

# Daiwa's View

## Will reopening Japan to foreign tourists help strengthen yen?

- Reopening measures initiated on 10 Jun underwhelming
- Need overall drastic relaxation of entry restrictions such as removal of visitor upper limit and tour group condition

Fixed Income Research Section  
FICC Research Dept.

Senior FX Strategist  
**Kenta Tadaide**  
(81) 3 5555-8466  
kenta.tadaide@daiwa.co.jp



Daiwa Securities Co. Ltd.

**Current measures weak;  
overall drastic easing of  
entry restrictions  
desirable**

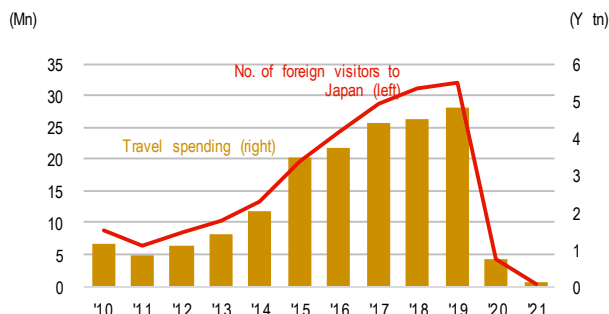
### Will reopening Japan to foreign tourists help strengthen yen?

Taking into consideration the declining number of novel coronavirus cases in Japan and abroad, as well as medical inspection system capacity at airports, the government has raised the per day upper limit for people entering Japan in stages from 5,000 as of 1 March, to 7,000 as of 14 March, and 10,000 as of 10 April. Then, on 1 June, the maximum number of people entering Japan per day was raised to 20,000 and medical inspection measures upon entry into Japan were eased. Furthermore, from 10 June Japan started readmitting foreign tourists—a category not allowed into the country during the outbreak.

The Ministry of Foreign Affairs divided countries and regions into the three groups of blue, yellow, and red, in ascending order of coronavirus risk. Visitors from the 98 low-risk countries/regions in the "blue" group are now exempt from entry testing and at-home/facility quarantines, subject to proof of no coronavirus infection at the time of departure from their countries. However, visitors from such countries/regions will be allowed to enter Japan only for sightseeing purposes as part of tour groups accompanied by tour conductors.

Looking at inbound tourist trends before the coronavirus outbreak, the number of foreign tourists to Japan continued growing from 2013 due to such factors as Japan easing tourist visa conditions, rising incomes in other countries (especially in Asia), and the appeal of a weaker yen. In 2019 Japan welcomed as many as 2.99mn foreign visitors per month and 31.88mn foreign visitors for the full year, which was a record (Chart 1). Travel spending by foreign visitors to Japan also reached ¥4,813.5bn in 2019. Compared to Japan's exports of goods, such travel spending by foreign visitors exceeded even the value of Japan's electronic component exports that year (¥4tn). Indeed, this travel spending grew to a scale that could not be overlooked in terms of Japan's balance of trade and services.

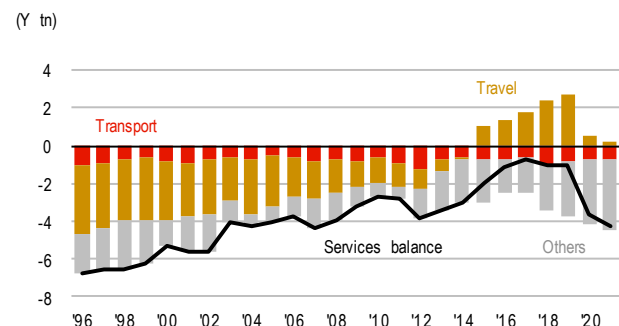
**Chart 1: Number of Foreign Visitors to Japan, Travel Spending by Foreign Visitors to Japan**



Source: Japan National Tourism Organization, Japan Tourism Agency; compiled by Daiwa Securities.

Note: Japan Tourism Agency estimates for foreign tourist spending in 2020 and 2021.

**Chart 2: Services Balance**



Source: MOF; compiled by Daiwa Securities.

Due to the increase in the number of foreign visitors to Japan, Japan's travel balance moved into the black in 2015 and its services balance deficit narrowed accordingly from Y3.8tn in 2012 to Y1.1tn in 2019 (Chart 2). However, since the pandemic, the number of foreign tourists coming to Japan fell sharply as entry restrictions were adopted. For 2021, the travel balance was a Y208.4bn surplus, while the services balance was a Y4.2tn deficit, the first meaningful move into the red since 2007.

