan Guidebook," a free English pamphlet created by the Kutchan Town Office for foreigners on long stays, also provided at a glance all the information necessary to get by in Kutchan, including the correct method of garbage disposal and the necessary administrative procedures.

Though Japan itself was a high income economy and had seen a lot of incoming foreign direct investment as well as foreigners, Kutchan was still a relatively rural town with traditional values. Since the town was not dependent on inbound tourism in a major way in the past, there were times when local residents could not disguise their discomfort with the sudden influx of Australians and other foreigners and their new buildings. However, they also recognized the fact that the local economy benefited from these foreign visitors as a replacement for the dwindling number of Japanese visitors; hence, many wanted to co-exist in harmony with the foreigners who came to Kutchan.

Kutchan Town Office's Role

While Kutchan became the sister city of St Moritz, one of Switzerland's top health resorts, in 1964 and was also hailed as the 'Oriental St Moritz', the town traditionally put little effort into attracting foreign tourists. In recent years, it started running campaigns offshore to bring in tourists from Chinese Taipei; Hong Kong, China; and elsewhere in East Asia. However, the current influx of foreign investment was entirely unforeseen. At first, town authorities tended to sit back and watch bemused as Australian firms poured in, without any local encouragement. In more recent times, the local government had been working hard to attract investment, including holding an investment seminar in Sydney in October 2007 in conjunction with Austrade, an Australian government agency helping Australian companies succeed in trade and international business.

This trend reflected the recent strong realization on the part of local government of the major economic benefits offered by an increase in foreign tourists and an influx of foreign firms like Hokkaido Tracks. The Japan External Trade Organization (JETRO) calculated that condominium construction, tourist accommodation and other tourism-related activities in "Niseko" had created an economic ripple effect of 10.5 billion yen and 600 new jobs from 2003 to 2005. Even greater economic and employment effects were believed to have occurred in 2006 and 2007 when condominium construction and tourist influx increased still further. According to the Kutchan Town Office, where the job openings to jobseekers ratio in February 2008 was only 0.53 for all of Hokkaido, Kutchan outperformed the rest of the island with a high 1.50 ratio.¹⁶

A string of reports noted that to promote investment, local facilities would have to be further honed to the level expected of an international tourist resort.¹⁷ Improving not only ATMs, waterworks, transport networks and other physical infrastructure, but also hospitals, restaurants, supermarkets and other such elements beyond hotels and tourism, would boost the investment appeal of the town as a whole.

At the same time, the "Niseko" area's stunning environment and scenery undoubtedly remained the major attraction of investing in Kutchan and its major selling point. This could be harmed by chaotic, unplanned development which could have serious repercussions for both the local community and developers in the future. For a long time, Kutchan placed no restrictions on land use or construction in the area where development was concentrated. However, the sudden skyrocketing of land prices prompted some developers to try to recover their expensive investments by pushing buildings up and out to the very limits of the available land area.

With local residents becoming increasingly aware of the need for protection and regulation of local sceneries, Kutchan authorities held discussions with the NPO Niseko Hirafu Beautiful Views Group, which comprised local residents, land owners and Australian firms, which became the basis for developing a set of building construction standards (floor area ratio, coverage ratio, height, etc.) for designated areas in the 2006 revision of "Ordinance for the Protection and Fostering of Kutchan's Scenic Landscapes." However, because these standards were not legally binding, the local government could not have disciplined a firm, even if the firm had constructed its building beyond the stipulated limits.

To protect local sceneries and the town's appearance on the basis of clear rules under the City Planning Law, in February 2008, the wards which were the focus of development were designated as "quasi-urban planning district." This had finally enabled the local government to regulate the construction of buildings that did not meet the town's requirements.

The establishment of new regulations such as the “quasi-urban planning district” and rule changes meant greater risk for developers and investors. However, Hokkaido Tracks and other entrepreneurs from Australia were well aware that the “Niseko” area’s natural environment and sceneries were extremely important assets both for their own business and for local residents, and were therefore very supportive of this outcome. In sharp contrast, developers and landowners from other areas in Japan who had come to take advantage of the “Niseko” boom had expressed strong opposition to the new regulations. They were concerned that the new regulations would reduce the value of the assets which they had purchased. Simon Robinson of Hokkaido Tracks warned against the kind of chaotic development that had occurred in other tourist areas of Japan to date, noting that “In Japan, they develop until they die.”

