

# Recent Trends in Inward FDI & Promotion of Investment into Japan

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In spite of the effects of the Great East Japan Earthquake in March last year, foreign direct investment (FDI) into Japan in 2011 was about the same as in the previous year. In 2012 also, judging from the high interest of overseas corporations in the feed-in tariff system that began in July, and the good reputation of the quality of Japanese products, it appears that there are still many overseas companies that intend to enter the Japanese market.

In the year from April 2011 to March 2012, the Japan External Trade Organization (JETRO) attracted 69 foreign companies to set up in Japan. These ranged from companies establishing bases for sales activities, information-collecting, and PR activities, to those intending to conduct R&D and manufacturing. Below I will introduce some trends in FDI into Japan, new investment initiatives by the government, and activities to attract investment in the areas particularly affected.

## Recent Trends in Inward FDI

At the end of 2011, Japan's inward FDI balance was 17.548 trillion yen, a slight (0.3%) increase over the 17.502 trillion yen at the end of 2010. Since the earthquake of 3.11 last year, there has been concern about overseas corporations possibly moving out of Japan, but it appears that in fact the effect of the disaster in this regard has been less than was at first feared. The value of mergers and acquisitions (M&As) that took place during 2011 was 13.7 billion yen, an increase of 80.8% over the previous year and a rise for the second successive year.

This included several large-scale M&As, such as the purchase by Prudential Financial (US) of AIG Star Life Insurance (\$4.8 billion); the acquisition by Bain Capital Partners (US) of Skylark Co. (\$3.381 billion); the acquisition of Taiyo Pharmaceutical Industry by Israel's Teva Pharmaceutical Industries, one of the world's largest makers of generic medicine (\$11.85 billion); and the purchase of Sanyo Semiconductor by ON Semiconductor Corporation, a US semiconductor manufacturer (\$6.65 billion).

## Recent Cases of JETRO's Success in Attracting Corporations

Among the 69 companies JETRO attracted to Japan as part of its inward FDI promotion operations, many are in fields related to the environment (renewable energy, solar batteries), medicine (medical goods and devices), tourism (airlines), and retail (high-brand fashion), while especially since the disaster there has been a trend to invest in businesses in Japan involving technology and services, with the aim of realizing a Japan that can "withstand disasters".

Aggreko Plc, a major British corporation that rents out generators and temperature regulators, entered Japan in response to the electricity shortage after the earthquake and established a company in Tokyo. The company aims to expand its business with a view to providing emergency power to Japan's electricity companies and

factories, local bodies, and so on. The second example is RAE Systems, a US manufacturer of testing equipment that, projecting a growing demand in Japan for devices to measure radiation, has also established a limited company in Tokyo and is steadily selling low-cost radiation measuring devices that are easy to carry.

Another recent phenomenon is the increase in investment by foreign companies with the goal of establishing a manufacturing plant inside Japan. Cases of this sort that occurred in fiscal 2011 include the plan by MAG-ISOVER, a French residential insulation manufacturer, to build a factory in the city of Tsu in Mie Prefecture, and the plan by Dou Yee International Pte. Ltd., a Singaporean manufacturer of film liquid crystal displays, to set up a manufacturing and R&D base in Shobara, Hiroshima Prefecture. Details of these successful cases can be seen in the "Investment News" section of the JETRO website (<http://www.jetro.go.jp/en/invest/newsroom/>).

## Policies to Attract Inward FDI

### 1. Program for Promoting Japan as an Asian Business Center and Direct Investment into Japan

The government's current inward FDI promotion policies are outlined in the "Program for Promoting Japan as an Asian Business Center and Direct Investment into Japan" issued in December 2011. This program was positioned in the government's "New Growth Strategy" of June 2010 and in its "Strategies to Revitalize Japan" of July 2012. It sets out specific policies and goals in order to achieve the revitalization of the Japanese economy.

In the program, as a basic concept, along with stressing the need to strengthen Japan's location competitiveness, the expansion of inward FDI is evaluated as contributing to improved productivity and creation of employment through introducing economic resources, and also in the mid term increasing Japan's potential growth rate, while – amid some expressing concern about a possibly increasing current-account deficit in the future – the program also has great importance in the sense of

promoting capital inflow. Moreover, it aims to promote the revival of Japan as an Asian base by focusing on the appeal of added-value bases, while also pointing out how inward FDI is vital for “reconstruction open to the world” of the areas affected by the earthquake.

