

Attractive Sectors

Medical Care



Overview: Medical Care and Welfare

Longer Life Expectancies Driving Growth of the Healthcare Market

Japanese society has been aging more rapidly than other advanced industrialized societies. In 2000, Japan's rate of aging was five times faster than France and three times faster than the U.S. By the year 2050, it is projected that one out of every three Japanese will be a senior citizen. This will expand the need for greater medical and nursing care services, with the market for these services expected to grow to reach 75 trillion yen by 2010.

Dramatic Liberalization in Healthcare Regulations

Historically, the Japanese government allowed only limited private-sector access to the medical and healthcare services industry. Recently however, the Headquarters for the Promotion of Special Zones for Structural Reform* authorized corporations (K.K.) to operate hospitals in special zones to provide high-quality imaging diagnosis, advanced regenerative medicine, and advanced gene therapy as elective medical services outside the scope of national health insurance coverage.

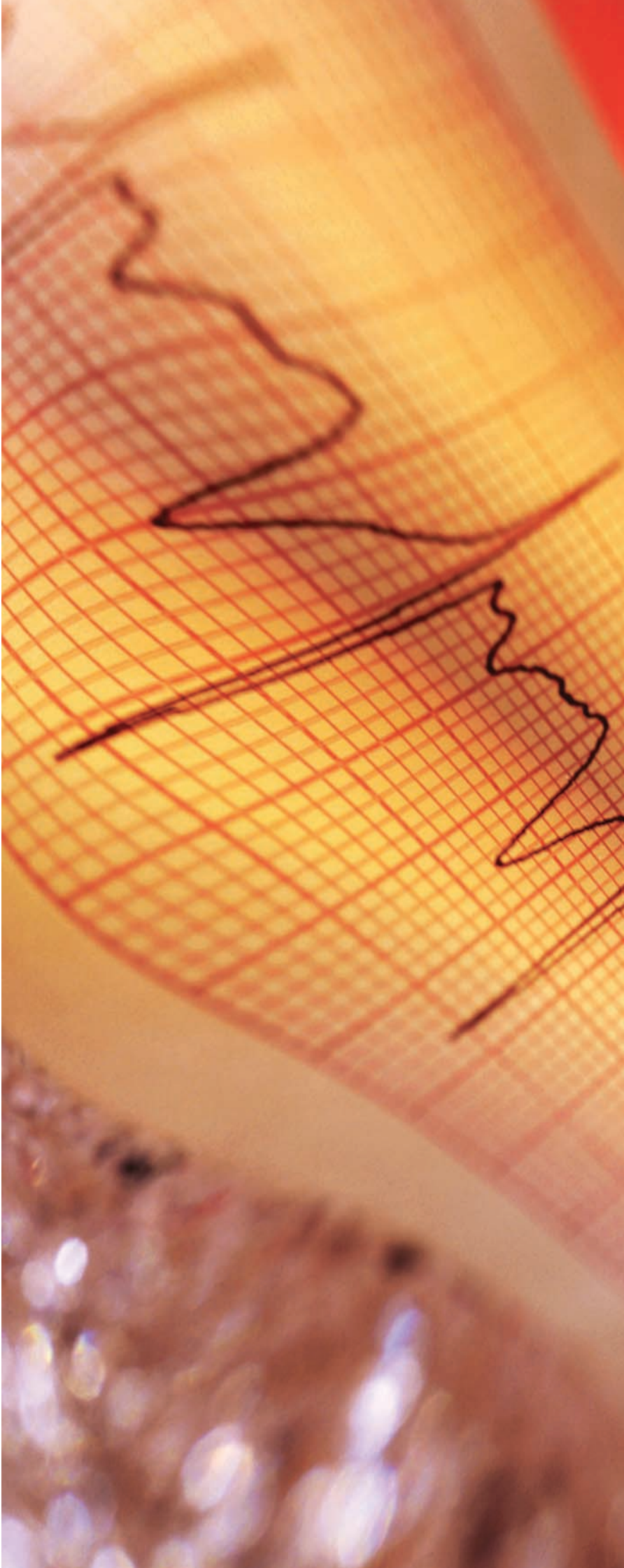
* Special Zones for Structural Reform: System to eliminate unnecessary regulations within a specially assigned area. Established in July 2002

Partnerships with International Companies

In the public sector, local governments are working with international companies to develop plans for R&D and providing services in the field of medical devices for senior citizens. Some are even looking to build regional research centers aimed at bringing together advanced healthcare technologies.

