

Promotion of Foreign Direct Investment into Japan

Present Status & Future Aspects

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Foreign direct investment (FDI) has favorable effects on the economy, not only for the financial aspects, but also for the actual side of the economy, such as introducing advanced technology and new management methods that do not exist in Japan, and also creating employment. In recent years, whether advanced or emerging countries, it is a popular trend worldwide to offer incentives or set up investment promotion agencies to attract FDI into their country.

Japan External Trade Organization (JETRO), an Independent Administrative Agency - a legal corporation set up by the Government of Japan - promotes trade and investment between Japan and the rest of the world. One of JETRO's important missions nowadays is to attract FDI into Japan. In this article, I will discuss the present status of inward FDI in Japan and the Japanese government's policy for the promotion of attracting FDI, and also describe specific industries with growing chances for foreign companies entering Japan.

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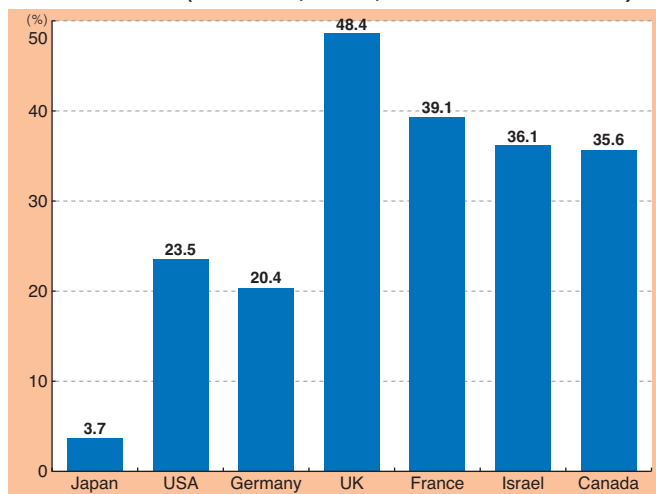
Present Status of Inward FDI into Japan

Japan, with the third-largest GDP in the world, has been said to have a relatively low level of inward FDI in relation to its size of economy. Statistically, Japan's inward FDI stock as a percentage of GDP (3.7%, end of 2010) is extremely low, in comparison with other advanced countries - 23.5% for the US, UK 48.4%, France 39.1%, and Germany 20.4%. Even compared to other countries of Asia, Japan is still very low, with China at 9.9% and South Korea at 12.6%. (Chart 1)

According to the ranking of inward FDI stock as percentage of GDP listed in UNCTAD materials, Japan ranks 195th out of 197

CHART 1

Inward direct investment in major countries (% of GDP, stock, as of the end of 2010)



Source: UNCTAD: "World Investment Report 2011," FDI database Ministry of Finance in Japan as for Japan's Inward FDI

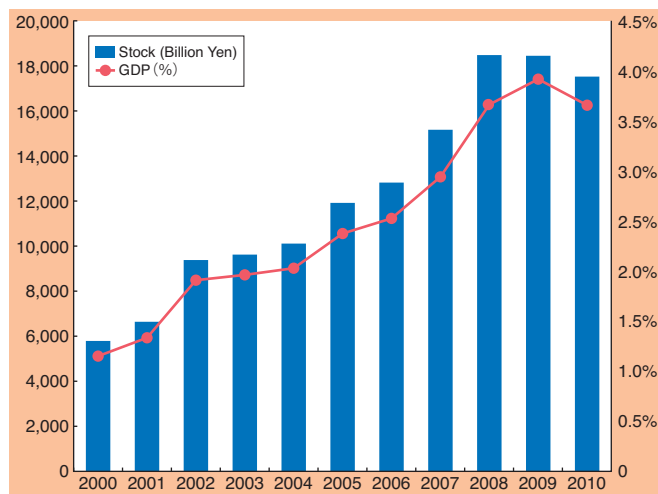
economies.

