



2016 Top Markets Report **Cloud Computing** Country Case Study

Japan

Japan is ranked 2nd among the top markets for global cloud services. The country boasts one of the most consistent and developed markets for cloud services, while still maintaining substantial growth potential for U.S. cloud providers. Despite an established market of local competitors, Japan has no current trade barriers that offer preference to domestic cloud providers. Furthermore, Japan's commitment to universal broadband access for all households presents a uniquely connected market with almost complete participation in ICT service needs. However, future privacy and data protection laws in the country should be observed with caution and attention.

Overall
Rank

2

Japan has consistently been one of the top markets for growth in ICT and cloud services. Gartner predicts that by 2018, the Asia Pacific and Japan (APJ) region will account for \$11.5 billion in total cloud services spending. As the leading cloud market in the APJ region, Japan is poised for continued growth through 2018.¹ The Asia Cloud Computing Association (ACCA) selected Japan as the top cloud market for the third consecutive year in their Cloud Readiness Index.² In addition, the ACCA ranked Japan as the best country for SME cloud investment.³ Japan ranks among the top Asian markets for almost all categories used in the rankings, including broadband quality and intellectual property protections.⁴

Analysts project that from 2013 to 2018, the cloud computing market will grow at a 9.7 percent annual rate.⁵ The increasing adoption of cloud services by Japanese small and medium-sized enterprises drives up this estimate.⁶ Expansion in Japan's cloud services market is the product of direct private and public investment in ICT infrastructure and a commitment to cloud services by the government. To date, Japan has developed a regulatory environment that

preserves free flow of data while protecting privacy. As well as joining the APEC Cross-Border Privacy Rules (CBPR) framework, Japan has existing comprehensive intellectual property (IP) and cybercrime laws, which protect IP stored on clouds from theft and offers recourse in case of breaches.⁷ The implementation of the Trans-Pacific Partnership (TPP) and its requirements for open data flows will further lower trade barriers in Japan and among signatories throughout the region.

Government regulations are just one of the means by which authorities have stimulated cloud services growth. Since 2009, Japan's government has strengthened cloud infrastructure through the "Digital Japan Creation Project" with annual rollouts of new government-led cloud services in 2015.⁸ The project, "Kasumigaseki Cloud," supports all government ICT systems and has played a prominent role in growing Japan's cloud market. This cloud has enabled public and private sector collaboration on processing government documents and included increased online applications to encourage public use of mobile devices to access government functions.⁹ Moreover, Japan's government has

committed to ensuring all households have “very high speed” fiber broadband connections, bringing the potential benefits of cloud services to every household in the country.¹⁰ While the “Kasumigaseki Cloud” program and nationwide broadband initiative continue, Japan can safely expect to find new ways to use government investments to introduce cloud adoption to the general public.

Corporate investors from the United States have been helpful in stimulating Japan’s cloud related infrastructure. For example, in August 2014, Google announced a partnership with five Asian ICT companies to construct a new fiber optic cable system connecting the United States with two Japanese cities, Chikura and Shima.¹¹ Google’s investment is meant to spur user growth for the Google Cloud Platform. The project is expected to be completed by the second quarter of 2016.

As identified by industry watchers, five out of six key vendors of cloud services in Japan are U.S. companies – Amazon Web Services, Google, IBM, Microsoft and Salesforce.¹² American companies have had strong historic success in the Japanese ICT market, particularly with recent cloud investments. There are no significant trade barriers that favor domestic cloud providers over foreign ones, making Japan a strong market for foreign involvement. In addition, in 2016, Japanese regulators will require the electronic submission of any data from any scientific or health care clinical trials. This is a key market for U.S. cloud providers like Medidata and could offer opportunities for other vendors as well.¹³

However, it should be noted that competition in Japan’s cloud computing market is intense. Japan has strong domestic cloud firms and the country has seen increased participation by Chinese ICT companies. Therefore, U.S. companies should expect to enter a market with high competition from foreign and local players. In 2015, leading Japanese ICT company Fujitsu announced expansion plans for its existing data centers to meet an increased demand related to Internet of Things services.¹⁴ This announcement was an extension of the company’s plan to invest \$2 billion between 2014 and 2017 to capture an increased market share in cloud computing.¹⁵

Intense competition is not the only challenge in Japan for cloud providers. In late 2015, Japan’s Diet passed amendments to the nation’s privacy law restricting the cross-border transfer of personal data

in the name of increased privacy and data protection. Hopefully, Japan’s participation in the APEC Cross Border Privacy Rules (CBPR) system will help address these restrictions because implementing regulations will recognize CBPRs as a valid mechanism for cross-border data transfers.