Attractive Industrial Clusters

In April 2001, the Japanese government launched the Industrial Cluster Plan to enhance the ability of regional areas to develop new technologies and products, and to support the creation and expansion of startup companies. Of the 19 projects implemented in Japan to date, five focused on promoting healthcare, including biotechnology. Industrial clusters fostering the development of startup companies are steadily taking shape through active collaboration between corporate managers, technical engineers and government officials.



Growing opportunities in medical care and welfare market

The healthcare industry refers to a diverse range of business activities linked to health, but can be broadly classified into the medical care and welfare sectors.

Traditionally, the medical care sector has included medical treatment services at hospitals, home medical services, drug manufacture/sales, medical devices, and medical waste and facilities management. Increasingly, new areas such as remote medical consulting services, as well as management of medical and prescription histories by means of electronic medical charts, have come to play a more prominent role in the sector.

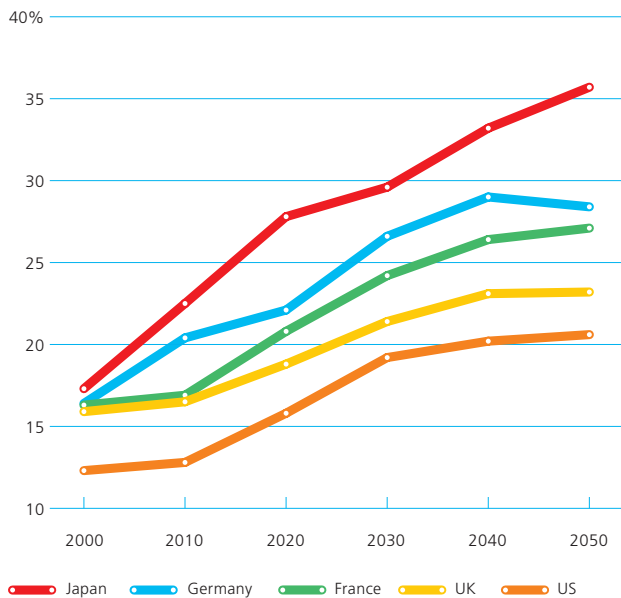
The welfare sector includes activities that focus on the needs of elderly and disabled persons. Nursing care for the elderly, in particular, is a relatively new field, which came about as a result of the April 2000 launch of the national nursing care insurance system. In 2005, there were 4.4 million elderly people covered by the system, and the number continues to increase each year. The health care industry in Japan is a promising sector that is expected to continue growing with the trend toward longer life expectancies and the shift from multi-generational to nuclear family units.

Table of Contents

Market Overview	P.4
Policy Initiatives	P.6
Key Sectors	P.8
Business Opportunities Throughout Japan	P.12
Case Studies	P.14

Market Overview

Population ratio of those aged 65 or older to total population



Source: "World Population Prospects: The 2004 Revision," United Nations

The Japanese healthcare and welfare market is projected to reach 75 trillion yen by 2010



Longer life spans contributing to the growth of the healthcare market

Japan's aging population will inevitably trigger a growth in demand for medical care and welfare services. The Ministry of Economy, Trade and Industry's New Industry Creation Strategy estimates that the size of this market, which was 56 trillion yen in 2002, is expected to grow to 75 trillion yen by the year 2010.

Market scale of Japan's welfare and health care in 2002

(Unit: billion yen)

Medical	41,471
Medical equipment	1,967
Ethical drugs	6,411
Medical systems	250
Medical services	31,323
Medical-related services	1,520
Health promotion	5,697
Health equipment/supplies	286
OTC drugs and household drugs	763
Health foods	1,541
Sports/health-promoting services	3,107
Nursing care/welfare	6,479
Welfare equipment	1,193
Nursing care services	5,193
Welfare-related services	94
Others	2,596
Third-sector insurance	2,596
Total	55,747

Note: Some medical equipment overlaps with welfare equipment. The total figure shows values adjusted for overlapping parts. (Source: Based on materials from Fuji Chimera Research Institute.)