To boost Kutchan’s value as an international tourist destination, it will be vital to look at the benefits from a long-term perspective and approach town planning with the same kind of clear vision evinced at Whistler and other first-class international resorts found abroad.¹⁸ It will be particularly important to engage in town planning in a way that respects Kutchan’s particular character. For example, the sight of Kutchan’s potato fields blooming en masse apparently leaves a deep impression on foreign tourists. It would not be wise if development were to impact on the agricultural scenery and natural environment that contribute heavily to Kutchan’s appeal.

In addition, local authorities need to develop and introduce real estate transaction-related systems to ensure that they too benefit from foreign investment. While the condominium boom had seen a sudden increase in the volume of Kutchan’s real estate, many of these new assets were owned by foreign investors living abroad. Although there was a system in place requiring offshore residents holding fixed assets in Japan to designate a Japanese citizen to manage tax payments and pay fixed asset tax, the rules were unclear and not adequately recognized by foreign investors. This resulted in cases where it was difficult for local government to extract taxes from owners. In particular, there were many cases where foreigners living abroad sold their property to other foreigners. In May 2007, there were 54 properties (23.5% of total properties) for which a tax manager had not been stipulated and fixed asset taxes remained unpaid, with outstanding taxes amounting to 2,489,200 yen (4.9%). Local authorities had since been directing owners to designate a tax manager. By April 2008, the number of foreign-owned properties with no tax manager had fallen to 10.¹⁹

Looking Ahead for “Niseko”

Entry of Large Firms

Foreign investment in “Niseko” continued to boom. Beginning in 2006 investment had begun to flow in from regions other than Australia. Moreover, big firms such as City Group and the PCCW Group started to come in (Figure 7). Investment from other economies as well as Australia was a good indication of the area’s growing international presence. The entry of big foreign firms could potentially threaten the business of small and medium-sized foreign firms already operating in the market. However, Hokkaido Tracks president Simon Robinson remained confident that small firms like Hokkaido Tracks would be able to maintain their competitiveness because they were closer to the community, which allowed them to identify needs more rapidly.

Figure 7 Main Non-Australian Investing Firms in “Niseko”

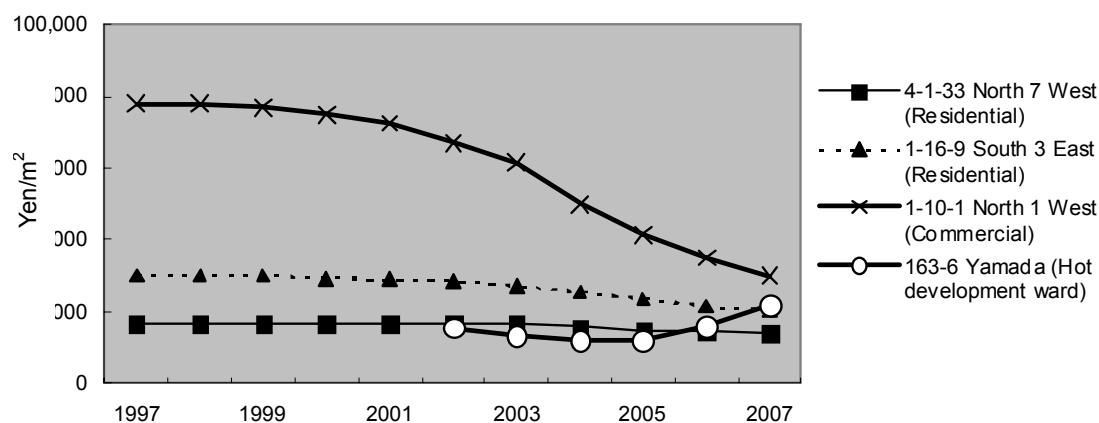
Firm	Investment
City Group (United States)	Acquisition of Higashiyama Prince Hotel from Seibu Holdings in Dec. 2006 (hotel management outsourced to Hilton)
PCCW Group (Hong Kong telco)	Acquisition in Aug. 2007 of Australian-backed Nihon Harmony Resort, which was planning a large-scale development in Kutchan’s Hanazono Ward

Niseko Promotion Board

Cooperation among firms in “Niseko” was also showing signs of change. In industries like tourism, it is difficult for firms to operate in isolation; what is needed is a unified local response. “Niseko” firms began forming alliances way back in 1976, when the three major local ski fields introduced joint coupon tickets for lifts on the grounds, knowing that networking among ski fields would enhance the attractiveness of the area as a whole. In 1993, this cooperation evolved into the Niseko Free Passport Council (Niseko United). Niseko United originally comprised only the three big ski fields, but in September 2007, a group of entrepreneurs operating in “Niseko” moved beyond the bounds of industry and nationality to form the Niseko Promotion Board as a limited-liability quasi-corporate body. Board membership was diverse, and included outdoor, real estate, construction and bus firms in the area. These various business types would form alliances even with rivals and beyond the bounds of nationality, and work together with town authorities to promote the “Niseko” brand and share information. Because the Promotion Board had just been launched, it remained unclear what effect it would actually have, but given the many other similar tourism-related organizations in Kutchan and the surrounding area, the Board should contribute to a stronger and more unified voice in terms of pressuring the administrative authorities, as well as ensuring the effective use of resources.