However, the fact that Japan has low FDI can also be said to show that there are still many business opportunities for foreign corporations in Japan. Actually, Japan's inward FDI stock itself has increased 2.6 times in this decade - from 6.632 trillion yen (end of 2001) to 17.502 trillion yen (end of 2010). In the same period, Japan's inward FDI stock as a percentage of GDP has grown 2.4 percentage points (from 1.3% to 3.7%). (Chart 2)

Recently, opportunities to encounter products and services provided by foreign-affiliated companies in our daily lives, such as large-scale retail shops, "fast fashion" stores selling trendy clothing items at cheap prices, and financial institutions such as banks and

CHART 2

Trends in foreign direct investment in Japan (% of GDP, stock)



Source: Ministry of Finance. % of GDP calculated based on data of Cabinet Office, Government of Japan



Temporary office space at IBSC Tokyo

insurance companies with *katakana* names, have increased dramatically.

Japanese Government Policy & JETRO Activities to Promote FDI

The Government of Japan began its full-scale promotion activities for inward FDI in 2003. That year, the Japanese government set its goal of “doubling Japan’s FDI in five years.” “The Program for the Promotion of Foreign Direct Investment into Japan,” which indicates the overall measures to be carried out in order to achieve this goal, was adopted by the government in the same year.

Based on this program, the Invest Japan Business Support Center (IBSC) was established within JETRO in Tokyo in May 2003, as a base to provide overall support for foreign corporations that are interested in setting up business in Japan. Presently, IBSCs have been set up in six major cities - Tokyo, Yokohama, Nagoya, Osaka, Kobe, and Fukuoka - as “one-stop centers” that offer necessary services and information for foreign corporations in making a start in Japan.

Each IBSC offers the following services:

No-cost rental office space. In the case of IBSC Tokyo, companies supported by JETRO can have the use of an office space rent-free for up to 50 business days, and can extend this to the period from the 51st to the 75th business day with a certain fee.

Consultations with and advice by experts in taxation, accounting, residence status and visas, labor issues, finding human resources, etc.

Providing necessary information related to regulations, market and industry, cost estimates, incentives from national and local governments, etc.

In addition to these IBSC services, JETRO conducts a variety of



Multipurpose Hall at IBSC Tokyo

activities such as providing necessary information on JETRO’s home page or at JETRO seminars, arranging networking opportunities, etc.

JETRO also conducts activities in conjunction with local governments, such as arranging “top sales events overseas” by governors or mayors, or providing information on incentives of each region. Employees of local governments may be accepted as trainees for the Invest Japan Department of JETRO Tokyo or overseas offices, where they conduct FDI promotion activities along with JETRO staff.

As a result of these activities, JETRO has succeeded in attracting a total of 901 foreign corporations to Japan within the eight years from April 2003 to March 2010.

“New Growth Strategy” and “Promotion of Japan as an Asian Business Center”

In June 2010, the Government of Japan adopted the “New Growth Strategy” (*Shin Seicho Senryaku*), which includes promotion of the accumulation of regional headquarters and R&D sites in Japan, in order to revive Japan as an Asian Business Center. Based on this policy, an incentive called “Subsidy Program for Projects Promoting Asian Site Location in Japan” started in 2011.

This subsidy, in the case that a global corporation establishes a regional headquarters or R&D site in Japan, under certain conditions and with one billion yen as the upper limit, provides up to half of the cost in the case of an SME (one third in the case other than an SME). The PR for this subsidy and the selection of subsidized projects are conducted by JETRO as secretariat of the subsidy program.

The first public offering, carried out from February to March 2011, selected five projects that will set up R&D sites. The second public offering was conducted from August to October, 2011, and currently (December 2011) projects to be selected are being deliberated on.

Comprehensive Special Zone System

In the “New Growth Strategy,” along with the policy to promote Japan as an Asian Business Center, another idea is the creation of the Comprehensive Special Zones system (*Sogo Tokku Seido*). The Comprehensive Special Zones Law (*Sogo Tokubetsu Kuiki Ho*), enacted in August 2011, prescribes two kinds of system: Comprehensive Global Strategic Special Zones (*Kokusai Senryaku Sogo Tokku*), and Local Revitalization Special Zones (*Chiiki Kasseika Sogo Tokku*). The former includes necessary deregulation and special measures for promotion of accumulation of industries and foreign-affiliated companies, as well as tax, finance, and monetary support measures. It is hoped that progress will be made in the establishment of bases of global companies in the areas designated as Comprehensive Special Zones.