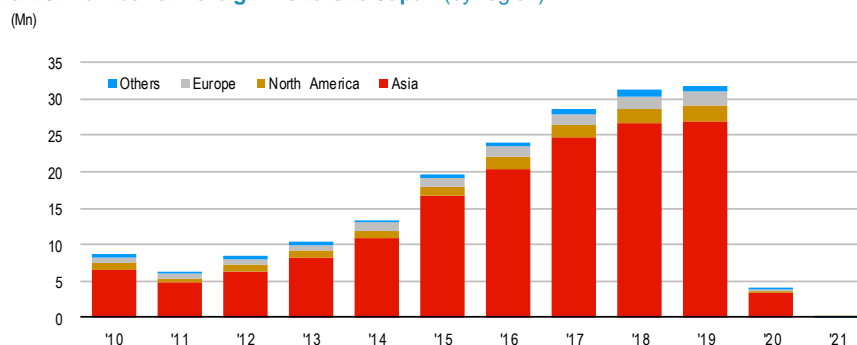
The travel balance deterioration due to the pandemic has also contributed to the recent yen depreciation. In 2019, foreign tourists visiting Japan sold their own country's currency and bought five trillion yen, but since then such buying of the Japanese currency has almost completely disappeared. At the same time, the selling of yen by Japanese citizens traveling abroad likewise almost completely disappeared. However, demand for yen purchases decreased by only the Y2.7tn portion that was a surplus in the travel balance and yen supply/demand tilted toward yen selling. So as described earlier, the Kishida administration is moving to resume inbound travel. An improved travel balance is expected to partially offset the yen supply-demand balance deterioration caused by the widening trade deficit due to soaring energy prices.

However, the current measures seem to lack any real impact. The reopening of Japan to foreign tourist is expected to not only act as a catalyst for an economic recovery, but to also improve the yen supply-demand balance. However, the current approach only allows 20,000 foreign tourists into Japan each day, which comes to only 7.3mn foreign visitors for the year, which is equivalent to only a little more than 20% the level marked in 2019.

We should also note that this limit on the number of arrivals includes residents of Japan who have traveled to other countries from Japan and are returning home. Residents of Japan traveling to countries or regions belonging to the above-mentioned lowest-risk "blue" group, naturally are only required to show proof of no coronavirus infection upon returning to Japan and they are exempt from entry testing and at-home/facility quarantines. This means that the hurdles for residents of Japan who go abroad on business or for tourism have also been greatly eased.

Considering that in 2019, before the pandemic, the number of Japanese departing Japan averaged 1.67mn per month, or 55,000 per day, there is no denying that residents of Japan returning from overseas business trips and vacations may account for the majority of the quota of travelers entering Japan. We have the impression that with the relaxation of entry measures and the reopening of Japan to foreign tourists, the focus has only been on the positive effects for the Japanese economy brought about by foreign tourist consumption. However, not only will the current measures fail to generate strong consumption by foreign visitors, they could also exert downward pressure on the Japanese economy in the form of increased imports of services. Even from the foreign exchange perspective, it is possible that yen selling by Japanese citizens will exceed the yen buying by those coming to visit Japan.