Source: "New Industry Creation Strategy," Ministry of Economy, Trade and Industry (May 2004)

Projected growth in market size and employment from 2002 to 2010

	2002	→	2010
Market Size:	Approximately ¥56 trillion		Approximately ¥75 trillion
Employment:	Approximately 5.5 million people		Approximately 7.5 million people

Fair, effective and efficient medical care

Japan's universal health insurance system, which was established in 1961, provides all citizens with access to medical services. In contrast to other advanced industrialized countries, a "freedom of choice" system of treatment has been established, enabling individuals to choose their own medical service or practitioner, resulting in a highly equitable healthcare system. Moreover, Japan boasts average life spans that are the highest in the world and extremely low infant mortality rates, as well as one of the lowest ratios of healthcare spending as a percentage of GDP among advanced industrialized countries. These factors attest to the high efficacy of Japan's healthcare standards, underpinned by sophisticated technological standards.

Japan's healthcare industry has long been protected by a range of regulatory and legal measures that have placed restrictions on private sector participation. However, a series of deregulation measures have opened up the management of medical institutions to the private sector, and the government is beginning to approve the use of temporary workers in certain sectors of the medical services industry.

Total expenditure on health per GDP in 2003 (%)

1	United States	15.2
2	Switzerland	11.5
3	Germany	10.9
4	Greece	10.5
5	Iceland	10.5
6	France	10.4
7	Belgium	10.1
8	Norway	10.1
9	Canada	9.9
10	Portugal	9.8
11	Austria	9.6
12	Sweden	9.3
13	Australia	9.2
14	Netherlands	9.1
15	Denmark	8.9
16	Hungary	8.3
17	Italy	8.2
18	Japan	8.0
19	New Zealand	8.0
20	Spain	7.9

Source: OECD Health Data 2006 (June 2006)



Policy Initiatives

Government supports medical care and welfare as key sectors



An industry that enriches the quality of life

In 2004, the Japanese government expanded initiatives to promote fundamental reforms and drafted its “Basic Policies for Economic and Fiscal Policy Management and Structural Reform 2004” to establish a foundation for economic growth amid a declining population and a changing international environment. These policies clearly set forth the government’s commitment to comprehensive reform of the social welfare system and the continual safety and well-being of society.

Also in 2004, the New Industry Creation Strategy was devised as a policy action plan that clearly sets forth specific targets for market size as well as deadlines regarding new groups of industries that are able to successfully compete on the global stage and meet the market needs of a changing society. This initiative positions health and welfare equipment and services as key sectors in the creation of a significant number of new jobs. The medical and healthcare industry is expected to have significant effects on the overall economy from the standpoint of expanding the country’s industrial base and improving quality of life.

Deregulation in the medical care and welfare sectors

Although health and welfare has always been more regulated than other sectors due to its primary objective of protecting the lives and health of the nation’s citizens, deregulation is steadily under way in the medical and nursing care sectors, aimed at promoting more efficient management and enhanced services.



Action plan for the health/welfare equipment and service sector under the New Industry Creation Strategy

1. Foster a health service industry that meets people’s diverse health needs, with the goal of providing for the health and well-being of Japan’s senior citizens.
—Comprehensively advance the health service industry through integration and a focus on: (1) individual choice, (2) evidence-based health improvement, and (3) preventive care.
2. Implement the e-Japan focus plan that includes the promotion of the use of electronic medical records and other IT initiatives.
3. Promote the use of personalized medicine, preventative treatments, and regenerative medicines based on advances in biotechnology.
4. Promote the development of medical and welfare equipment that takes advantage of Japan’s expertise in manufacturing technology.
5. Consider introducing foreign experts in the medical and nursing care sectors.

Source: “New Industry Creation Strategy,” Ministry of Economy, Trade and Industry (2004)

Deregulation in the medical and nursing care sectors: major successful achievements of the Council for Regulatory Reform