Effects of the Great East Japan Earthquake & FDI after 3.11

The Great East Japan Earthquake that occurred on March 11, 2011 caused a great deal of damage to Japanese society and also had a large effect on foreign-affiliated companies in Japan. Immediately after the disaster, there were reports of foreign-affiliated companies that stopped operations temporarily, because of fears in regard to the nuclear power plant accident and concerns about the insufficient power supply, but most of them restarted operations at an early date. In fact, there has been a trend for overseas observers to reconfirm Japan's strengths that the disaster brought into clear focus, such as Japanese people's calm behavior in the disaster-hit area, as well as the rapid recovery of infrastructure and supply chains. In addition, there are high expectations for potential business opportunities in regard to the demand for reconstruction.

In the “JETRO Global Trade and Investment Report” published in August 2011, one chapter is devoted to “International Business toward Recovery from the Disaster.” It analyses trends in Japan's post-disaster trade and investment, and includes cases of FDI into post-disaster Japan.

Umicore, a global materials technology group and the world's second-largest maker of lithium-ion battery cathode materials, with headquarters in Belgium, announced in April 2010 that it would establish a base for the R&D and manufacture of lithium-ion battery materials in Kobe City. The project was continued even after the Great Earthquake, with the opening ceremony held in October 2011. According to the company's press release (April 7, 2010), the amount of investment is four billion yen, and 40 people are expected to be employed. This case is one in which a subsidy was provided, through the Ministry of Economy, Trade and Industry (METI)'s Subsidy Program for Projects Promoting the Location of Job-Creating and Low-Carbon Industries.

In June 2011, Umicore announced the establishment of a manufacturing workshop for platinum group metal (PGM) components in Yokohama City, Kanagawa Prefecture, and held the opening ceremony in October. Umicore says that the plant in Yokohama is well located to serve customers all over Japan.

Dou Yee International Pte Ltd., a Singaporean company involved in film liquid crystal display-related products, bought a factory in Shobara City, Hiroshima Prefecture, in June 2011. Dou Yee announced its intention to conduct manufacture and R&D. The investment amount for the initial term is expected to be one billion yen. In regard to this company's Japan entry, it was selected as a recipient of the Subsidy Program for Projects Promoting Asian Site Location in Japan, while JETRO also provided information on suitable sites.

Teva Pharmaceutical Industries, the world's largest manufacturer of generic pharmaceutical products, whose headquarters are in Israel, announced in May 2011 that it had agreed to acquire a majority of the shares of Taiyo Pharmaceutical Products Industries. Teva, through its strategic capital linkage with Taiyo, will play a leadership role in Japan's dramatically growing generic market.

In September, Mag-Isover, a member of the French Saint-Gobain Group and a manufacturer of insulation, announced that it would construct a new plant in Tsu City, Mie Prefecture. This plant is expected to become West Japan's biggest factory for the manufacture of glass wool for residential use. Annual production capacity is set at 60,000 tons, and operations are expected to begin by the end of 2013.

In the “JETRO Global Trade and Investment Report,” cases of FDI into post-disaster Japan are listed. Among them are the building of a distribution plant in Tomiya Town, Miyagi Prefecture, by the US distribution company Prologis; the strategic alliance between the US IT companies Microsoft and Salesforce.com with Toyota Motor Corp. in relation to next-generation eco-friendly cars; and the acquisition of distribution facilities and land by Singaporean Mapletree and the American LaSalle Investment Management.

Industries with High Potentiality of FDI in Japan

FDI promotion activities of JETRO give priority to the following five industries and businesses, considering the growing interest of foreign corporations, priorities set by the “New Growth Strategy” of the Japanese government, and the anticipated ripple effect on the domestic economy.

1. Green Technology

In response to the growing demand for reduction in the emissions of greenhouse gases, Japan's market related to low-carbon-type technology has become an area in which foreign corporations have a growing interest.