Different Interests

At the same time, there were slight differences in the degree of enthusiasm among Kutchan’s local residents. In 2006, prices of land in areas at the foot of the ski fields where development was concentrated rose by 33.3% to top national residential land listings. In contrast, prices for the commercial area along the street in front of the station plunged 15.9%. In the main commercial area, many shops remained shuttered. Figure 8 presents this trend.

Figure 8 Kutchan land price trends (standard price)

Source: *Land Value Guide* (Ministry of Land, Infrastructure and Transport)

Local residents made a clear distinction between the booming development areas, which they called the mountains, and the commercial and residential land where they lived, which they regarded as the town. While the “mountains” and the “town” were only 20 minutes away from each other by car, the psychological chasm between the two ran deep. Sentiment was also divided regarding all these new developments. Some residents believed that Kutchan had been presented with a great opportunity, but others were more skeptical, viewing this as a mini-bubble which would eventually collapse and leave Kutchan a ghost town.²⁰ The difference in perceptions between residents and development-related parties was hampering the internationalization of Kutchan as a whole and was also detracting from the economic ripple effect. To develop the town to a level befitting an international tourist spot, the two groups would need to work together to set up mechanisms that would ensure a positive impact on the town as a whole.

Lessons learned

Customer Perspective

Investment in Kutchan by Australian entrepreneurs has spurred the revival of the area’s industry and the surrounding tourist areas from the decline caused by the collapse of the bubble economy. Kutchan attractions that could not have been discovered by the Japanese alone, such as potato flowers and mountain streams, have been revealed through foreign eyes. In addition, where Kutchan’s tourist industry once relied only on skiing and rustic hot-spring ryokan inns, the introduction of rafting and other outdoor businesses, as well as the development of condominiums as a new form of real estate, have created an influx of foreign visitors and foreign capital into Kutchan. Rural towns like Kutchan, where young people go away and the population declines even as the local economy fades, are a feature not only in Japan but in all APEC member economies. Having unique local attractions and merits revealed through the eyes of outsiders could well be a means to develop new tourism industries and stimulate regional economies.

Development of Clear Rules and Institutions

The Kutchan case shows the merits of foreign investment in the tourism industry as a means of boosting the economy of local towns. It also demonstrates that to pave the way for foreign investment, the investment risk needs to be reduced by developing the relevant legislation, fostering legal specialists, consultants and other local personnel needed to support this investment, and improving the means of local fund procurement. It is also important to match the employment needs of foreign companies with labor supply both locally and the wider domestic labor market. In addition, the Kutchan experience indicates that a proper visa/work permit system can help facilitate the engagement of foreign employees who may be vital to the international tourism industry.

Relation to the Local Community and Economy

It should also be noted that successful foreign investment hinges on the relationship with the local community. A sudden influx of foreign firms and people often makes the local community feel uneasy due to the different lifestyles they bring with them. The Kutchan experience suggests that if such cases arise, frequent discussions and close coordination between foreign companies and the local community can be helpful. In addition, proactive

support from local government and non-government groups to bring the relevant parties together to enhance understanding may be most effective. As the local community begins to appreciate the benefits of foreign investment, the chances of bringing them together will increase. As observed in the case of the local construction industry, it is often necessary to build the capacity of local business to take full advantage of the opportunities which foreign investors might bring.

Toward Sustainable Development

Looking at areas that have already achieved success as international tourist resorts, such as the Gold Coast in Australia, Whistler in Canada, and Bali in Indonesia, it is evident that they have all developed their local tourist industries through the proactive use of foreign capital. However, these first-class international resorts have not left local development just to the private sector. One key to their success is control of private investment through skilled development planning by government authorities in order to protect the natural environment and ensure the effective use of local resources. Kutchan's success will also hinge on whether the authorities, local residents and investing firms can work together to plan and implement the comprehensive development of the area as an international resort. In such cases, a key concept that can be adopted and one which also reflects a current global trend would be harmony with nature and local culture.

Endnotes

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- ⁶ Case writers' interview with Jonathan Martin, Finance Director for Niseko Alpine Developments, on 30 January 2008.
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