**Chart 3: Number of Foreign Visitors to Japan (by region)**

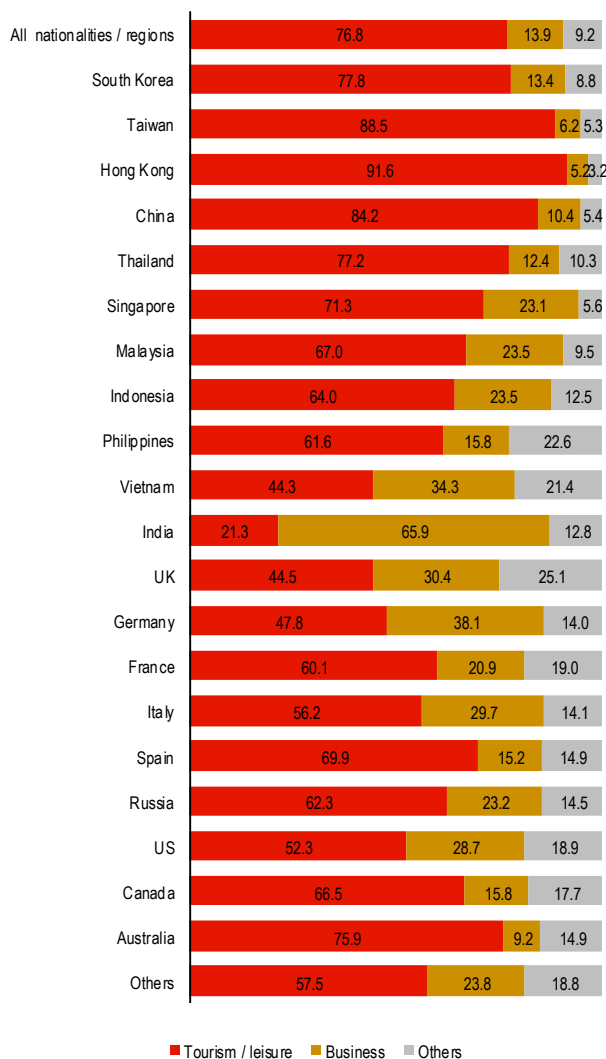


Source: Japan National Tourism Organization; compiled by Daiwa Securities.

Regardless of the extent to which Japan eases its entry measures, the number of foreign visitors may remain sluggish due to demand-side problems. Looking at the 2019 number of foreign visitors by country, we can see that more than 80% of visitors to Japan came from Asian countries such as South Korea, China, Taiwan, and Hong Kong, with China accounting for 30% of the total (Chart 3). Reports in South Korea indicate a surge in reservations for travel to Japan. However, if China's "zero-corona" policy continues to restrict departures from China, there is the strong possibility that a recovery for the number of Chinese visitors to Japan will likely take a considerable amount of time.

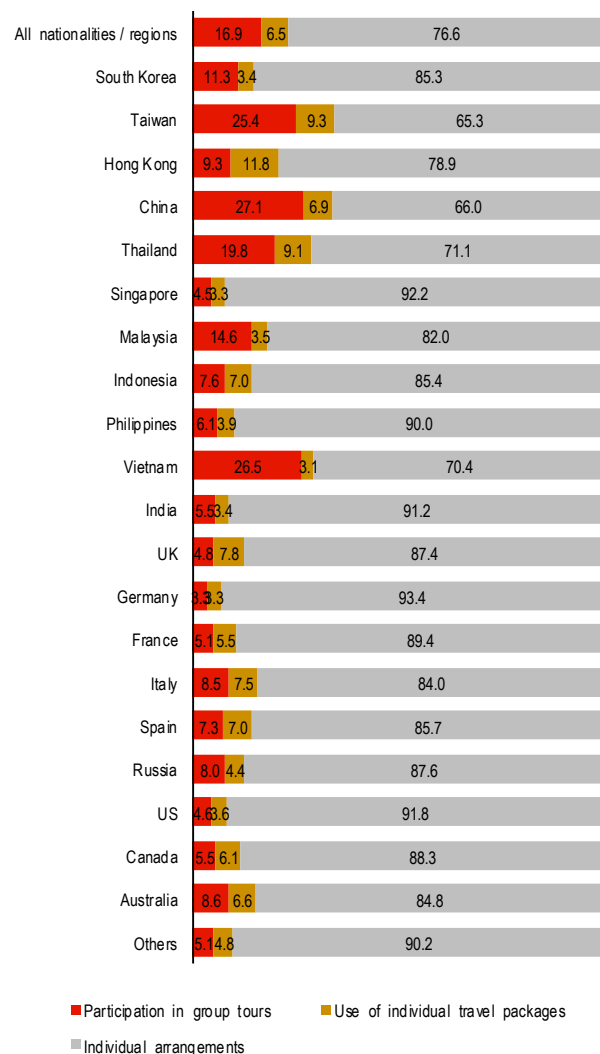
Furthermore, entry into Japan for sightseeing purposes is now limited to group tours accompanied by tour guides. This restriction could hinder efforts to attract good numbers of foreign visitors to Japan. 76.8% of those visiting Japan come for the purpose of "tourism & leisure," and this percentage is even higher for tourists coming from Asian countries (Chart 4). In terms of travel arrangements, 16.9% of visitors to Japan rely on "participation in group tours organized by travel agencies," 6.5% use "individual travel packages that include round trip air (ship) tickets and accommodations," and 76.6% "use round-trip air (ship) tickets and accommodations arranged on their own" (Chart 5). While visitors from China, Taiwan, and Vietnam tend to use group tours more than those from other countries, still only around 25% of these visitors rely on group tours. More than 75% of all visitors to Japan and more than 85% of those from the US and Europe rely on individual arrangements.