Because of anxiety over the shortage of the electricity supply after the Great East Japan Earthquake, awareness about electricity-saving and the importance of self-generation has increased considerably in Japan. In addition, since the Feed-in Tariff will be officially introduced in July 2012 through the Renewable Energy Special Measures Law enacted in August 2011, market entry of foreign companies with related technologies is becoming increasingly active. Green technology is an area where Japan had advanced technology, and many FDI-based companies have also appeared, not only with the aim of increasing sales in the Japan

market, but also with the goal of joint development or mergers with Japanese companies that possess particular technologies.

Photovoltaic power generation is an important area of renewable energy. In recent years, major solar battery cell manufacturers are creating a base in Japan, and this trend is expected to continue. There is also a strong trend for R&D bases to be established in Japan for next-generation-type solar batteries, such as Konarka Technologies, Inc. (a US company with polymer-based, organic photovoltaic (OPV) technology), which has announced a capital and business tie-up with Konica Minolta. The Australia-based Dyesol, a leading supplier of third generation solar technology, established Dyesol Japan Co., Ltd. in December 2009. In the field of next-generation batteries, which are essential in electric car and smart grid technology, there is a strong interest in entry into Japan. As for the field of electric vehicles (EVs) that use lithium ion batteries, Tesla Motors, a US venture business, has established a base in Japan. Since May 2010, Tesla has sold EVs in Japan over the internet and in October, opened a showroom in Aoyama, Tokyo.

2. Life Science

In Japan, where the pace of the aging of society is the most rapid among the advanced countries, it is expected that the medical market will expand dramatically. The Government of Japan decided to set the target of doubling the share of the prescription drug market held by generic drugs to 30% by 2012 (from 16.8% in 2004), which will encourage the entry of foreign pharmaceuticals manufacturers. In light of this decision, major Indian and Israeli generic drug makers have entered the Japanese market; Indian manufacturers such as Lupin, Zydus Pharma, and Dr. Reddy have set their bases in the Japanese market; and the Israeli Teva, the world's largest manufacturer of generic drugs, also has a presence in Japan. There are also many cases of entry by foreign corporations in medical goods other than generic ones, and medical equipment.

3. Tourism

Although the number of tourists from overseas sharply decreased after the Great East Japan Earthquake, Japan remains a travel destination of great appeal to citizens overseas. The Government of Japan is promoting various campaigns to enhance recovery in the number of tourists.

In the last few years, the interest in entering Japan of foreign low-cost carriers (LCCs) has increased, and their interest in opening up new routes has continued even after 3.11. Although there is little direct employment in Japan even when they open up their route, large increases in the number of tourists from overseas to the region can be expected, which means that the economic benefit brought to the region will be large.



JETRO's business-matching event at Smart City Week 2011, Yokohama

4. Retail

The entry into Japan's market of retail businesses that aim for expansion of sales, and the increase in the number of shops of existing retail businesses, is a trend in recent years. So-called "fast fashion" retailers such as H&M (Sweden), Forever21 (US), and Abercrombie & Fitch (US) are examples of such a trend.

Even after the Great East Japan Earthquake on March 11, foreign retailers remain focused on the Japanese market. In September 2011, IKEA, the Swedish furniture volume-retailer, opened a mini-shop in Sendai, with the aim of providing aid to the disaster-stricken area.

5. Procurement Bases

There are cases of establishing a company or a representative office in Japan as a base for procuring Japan-made products and content. This is a trend that uses the high evaluation of made-in-Japan products overseas. As it will further exports of Japanese goods, it also has a large ripple effect on the domestic economy. President Chain Store Corporation, the flagship of the leading Taiwan conglomerate Uni-President Enterprise Corporation, started its Japan operations in Tokyo in 2008.

In order for the Japanese economy to continue to grow steadily, it is essential for FDI into Japan to be promoted, and vitality from overseas to be introduced. JETRO will continue to provide support for foreign corporations entering Japan.

For more details on JETRO's Invest Japan activities, please see the following website: <<http://www.jetro.go.jp/en/invest/>>.

In regard to the contents of this paper, please see the reports already published by JETRO, such as the "JETRO White Paper and JETRO Global Trade and Investment Report," and "New Trends for Direct Investment in Japan, Nine Keywords for Discerning Direct Investment Patterns," JETRO SENSOR, May 2011. JS

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