On the basis of this understanding, three goals to be achieved by 2020 are stated: 1) increase the number of value-added sites (attract 30 cases per year), 2) double the number of employees of foreign affiliates (increase to 2 million from 750,000 in 2006), and 3) double direct investment into Japan (from 17.5 trillion yen at the end of 2011 to 35 trillion yen). Five pillars are given for achieving these goals: 1) measures to improve profitability (location subsidies, effective corporate tax reductions); 2) utilization of a special-zone system; 3) streamlining the investment environment and building investment support systems; 4) improvement of lifestyle environment; and 5) furthering information transmission.

## 2. Subsidy Program for Projects Promoting Asian Site Location in Japan

One of the tools for achieving policies to promote Asian site location in Japan that has been implemented since fiscal 2010 is the “Subsidy Program for Projects Promoting Asian Site Location in Japan”. This is an incentive program that provides subsidies for global corporations that newly set up regional headquarters or organize R&D sites within Japan, and covers survey design costs, facility costs, equipment costs and facility lease fees. A screening committee of experts makes decisions about the applicants based on factors such as uniqueness, value-added, and ripple effects, such as the cumulative effect the subsidized project is expected to have in Japan.

In the two recruitment processes among applicants carried out so far, a total of 15 operations have been selected. In the program for fiscal 2011, operations related to one regional control base and the establishment of nine R&D bases, by companies from the United States, France, the United Kingdom, the Netherlands, Belgium, and Sweden were selected (Table).

In fiscal 2012 (applications accepted from Aug. 28 to Nov. 19), in addition to the previously existing subsidies (for SMEs up to half, for those other than SMEs up to one-third), a new incentive was set up whereby, for location in zones particularly affected, up to two-thirds of the costs will be covered. JETRO has undertaken the office and administrative work of this subsidy since it began in fiscal 2010, and is carrying out activities to encourage the establishment in Japan of regional control bases and R&D bases of overseas global corporations.

## 3. Promotion of Japan as Asian Business Center Law & Reduction of Effective Corporate Tax Rate

Along with the “Subsidy Program for Projects Promoting Asian Site Location in Japan” another tool that has been put in place to assist measures to promote Japan as an Asian business center is the “Promotion of Japan as an Asian Business Center Law” (officially “The Law on Special Measures for the Promotion of Research and Development by Certified Multinational Enterprises”), enabling the implementation of various kinds of incentives.

Under this law, in order to encourage added-value bases such as regional control bases and R&D bases, the following incentives for global corporations have been put in place:

TABLE

## Projects selected for subsidy program for FY 2011

No.	Company	Global HQ	Type of project site	Category of business
1	DSM Japan Engineering Plastics K.K.	Netherlands	R&D	Chemicals (plastic)
2	Intelligent Energy Holdings Plc	UK	R&D	Fuel cells
3	Medasys Japan K.K.	France	R&D	Medical information system
4	Mikado Kyowa Seed Co., Ltd. (Subsidiary of Vilmorin & Cie S.A.)	France	R&D	Vegetable seeds
5	NeoPhotonics Japan, Godo Kaisha	US	R&D	Optical communication equipment
6	Nihon Cabot Microelectronics K.K.	US	R&D	Materials for electronics component (abrasive)
7	Sanofi-Aventis K.K.	France	Regional HQ	Pharmaceuticals
8	Umicore N.V.	Belgium	R&D	Industrial chemicals (catalyst)
9	Volvo Technology AB	Sweden	R&D	Technology development related to automobiles
10	3M Health Care Ltd.	US	R&D	Healthcare products

Source: METI

- Preferential corporate tax: 20% income deduction for five years
- Preferential income tax: same tax treatment for stock options from the foreign parent company as given to those from Japanese companies
- Reduced patent fees: reduced fees on the results of R&D operations (only for SMEs)
- Faster investment procedures: shortening the required inactive period from the current 30 days to two weeks after application under the Foreign Exchange Act
- Financing support: financing support by Small and Medium Business Investment & Consultation Co., Ltd.
- Foreigners expected to work for certified companies are eligible for expedited visa examination.