**Chart 4: Main Purpose for Visiting Japan (by nationality, region, %, 2019)**



Source: Japan Tourism Agency; compiled by Daiwa Securities.

**Chart 5: Travel Arrangements (by nationality, region, %, 2019)**

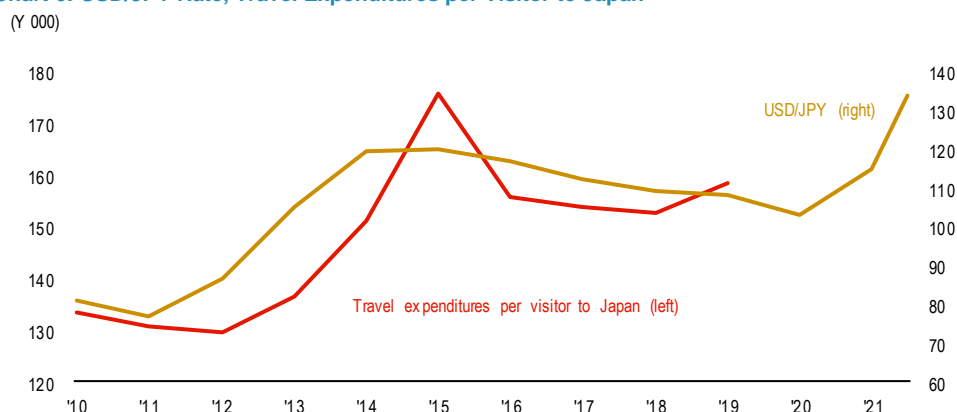


Source: Japan Tourism Agency; compiled by Daiwa Securities.

Certainly, the behavior and physical condition of tourists are easier to manage if they are restricted to participating in group tours. However, it is hard to tell how many people will choose Japan as a travel destination knowing that they will be under such scrutiny. If the percentage of people who want to travel freely based on their own arrangements remains at the same level as before the pandemic, a reopening of Japan only to tourist in tour groups would probably result in just a roughly 20% recovery of the 2019 pre-coronavirus level.

With the yen falling to historically undervalued levels, there is hope that per visitor spending will swell even if the number of foreign tourists coming to Japan remains sluggish. In fact, from 2013 to 2015, when the yen meaningfully depreciated against the US dollar (from USD/Y80s to USD/Y120s), travel expenditures per visitor to Japan increased by more than 30% (Chart 6). The current level of yen depreciation may stimulate per foreign visitor spending to a point that exceeds the Y176,000 level for 2015. Nevertheless, the impact of such increased spending would still be limited unless a certain recovery in the number of foreign visitors is also expected.

**Chart 6: USD/JPY Rate, Travel Expenditures per Visitor to Japan**



Source: Japan Tourism Agency, Bloomberg; compiled by Daiwa Securities.

Note: The survey of spending trends among foreign visitors to Japan for the period from January-March 2020 onward was discontinued for certain periods and some data was distorted due to the impacts of the novel coronavirus outbreak. As such, data through 2019 was used for travel expenditures per visitor to Japan. 2022 USD/JPY is 8 June closing level.

There are high hopes that reopening Japan to foreign tourists will provide a catalyst for the Japanese economy. Reopening the country is also an important theme in terms of the yen supply-demand balance on foreign exchange markets. Until now, only the negative aspects of the yen's depreciation have been highlighted. Indeed, conditions have been described as "bad" yen depreciation. However, the resumption of inbound travel will likely provide an opportunity for the positive effects of yen depreciation, which had been lost, to finally manifest. However, as mentioned earlier, the effects will be limited unless some additional changes are made.

Still, the resumption of inbound travel has only just started and the government may have some additional plans in the works. In fact, it has already been reported that the government's policy is now to further raise the daily limit for foreign tourists entering Japan, as the relaxation of entry requirements has created more capacity in terms of airport medical screening and other such measures. In addition to the proposal to "raise the limit to 30,000 visitors," there is also a proposal to "remove the cap," which will be discussed while monitoring infection conditions with the aim of implementing on 1 July. As international people flows are resuming, drastically relaxing overall entry restrictions, such as removing "upper limits" and the "group tour condition," is desirable, considering the positive impacts that such steps could provide to the economy.