Year	Primary Regulations Related to Medical Care and Welfare	Examples of International Companies' Entry into the Market
1997		Novartis Pharma K.K. (Switzerland)
1998	· More flexibility in the requirements for designation as a clinical research hospital.	Quintiles Transnational Japan K.K. (U.S.)
1999	· Entry of private enterprises to designated visiting nursing care business · Promotion of computerization of medical records · Revision of the Pharmaceutical Affairs Law (approved the sales at general retailers of about 300 items, including vitamin-containing health products)	Allegiance K.K. (U.S.)
2000	· Revision of the Social Welfare Service Law aimed at the establishment of a consumer-oriented social welfare system · Greater transparency and acceleration of the process for obtaining health insurance coverage for medical devices	Biogen Idec Japan, Ltd. (U.S.)
2001		Bay Bioscience, K.K. (U.S.)
2002	· Revision of the Health Insurance Law (basic policies) ① Reexamination the medical insurance system ② Creation of a new medical system for the elderly ③ Reexamination of the medical treatment service fee system	Allergan Inc. (U.S.), Affymetrix Japan K.K. (U.S.), Bristol-Myers K.K. (U.S.), Stem Cell Sciences K.K. (Australia)
2003	· In structural reform special zones, if either the publicly-funded, privately-run system or the PFI method is used, private corporations are allowed to establish and manage special nursing homes for the elderly. · Regarding highly-advanced medical treatments, if set criteria have been met, a swift approval process is implemented treatments eligible for partial health insurance coverage.	10DR JAPAN Co., Ltd. (Korea), Phonak Japan Co., Ltd. (Switzerland)
2004	· Approval of the entry of joint stock companies in the medical treatment sector inside special zones for structural reform. · Revision of the Pharmaceutical Affairs Law (transferred about 350 drug items to the quasi-drug category, and approved of their sales at convenience stores and other general retail stores)	
2005	· Full-scale implementation of the revised Pharmaceutical Affairs Law (introduction of the manufacturing/sales approval system; classification of medical equipment according to risk levels; introduction of designated third-party certification organizations; and expansion of post-marketing safety measures)	

Source: Compiled by JETRO based on reference material from the General Regulation Improvement Conference

Revision of the Pharmaceutical Affairs Law (PAL) helps expand business opportunities for international firms in Japan

Recent revisions in the PAL have made it easier for international firms to market pharmaceuticals in Japan. These revisions, which took effect this April, simplify the approval process importing and manufacturing pharmaceuticals. Similarly, the process for obtaining a manufacturing and marketing license has been integrated and simplified. As a result, international firms will now need only one license to conduct manufacturing and marketing activities in Japan. Additionally, companies with this license can now outsource all manufacturing processes to domestic and overseas manufacturers.

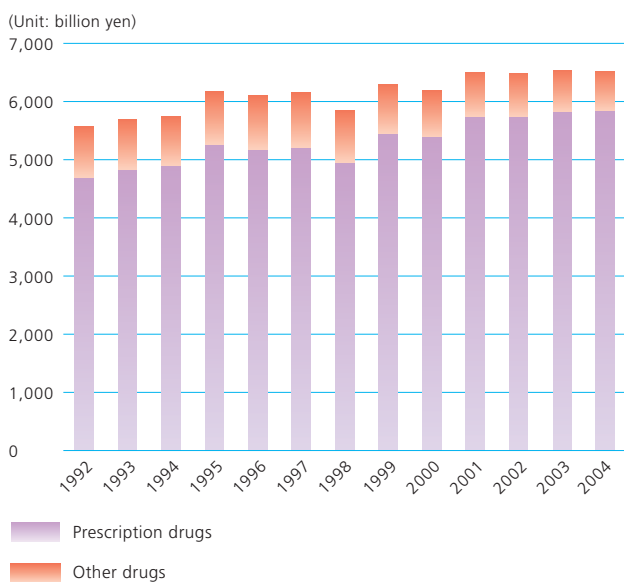
Impact: Expansion of business opportunities for foreign contract manufacturers offering lower production costs and for foreign startups specializing in manufacturing.

Until recently, licenses for in vitro diagnostic devices and drugs were granted only by the approval of the Ministry of Health, Labour and Welfare. However, such licenses can now be granted by designated certification organizations for specified items.

Impact: Enables international companies to enter the Japanese market by receiving permission from a designated certification organization.

Key Sectors

Drug production in Japan



Source: "Survey of Pharmaceutical Industry Production Statistics," Ministry of Health, Labour and Welfare

Deregulation offers expanded opportunities in Japanese medical and welfare sector



Japan's medical services are broadly classified into three industries: pharmaceuticals, medical equipment and supplies, and medical-related services. The welfare industry, however, is a relatively new field, and is generally divided into the welfare equipment and supplies industry and welfare services. This section focuses on sectors that are expected to attract increased interest from international companies.