In addition to the changes in Japan’s regulatory framework, there are economic concerns of which cloud vendors should remain mindful. In 2015, Microsoft announced a drop in profits due to earning shortfalls in Japan and China.¹⁶ Also, new projections show corporate revenues declining in Japan due to faltering economic conditions attributable to decreased consumer spending. In turn, the spending decline in Japan is due to an increased local sales tax. This chain of events has, in the Microsoft example, already impacted earnings and could potentially limit the market for U.S. cloud providers.¹⁷

Ultimately, Japan offers substantial opportunities for cloud services providers in 2016 and beyond. In spite of the proposed data privacy legislation and the economic climate that represent potential barriers, Japan is expected to remain one of the top markets for foreign cloud investment.

Guidance and Resources for Exporters

The following information is intended to provide guidance and resources for U.S. exporters looking to sell their services in Japan. The information was provided by U.S. Department of Commerce staff located in-country as well as by input from U.S. Department of Commerce industry specialists. As mentioned, the information is only intended to serve as guidance and does not guarantee sales or success in the market.

- Usual buyers of cloud computing services in Japan might include: Municipal, state and federal government, small, medium and large private companies.
- Preferred business strategies to enter/expand in the market might include: Distribution agreements, joint ventures and establishing a subsidiary company in Japan.
- Common trade barriers to enter/expand in the market and suggested troubleshooting strategies might include: Language barrier, working with a Japanese distributor or reseller is a good way to

enter the market, setting up a sales office in Japan is a good expansion strategy.

- Recommendations to bid and navigate government procurement processes: Foreign suppliers usually work with Japanese system integrators (SI) or resellers. Government procurement opportunities are usually led by a Japanese partner that acts as the prime contractor to submit bids.
- Trade Shows
<http://www.ceatec.com/en/>
<http://expo.nikkeibp.co.jp/cloud/kyushu/exhibition/>

- U.S Department of Commerce Country Commercial Guide
<http://apps.export.gov/article?id=Japan-Cloud-Computing>
- American Chamber of Commerce in Japan
<http://www.accj.or.jp/>
- Japan Electronics and IT Industries Association
<http://www.accj.or.jp/>
- Government Procurement Information
<https://www.jetro.go.jp/en/database/procurement/https://www.jetro.go.jp/en/database/procurement/procurement.html>

Citations

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- 3 http://www.asiacloudcomputing.org/images/research/ACCA_SMECloudComputing2015_Index_FINAL.pdf
- 4 <http://www.asiacloudcomputing.org/research/cr2014>
- 5 <http://www.marketwatch.com/story/cloud-computing-market-in-japan-2014-2018-2014-08-12>
- 6 Ibid
- 7 <http://www.asiacloudcomputing.org/research/cr2014>
- 8 http://www.cisco.com/web/IN/about/network/cloud_apac.html
- 9 Ibid
- 10 http://cloudscorecard.bsa.org/2013/assets/PDFs/country_reports/Country_Report_Japan.pdf
- 11 <http://www.forbes.com/sites/amitchowdhry/2014/08/12/google-invests-in-300-million-underwater-internet-cable-system-to-japan/>
- 12 <http://www.marketwatch.com/story/cloud-computing-market-in-japan-2014-2018-2014-08-12>
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- 15 Ibid
- 16 <http://www.dailytech.com/Microsoft+Reports+Mixed+Q2+2015+Earnings+on+China+Russia+and+Japan+Woes/article37107.htm>
- 17 Ibid