## **IMPORTANT**

This report is provided as a reference for making investment decisions and is not intended to be a solicitation for investment. Investment decisions should be made at your own discretion and risk. Content herein is based on information available at the time the report was prepared and may be amended or otherwise changed in the future without notice. We make no representations as to the accuracy or completeness. Daiwa Securities Co. Ltd. retains all rights related to the content of this report, which may not be redistributed or otherwise transmitted without prior consent.

### **Ratings**

Issues are rated 1, 2, 3, 4, or 5 as follows:

- 1: Outperform TOPIX/benchmark index by more than 15% over the next 12 months.
- 2: Outperform TOPIX/benchmark index by 5-15% over the next 12 months.
- 3: Out/underperform TOPIX/benchmark index by less than 5% over the next 12 months.
- 4: Underperform TOPIX/benchmark index by 5-15% over the next 12 months.
- 5: Underperform TOPIX/benchmark index by more than 15% over the next 12 months.

Benchmark index: TOPIX for Japan, S&P 500 for US, STOXX Europe 600 for Europe, HSI for Hong Kong, STI for Singapore, KOSPI for Korea, TWII for Taiwan, and S&P/ASX 200 for Australia.

### **Target Prices**

Daiwa Securities Co. Ltd. sets target prices based on its analysts' earnings estimates for subject companies. Risks to target prices include, but are not limited to, unexpected significant changes in subject companies' earnings trends and the macroeconomic environment.

### **Disclosures related to Daiwa Securities**

Please refer to [https://lzone.daiwa.co.jp/l-zone/disclaimer/e\\_disclaimer.pdf](https://lzone.daiwa.co.jp/l-zone/disclaimer/e_disclaimer.pdf) for information on conflicts of interest for Daiwa Securities, securities held by Daiwa Securities, companies for which Daiwa Securities or foreign affiliates of Daiwa Securities Group have acted as a lead underwriter, and other disclosures concerning individual companies. If you need more information on this matter, please contact the Research Production Department of Daiwa Securities.

### **Explanatory Document of Unregistered Credit Ratings**

This report may use credit ratings assigned by rating agencies that are not registered with Japan's Financial Services Agency pursuant to Article 66, Paragraph 27 of the Financial Instruments and Exchange Act. Please review the relevant disclaimer regarding credit ratings issued by such agencies at:

<https://lzone.daiwa.co.jp/l-zone/disclaimer/creditratings.pdf>

### **Notification items pursuant to Article 37 of the Financial Instruments and Exchange Law**

(This Notification is only applicable to where report is distributed by Daiwa Securities Co. Ltd.)

If you decide to enter into a business arrangement with our company based on the information described in this report, we ask you to pay close attention to the following items.

- In addition to the purchase price of a financial instrument, our company will collect a trading commission\* for each transaction as agreed beforehand with you. Since commissions may be included in the purchase price or may not be charged for certain transactions, we recommend that you confirm the commission for each transaction. In some cases, our company also may charge a maximum of ¥2 million per year as a standing proxy fee for our deposit of your securities, if you are a non-resident.
- For derivative and margin transactions etc., our company may require collateral or margin requirements in accordance with an agreement made beforehand with you. Ordinarily in such cases, the amount of the transaction will be in excess of the required collateral or margin requirements\*\*.
- There is a risk that you will incur losses on your transactions due to changes in the market price of financial instruments based on fluctuations in interest rates, exchange rates, stock prices, real estate prices, commodity prices, and others. In addition, depending on the content of the transaction, the loss could exceed the amount of the collateral or margin requirements.
- There may be a difference between bid price etc. and ask price etc. of OTC derivatives handled by our company.
- Before engaging in any trading, please thoroughly confirm accounting and tax treatments regarding your trading in financial instruments with such experts as certified public accountants.

\* The amount of the trading commission cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

\*\* The ratio of margin requirements etc. to the amount of the transaction cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

When making an actual transaction, please be sure to carefully read the materials presented to you prior to the execution of agreement, and to take responsibility for your own decisions regarding the signing of the agreement with our company.

Corporate Name: Daiwa Securities Co. Ltd.

Registered: Financial Instruments Business Operator, Chief of Kanto Local Finance Bureau (Kin-sho) No.108

Memberships: Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Investment Advisers Association, Type II Financial Instruments Firms Association, Japan Security Token Offering Association