1. Prescription drugs

According to statistics from the Ministry of Health, Labour and Welfare, the value of drugs produced in Japan totaled 6.525 trillion yen in 2004. Looking at the trend of output values since 1992, there has been steady, albeit modest, growth. Production of prescription drugs amounted to 5.837 trillion yen in 2004, accounting for 89.5% of the total. This share has been rising each year.

Numerous multi-national pharmaceutical manufacturers were able to enter the Japanese prescription drug market during the 1970s and 1980s. Amid the global trend toward consolidation, drastic changes are anticipated that will affect both Japanese manufacturers as well as smaller industry players.

Reorganization and expansion of operations through M&A in Japan

- 1999.4 Akzo Nobel (the Netherlands) acquired the pharmaceutical division of Kanebo.
- 2000.1 UCB (Belgium) acquired the pharmaceutical division (prescription drugs) of Fujirebio.
- 2000.1 Schering (Germany) announced a plan to buy Mitsui Pharmaceuticals from Mitsui Chemicals.
- 2000.1 Boehringer Ingelheim (Germany) announced a takeover bid for SS Pharmaceutical. Made it into a subsidiary in October 2001.
- 2001.3 Abbot Laboratories (US) bought the pharmaceutical unit of BASF (Germany) and turned BASF-owned Hokuriku Seiyaku into a subsidiary.
- 2002.10 Nippon Roche merged with Chugai Pharmaceutical.

2. Medical devices

According to the “Annual Statistics of Production by the Pharmaceutical Industry,” in 2004 the value of Japan’s output of medical devices totaled 1.534 trillion yen, with foreign-affiliated companies such as GE Yokogawa Medical Systems, Boston Scientific Japan, and Johnson & Johnson ranked among the top five in terms of product-specific sales. Deregulation is progressing in this sector through the revision of the Pharmaceutical Affairs Law, which no longer requires sales permits for marketing general medical devices that pose the lowest-level risks (*in vitro* diagnostic devices, X-ray films, etc.). This should continue to bring forth increased opportunities for international companies to enter and expand in this sector.

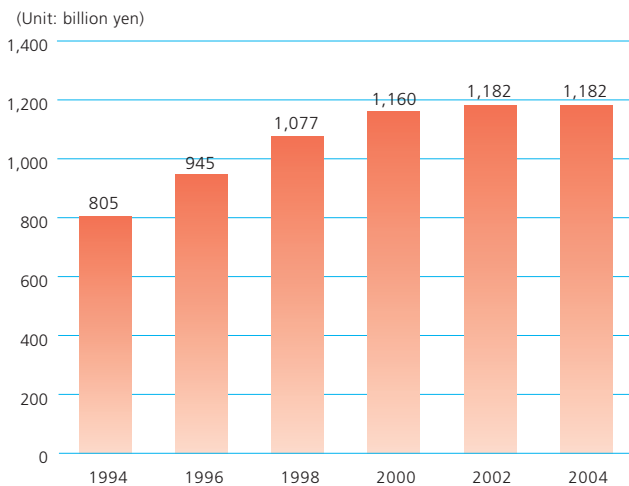
Major companies entering the medical device sector, by product category

Image diagnostic systems
Shimadzu Corporation Hitachi Medical Corporation Mochida Pharmaceutical Co., Ltd. GE Yokogawa Medical Systems, Ltd. Toshiba Medical Systems Corporation
Processing devices
Terumo Corporation Nipro Corporation JMS Co., Ltd. TOP Corporation Boston Scientific Japan K.K.
Hygiene materials and products
Johnson & Johnson K.K. Hogy Medical Co., Ltd. Kawamoto Sangyo Corporation

Source: Drawn up by Nomura Research Institute based on data appearing on the Japan Federation of Medical Devices Associations website.



Market scale of the welfare equipment in Japan



Source: "Survey of the Market Size of Welfare Equipment and Supplies," Japan Assistive Products Association (JASPA)

3. Welfare equipment

In 2004, the welfare equipment market continued to increase slightly, totaling 1.182 trillion yen. Dramatic changes to nursing care insurance (such as coverage for preventive nursing care) are creating opportunities for companies with innovative business models. Coupled with the traditionally large amount of welfare equipment imported into Japan, this development is expected to lead to heightened opportunities for international companies in Japan.

