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Mr Yutaka Oba, centre director for Block 71 Japan, at Station Ai, a Softbank-backed open innovation hub in Nagoya. In October 2024, Singapore's start-up incubator Block 71 set up its first office in Japan there. Mr Oba said the goal is to create a start-up ecosystem connecting Japan and South-east Asia. ST PHOTOS: WALTER SIM

Japan dreams of becoming Asia's largest start-up hub

But aversion to risk, stifling bureaucracy are among hurdles to achieving its goal

Walter Sim
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NAGOYA/OSAKA – Japan lags behind other Asian nations in the start-up scene, but it has big dreams to change that.

It aspires to be home to 100,000 start-ups, including 100 unicorns, by March 2028, with start-up investments growing tenfold from 2022 levels to 10 trillion yen (S$89.92 billion) annually.

The goal is to "make Japan the largest start-up hub in Asia and one of the world's leading clusters of start-ups", a Cabinet Office policy paper said in 2022.

The national government's ambitions have spurred competition among Japan's regions that are dreaming of nursing the next unicorn – an unlisted start-up with a valuation of at least US$1 billion (S$1.33 billion).

As a result, one-stop business support and consultations in English, as well as subsidies and business-matching advice, are now the norm across cities with start-up ambitions, from Tokyo to Sapporo.

Even rural regions are getting in on the action.

Yamaguchi prefecture, known for its fugu, or puffer fish, in 2024 launched an entrepreneurship programme. On March 4, its local Saikyo Bank announced an "innovation fund".

But Japan has some way to go in the start-up realm.

Start-up investments fell from 989 billion yen in 2022 to 779.3 billion yen in 2024, according to Japanese market research consultancy Uzabase.

As at December 2024, there were just eight Japanese start-up unicorns, according to CB Insights market consultancy, putting it behind the 162 in China, including 62 in Beijing, or the 16 in Singapore and 14 in South Korea.

There are no reliable figures on overall start-up numbers in Japan, currently estimated to be more than 10,000. This means it has about 81 start-ups per million people; comparatively, Singapore, with 4,500 start-ups, has about 745 start-ups per million people.

Japan's stifling bureaucracy, overwhelming aversion to risk and comparatively high taxes have been blamed for why the country lags behind other Asian rivals in the start-up scene.

Various prefectures and cities have rolled out measures to attract foreign investors as sweeteners, with the provision of support in English aimed at allaying concerns of the need to navigate bureaucracy and paperwork in Japanese.

Among Osaka prefecture's standout initiatives is a tax exemption beginning in November 2023 for foreign financial companies – including fintech start-ups – that debut in Japan in Osaka.

Nagoya's Station Ai open innovation hub has drawn 500 start-ups since its launch in October 2024, said Aichi Governor Hideaki Omura.

This policy is a first in Japan, and shaves off about 2 per cent from the effective tax rate of 29.74 per cent, comprising taxes paid to both the national and local governments, said Mr Tetsuya Sakamoto, senior executive director of Osaka's growth strategy bureau. In comparison, the tax rate stands at 16.5 per cent in Singapore and 17 per cent in Hong Kong, prefectural documents show.

As Japan's capital and chief financial centre, Tokyo naturally attracts the most interest, especially from technological start-ups.

Tokyo boasts the largest concentration of international start-up accelerators such as Plug and Play and CIC (Cambridge Innovation Centre). The city also has its own annual flagship start-up event called Sustainable High City Tech Tokyo, or SusHi Tech Tokyo.

Tokyo Governor Yuriko Koike has highlighted artificial intelligence, food tech and quantum technology as the city's main areas of focus.

Other cities in Japan are positioning themselves differently.

Nagoya, with its concentration of automotive and aerospace companies, is touting itself as the best place for manufacturing start-ups, with the added convenience of being located between Tokyo and Osaka.

Osaka, whose economy is about the size of Vietnam's, is leveraging its strengths in biomedicine, being home to pharmaceutical giants like Takeda and Daiichi Sankyo.

Osaka University has given rise to 128 start-ups – many in life sciences – while the city has its own start-up centre in Nakanoshima Qross that opened in June 2024.

In the Aichi prefectural capital of Nagoya, Aichi Governor Hideaki Omura said on Feb 5 that Nagoya's Station Ai open innovation hub has drawn 500 start-ups since its launch in October 2024.

What all this means is an abundance of choice for foreign players keen on expanding into the Japanese market, especially with the weak yen and as visa regulations are gradually being eased.

Singapore's start-up incubator Block 71, by National University of Singapore's entrepreneurial arm NUS Enterprise, has taken notice of Japan's ambitions and potential.

In October 2024, it set up its first office in Japan in Nagoya at Station Ai, with a second centre to open in Tokyo later in March at the new Takanawa Gateway City mixed-use development.

Mr Yutaka Oba, 36, who heads Block 71 Japan, told The Straits Times that the goal is to create a start-up ecosystem connecting Japan and South-east Asia by providing regional start-ups the support they need. Block 71 also aims to help Japanese start-ups scale and grow across the region.

He said Block 71 Japan is working with about 15 start-ups thus far, and has partnered with Japanese companies such as petroleum giant Eneos and the East Japan Railway Company (better known as JR East).

The key priorities are to help start-ups develop proofs of concept, secure funding and ultimately expand in Japan, Mr Oba said.

He admitted to having observed unique challenges along the way: Few start-ups see Japan as a priority, compared with markets like Indonesia, which is near Singapore and has a vast growing middle-class population, or the United States, which carries prestige.

And then there are cultural and language barriers, as well as slower decision-making processes: He noted how the middle management in Japan is not empowered to make decisions, unlike in Singapore.

While many Japanese companies have created in-house "new business creation" departments, there remains a hesitation to invest in foreign start-ups.

Having said that, Mr Oba believes Japan has a lot of opportunities, as "it is a very big market, and a very good potential partner to expand in the world".

Japan remains the world's fourth-largest economy with a large population of 124.5 million people, he said, noting the country's strengths in sectors such as manufacturing and robotics.

The country also has the world's most aged population, making it a test bed for solutions such as robotics and healthcare solutions.

Nagoya may be a manufacturing hub, but it has a rare entertainment start-up in DouDouDouJin, whose founder Shoichiro Mizutani, 34, hopes to build on Japan's cultural cachet and resolve the global problem of rampant piracy of Japanese anime and manga.

His platform connects creators of niche manga comics with fans, many of whom are found across South-east Asia, who can voice or create foreign language versions of the graphic novels without any copyright infringement issues.

Among its seven employees is Singaporean intern Alicia Teng, 22, an NUS computer science undergraduate helping to build DouDouDouJin's online platform.

"I wasn't really interested in start-ups working on autonomous driving cars, and if I ended up in a 'normal' tech company, I might as well have just stayed in Singapore," said Ms Teng, who chose to intern at DouDouDouJin instead of the companies recommended by NUS.

"Being able to come to Japan, I wanted to work in an industry that is unique, which I am interested in, and where I can use my skills."

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