

'Asia's Seattle' draws startups to buck trend in aging Japan

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From the fifth-floor office of his internet startup, Kazu Watabe can see the sea bass jump in the bay as he works on his fishing website to the sound of jazz and the waves washing on the beach below.

It's a scene that could be from any of the seaside startup hubs developing around the world - Seattle, Tel Aviv, Barcelona, Sydney - but Watabe's Umebe Inc. is in aging Japan, far from Tokyo, in the western port of Fukuoka.

"It's not a bad idea to build your business after thinking first about what kind of environment you want to be in," said Watabe, 30, who moved to the city in late 2013 from Tokyo to develop smartphone apps and software that helps anglers find fish and share pictures of their catch.

Fukuoka is the fastest-growing major city in Japan outside of the capital, which has been steadily draining talent and workers from the rest of the country for decades. This ancient port, hemmed in by mountains and as close to Shanghai as it is to Tokyo, is bucking that trend, drawing entrepreneurs like Watabe from Japan and abroad.

Soichiro Takashima, elected the youngest mayor in the city's history in 2010, is leveraging its status as a national strategic special zone, cutting red tape and introducing incentives like Japan's first "startup visa," which gives giving entrepreneurs a six-month exemption from the investment and hiring requirements of a business visa.

"We want to give it a try before anyone else," said Takashima, now 42. "Others will come and see how we do it. That's the fastest way to change Japan."

The parallel with Seattle isn't just geographic. Takashima visited the U.S. West-Coast city in 2011 and said he was inspired to create an Asian equivalent in Japan.

Key to Fukuoka's ambition to become an Asian gateway is its location. At the airport, in the heart of the city, planes queue up to fly to destinations like Hong Kong, Singapore and Taiwan. More than 800 million people live within a three-hour flight of Fukuoka.

Scrolling signs in Japanese, English, Korean and Chinese guide visitors in the subway, which takes less than 10 minutes to reach the main railway station downtown from the airport.

"It's pretty hard to beat this location," said Noritaka Ochiai, chief executive officer of the Fukuoka unit of LINE Corp., the South Korean-owned company that runs Japan's top smartphone messaging app, in his office next to the station.

LINE Fukuoka Corp. has added more than 600 jobs since opening in November 2013. Women make up half its workers and 30 percent of management roles. About half its engineers are foreigners. "We welcome anyone who has skills, fits our culture and is interested in us," said Ochiai, 42.

Koji Lin, a 35-year-old Taiwanese engineer at LINE, chose Fukuoka over Tokyo in search of a better quality of life and because it's a short flight to his home country.

The city's 7.2 trillion yen (\$65 billion) economy is about 7 percent of the

size of Tokyo's and average office rents are 50 percent cheaper. While the capital sits in the middle of a conurbation of more than 35 million people, Fukuoka's residents are a short drive from the beach or the mountains.

"I wanted to change the environment and challenge myself," said Lin, a father of two. "Fukuoka was the right size."

Encouraging risk has made Fukuoka a make-or-break city. It has the highest ratio of new business starts among Japan's 21 biggest cities and the second-highest rate of ventures closing, according to the Fukuoka Asian Urban Research Center. Nine out of 10 jobs are in services, compared with 71 percent nationwide.

Boston-based financial services company State Street Corp. opened an operational center with about 130 people from some 20 countries in Fukuoka after the 2011 tsunami and nuclear disaster in eastern Japan.

"Keeping us only in Tokyo came with a number of risks," said Richard Fogarty, head of State Street Global Services in Japan. He said the biggest factor in choosing Fukuoka was the large pool of college graduates.

The inflows have helped support Fukuoka's real-estate market while other cities are hollowing out. The office vacancy rate in Fukuoka has fallen to 4.3 percent, from about 15 percent in 2009, according to Miki Shoji Co.

Fukuoka REIT Corp., listed in 2005 as the first region-specific real estate investment trust, has more than doubled its assets under management to about 173 billion yen.

"Real estate is a very local business and being here gives us greater

advantage in the speed, quality and quantity of information," said Takafumi Fujita, a manager at Fukuoka Realty Co., the asset manager of Fukuoka REIT. "Population growth energizes the city."

Ringed by mountains and 200 kilometers across the Korea Strait from South Korea's Busan port - a three-hour trip on the "Beetle" jet-propelled hydrofoil - Fukuoka's development has been forged as much by geography as planning.

The bowl of hills created a compact, commercial hub at the mouth of the snaking Naka River, with a broad lagoon that hosts one of Japan's largest passenger ports.

The city's first master plan in 1961 aimed to build an industrial economy to join the factory boom that was sweeping the country. But it lost out to Kitakyushu, an hour's drive to the northeast, where steel and automakers built mills and factories on the wide estuary of Dokai Bay.

Now the tables are turned. Fukuoka added about 75,000 people in the five years ended 2015, the most outside Tokyo, with the number of foreign residents rising by 22 percent. Kitakyushu lost more than 15,000 people, the most among Japan's municipalities except for towns evacuated due to the Fukushima nuclear disaster.

Fukuoka, whose samurai warriors held off Kublai Khan's invading Mongol army in the 13th century, was picked as a national strategic special zone for jobs and business creation. Kitakyushu was selected for elderly care.

"When young people do something, they have to start with niche, small things," said Kozo Yamamoto, 68, minister of regulatory reforms and regional revitalization. "Fukuoka is outperforming in that sense."

Fukuoka faces a race against time to make the new economic model sustainable. The pool of youth from surrounding areas is dwindling and the city's population is forecast to peak around 2035 at about 1.6 million.

While Takashima successfully lobbied the central government to cut corporate income tax for Fukuoka startups, he's aware that Japan's demographic clock means that government revenue will inevitably decline as the workforce shrinks.

"Using money as an incentive is outdated, not cool and has no future," Takashima said. "Tax revenue will fall. It's more important to encourage a business friendly environment with deregulation."

The backbone of Fukuoka's push to diversify the new-technology sector is Kyushu University, one of the most famous in the country and one of 13 chosen to be a gateway for more overseas students. Last year, Kyushu had over 2,000 foreign students with major research areas in medical sciences, engineering and information technology.

A member of the university's startup club is Kazutaka Okuda, a 22-year-old medical student who is starting two hospital-related businesses with money he made investing in stocks.

"I used to think I could only start a business in Tokyo, but now I'm thinking maybe I can do it in Fukuoka," he said. "There's no return where there's no risk. Pick your fight and bet big."

Across the road from the vast, striped labyrinth of the Canal City shopping mall is an old galleried building containing The Company, an incubator where almost 200 workers from some 80 firms share facilities. One of them is venture capitalist Shota Morozumi, who runs F Ventures.

"Fukuoka was calling for startups, but I saw a contradiction in terms of

funding," said the 29-year-old, who used to work for a VC firm in Tokyo. He said startups need investment, not loans, which discourage risk-taking. "I'm from Fukuoka and wanted to make it work for Fukuoka."

A kilometer away across the Naka River, where office workers gather in the evenings to slurp the city's famous ramen and spicy fish eggs among the restaurants and karaoke bars on Nakasu island, is the Tsutaya bookshop. Inside, entrepreneurs and venture capitalists meet at the government-backed Startup Cafe, which imparts free advice about everything from hiring to tax.

Among those to take advantage of the service were Yasmine Djoudi, 29, and Thomas Pouplin, 28, the city's first recipients of the startup visa. They visited Fukuoka as graduate exchange students in 2014 from Bordeaux, France, and launched online job-matching company Ikkai Inc. in the city in 2016.

"We really fell in love with the [city](#)," Djoudi said. "It really made sense to start the company here."

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