4. Medical services

According to the Ministry of Economy, Trade and Industry, the medical services market (medical systems, medical-related services) reached a size of 33.093 trillion yen in 2002. Many companies are successfully participating in this sector, including medical service companies like Watakyu Seimoa Corporation, medical equipment and welfare equipment-related companies such as Terumo and Francebed Medical Service, pharmaceutical manufacturers like Fujisawa Pharmaceutical and Eli Lilly Japan, and companies from other sectors such as SECOM, which is a security company. As this sector is expected to experience substantial growth, it is thought that there will be an increasing number of companies taking advantage of this opportunity. A large number of companies in this sector operate on a small to medium scale, demonstrating that companies of all sizes are fully capable of entering this sector.



5. Welfare services

According to the Ministry of Economy, Trade and Industry, the welfare services market reached a total size of 5.287 trillion yen in 2002, with nursing care services amounting to 5.193 trillion yen and welfare-related services amounting to 93.7 billion.

Although the welfare service sector has traditionally been open to private companies, with the introduction of the nursing care insurance system there will be an even greater range of opportunities for private sector participation. These include home-based nursing care, which until now was restricted to medical institutions, and home-based welfare services, which until now could only be provided by social welfare corporations. In addition to retirement homes originally operated by private companies, operation of group homes for senior citizens was opened up to private companies in 2001, and operation of lower-cost retirement homes (care houses) was opened up in 2002.



Business Opportunities Throughout Japan

Regions expanding their potential through medical research activities and welfare services.

Mie Medical Valley Project (Mie Prefecture)

Basic data

Population (2005): 1,866,963 (those aged 65 and older: 400,647)
GDP (2003): ¥7,122,073 million

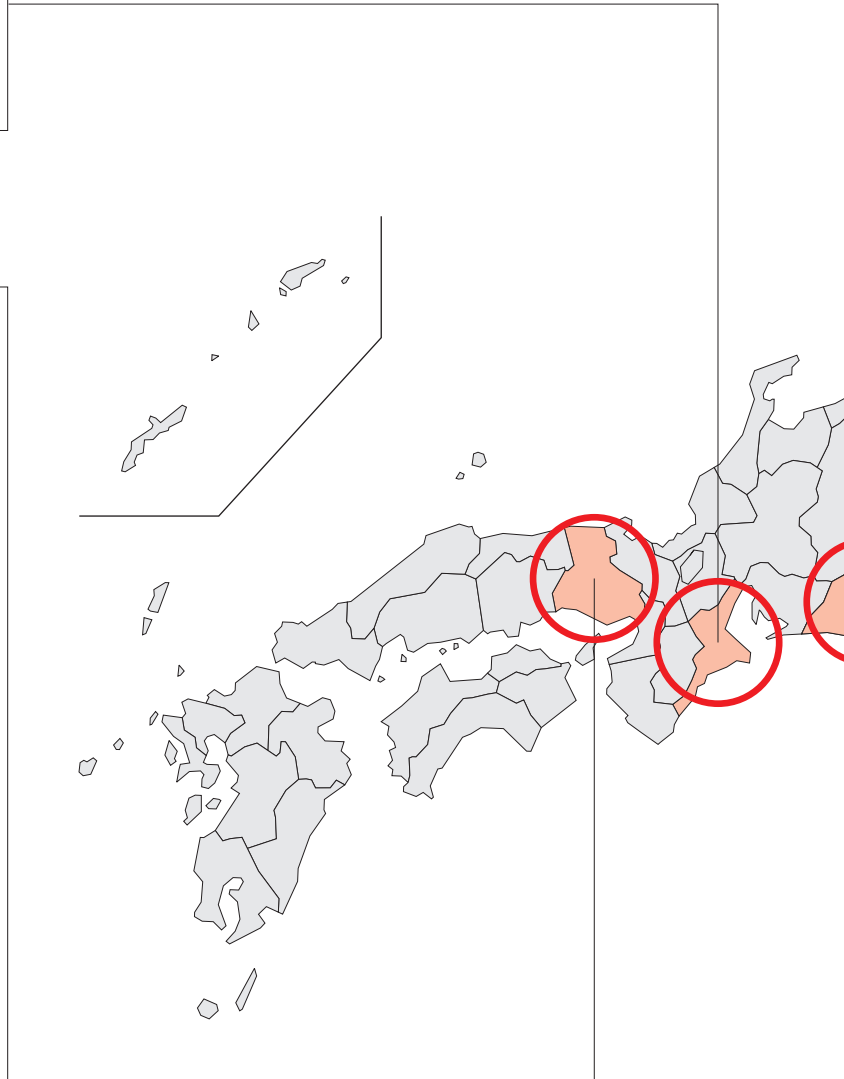
Medical Valley is an organic network of universities, research institutes, corporations, and service providers in Mie Prefecture. The valley is host to the largest privately owned genome facility in Asia and provides a broad range of business support services to businesses that locate in the region.

Kobe Medical Industry Development Project (Hyogo Prefecture)

Basic data

Population (2005): 5,590,601 (those aged 65 and older: 1,108,562)
GDP (2003): ¥18,164,409 million
Core facility: Institute of Biomedical Research (IBRI)

Located 3 km from the center of the city of Kobe, the Kobe Medical Industry Development Project is garnering significant attention as Japan's first medical research cluster. As an R&D center for advanced medical technologies, the project is comprised of several innovative institutes. The Institute of Biomedical Research (IBRI) undertakes cutting-edge research in medical equipment, clinical trials and clinical applications of regenerative medicine. The IBRI's research capabilities are complemented by the presence of both the Institute of Physical and Chemical Research's Center for Developmental Biology (CDB), which focuses on regenerative medicine, and the Translational Research Informatics Center (TRI), which serves as a base for research that bridges basic research and clinical applications. Already, 61 companies, including 13 international companies, have successfully set up operations.





Sendai-Finland Wellbeing Center Project (Miyagi Prefecture)

Basic data

Population (2005): 2,360,218 (those aged 65 and older: 470,512)
GDP (2003): ¥8,426,720 million
Core facility: Sendai-Finland Wellbeing Center

The Sendai-Finland Wellbeing Center (FWBC) Project is an international joint project carried out by the city of Sendai and the Republic of Finland. Through collaboration between Finnish companies and their Sendai counterparts, the project aims to commercialize new health and welfare equipment and services, such as assistance provided to encourage independent living and home-based nursing care. This center encompasses a research and development facility jointly operated by Finnish and local companies in the field of developing new services and products related to health and welfare, and a special retirement home that utilizes Finnish-style welfare practices to provide new welfare services for the elderly.

Shizuoka Pharma-Valley Initiatives (Shizuoka Prefecture)

Basic data

Population (2005): 3,792,377 (those aged 65 and older: 779,193)
GDP (2003): ¥15,747,582 million
Core facility: Pharma Valley Center

Shizuoka Prefecture has launched its Fuji Pharma Valley Initiatives to form a cluster of medical, healthcare and biotechnology companies at the base of Mt. Fuji. The Pharma Valley area is home to pharmaceutical and medical device factories, laboratories and the National Institute of Genetics. Companies in the medical and biotechnology fields are concentrated there as well. The Fuji Pharma Valley Initiative is designed to foster a more intensive concentration of medical, healthcare and biotechnology companies, prin-

cipally in eastern Shizuoka Prefecture, by invigorating existing industries and creating new ones. The Shizuoka Cancer Center, a key institution under the Pharma Valley Initiative, combines medicine, nursing and engineering resources in the public, private and academic sectors to encourage development of new diagnostic and treatment methods and medical devices, as well as the management of new drug development and support for clinical trials. The initiative is designed to leverage the prefecture's healthcare-related infrastructure, including Shizuoka University, hospitals, Japan's second-largest pharmaceutical manufacturing industry (732.7 billion yen annually), Japan's third-largest medical equipment industry (130.4 billion yen annually), and venture companies.

Case Studies

Company	FWBC Japan
Established	March 2004
Nationality	Finland
Overview	<p>A Japanese subsidiary of FWBC, established in 2003 in Helsinki by 11 Finnish medical welfare equipment manufacturers and IT-related companies. The president of the FWBC Head Office became FWBC's president in Japan. A temporary office has been opened in Sendai City.</p> <p>The mission of the Japanese subsidiary, for the time being, is to pave the way for future advancements into Sendai of FWBC investor companies. In the IT sector, the company tied up with Rise, a Sendai medical software development company. Together they are working to construct a system for the integrated operation of medical and welfare equipment at nursing care facilities, and to develop a database that allows the sharing of data (such as the health condition of elderly people) among relevant institutions.</p>

International companies that have successfully begun operations in Sendai City



Reason for setting up business in the Sendai area

Accumulation of leading technologies

Sendai-city is the home of leading educational institutions in the fields of science, engineering and medicine. These include Tohoku University, Tohoku Fukushi University, Tohoku Yakka University, and Miyagi Kogyo Technical School, all with world-class research and development facilities. These universities and facilities have introduced highly influential technologies used throughout the world, such as semiconductors, advanced metals, IT technologies, and medical systems.

Market size

The population of the Tohoku economic zone is approximately 10 million, and the total value of production there is 34.5 trillion yen. This is equivalent to that of the Netherlands and Australia. One of the reasons why the Finnish government chose the Tohoku area instead of Tokyo is the scale of the market in this area.

The core city of the Tohoku economic zone, Sendai, is increasing in population every year, reaching approximately one million in 2004. With the percentage of people in their twenties or thirties high at 32% (City of Sendai, Community Affairs Bureau), the city abounds with a youthful vitality.

International companies that have successfully begun operations in Kobe City



Company name	Nationality	Line of business	Location/name of facility
Nihon Medi-Physics Co., Ltd.	UK	Manufacture and sale of radioactive pharmaceuticals	Site for a manufacturing factory
Areks Japan Inc.	France	Development of software for pharmaceutical companies, etc.	Kobe International Business Center (KIBC)
Bay Bioscience, K.K.	US	Development, manufacture and sale of reagents and equipment for biomedical research	
Stem Cell Sciences K.K.	Australia	Research of regenerative medicine and drug development; licensing operations	
Medasys Japan K.K.	France	Development of medical systems	
GE Yokogawa Medical System Ltd.	US	Development, sale and service of medical image diagnostic equipment	
10 DR JAPAN Co., Ltd.	Korea	Development of medical software	
IBP Technology Inc.	Belgium	Import and sale of bio- and drug-related equipment; technological development	
WelchAllyn Japan K.K.	US	Sale of medical diagnostic equipment	
BioCalth International (Japan) Co., Ltd.	China	R&D, manufacture and sale of health foods, etc.	
B-Bridge International Inc.	US	Sale of bio reagents and equipment	
Nippon Becton Dickinson Company, Ltd.	US	Manufacture and sale of medical testing equipment and reagents	Research Wing, Institute of Biomedical Research (IBRI)
Stem Cell Sciences K.K. (re-insertion)	Australia	Research of regenerative medicine and drug development; licensing operations	Translational Research Informatics Center (TRI)
Nihon Schering K.K. (Japan)	Germany	Study of regenerative medicine and tumors	Business Support Center for Biomedical Research Activities

Reasons for setting up business in the Kobe area

① **A highly educated workforce specializing in advanced medicine**

All of the Kansai area's leading national universities, including Kyoto University, take part in the Kobe Industry Development City Project. Some of Japan's foremost researchers in the field of regenerative medicine gather at the Institute of Biomedical Research (IBRI) and other facilities located on the Port Island. Moreover, the National Cardiovascular Center and other R&D institutions in the medical field further enrich the outstanding human resources in this area.

② **The market size of the Kansai region is comparable to that of Canada**

Kobe city's total output is approximately 6 trillion yen, and the output of the Kansai region, centering on Kobe and Osaka City, is comparable to that of Canada's GDP.

③ **Active promotion and incentives for international companies**

④ **Kobe's living environment supports a diverse community of people from all over the world**

As of March 2003, about 45,000 people from 113 countries live in Kobe. The city has established a range of facilities to ensure a comfortable and pleasant living environment for all of its residents.



www.investjapan.org

JETRO

Japan External Trade Organization
Invest Japan Division, Invest Japan Department
Ark Mori Building, 6F, 12-32, Akasaka 1-chome,
Minato-ku, Tokyo 107-6006, Japan
Tel: +81-3-3582-5571 Fax: +81-3-3505-1990

Neither this publication nor any part of it may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior permission of JETRO. All information in this publication is verified to the best of the writers' and the publisher's ability. However, JETRO does not accept responsibilities for any loss arising from reliance on it.

(Notice for U.S. Users Only) This material is disseminated by the JETRO offices (New York, San Francisco, Los Angeles, Chicago, Houston and Atlanta), which are all registered under the Foreign Agents Registration Act as agents of the Japan External Trade Organization, Tokyo, Japan. This material is filed with the U.S. Department of Justice where the required registration statement is available for public inspection. Registration does not indicate approval of the contents of the material by the United States Government.