Currently Japan’s effective corporate tax rate is 38%, but in the case of corporations approved under this law the effective tax rate will be 31%. Moreover, in order to obtain financial resources for recovery from the earthquake, special corporate tax rates will be applied for a three-year period from 2012, but after this measure ends in April 2015 Japan’s effective corporate tax rate will be about 35.6%, while for companies approved under the new law it will be about 29%.

Up until now, it has been said that Japan’s effective corporate tax rate is high when compared to other major countries, but through these measures it is expected that the rate will no longer be particularly high.

## Toward Attracting Foreign Companies to Eastern Japan

Reconstruction of the areas affected by the earthquake is one of the most important policy issues for Japan today. The government has designated the five years up until the end of 2015 as an “intensive reconstruction period” and is expected to spend a budget of about 19 trillion yen. Meanwhile, the Reconstruction Agency was established in February 2012, and the government as a whole is working to achieve the restoration of the affected areas. Furthermore, the System of Special Zones for Reconstruction has been set up, as a framework for attracting foreign corporations to the areas and creating more employment.

The System of Special Zones for Reconstruction is a system that implements deregulation, special national and regional tax measures, and special examples of restructuring of land use, based on the reconstruction promotion plans compiled by local governments in regions designated by the law.

Currently, as of the end of August 2012, there are 20 designated reconstruction promotion plans. Of these, the following are examples of special cases of taxation, in order to promote industrial clusters.

- Green innovation-related industries, food-related industries (Aomori Prefecture and four cities/towns)
- Industries related to electronic machine manufacturing, such as manufacturing and medical goods-related industries (Iwate Prefecture)
- Manufacturing industries (car-related industries, advanced electronic machine industries) (Miyagi Prefecture and 34 cities/towns/villages)
- Agriculture and agriculture-related industries (Sendai city)
- Tourism-related industries (Shiogama city)
- Commerce, welfare, care-giving operations (Ishinomaki city)
- Information service-related industries (software business, call centers, data centers) (Miyagi Prefecture and 17 cities/towns/villages)
- Commerce- and tourism-related industries (Ishinomaki city)
- Transport machinery, electronic equipment, medical and welfare equipment-related industries (Fukushima Prefecture and 59 cities/towns/villages)
- Car-related industries, basic materials industries, electricity- and machinery-related industries (Ibaraki Prefecture and 13 cities/towns/villages)

There are special tax measures in the special reconstruction zones related to both national taxes and local taxes; of these, special measures related to national taxes are measures that designated companies in the “Special Zones for Reconstruction of Industry Clusters” can receive, specifically, as follows:

- ① Special depreciation/tax deduction: designated corporations are eligible for special depreciation or tax deduction when they acquire machinery, installations, buildings, etc.
- ② Special corporate tax credit: designated corporations are eligible for tax credit equivalent to 10% of the combined amount of salaries and other payments for employees from severely damaged areas.
- ③ Taxation to promote establishment of new business facilities: corporations are exempt from corporate tax for five years if they are established in the “Special Zones for Reconstruction of Industry Clusters” and continue their business in the designated industry sectors. (New corporations are eligible for inclusion in deductible expenses of reserve funds for reinvestments, to a maximum of their balance of reserves for such funds, and corporations are eligible for immediate depreciation if they make reinvestments, to a maximum of their balance of reserves for such purposes.)
- ④ Tax incentives for R&D: corporations are eligible for immediate depreciation if they acquire assets for research and development activities, and corporations are eligible for a tax credit equivalent to 12% of the expense involved in immediate depreciation of assets for research and development activities.

Designated corporations are allowed to choose among arrangements ① ② and ③.

Also, as a special measure in the special reconstruction zones, exemption from local tax or application of non-uniform tax rates applies: designated corporations for tax benefits in ① are also eligible for local tax exemption or reduced local tax rates for corporate enterprise tax, real estate acquisition tax and fixed-asset tax in accordance with the provisions of relevant ordinances of the local governments, if the corporations acquire machinery, buildings or other properties in the zones.

In the affected areas, having set up these kinds of incentives, many efforts are now being made to attract both domestic and overseas companies. JETRO too, in order to promote investment by overseas companies in these areas in particular, is actively carrying out PR activities with regard to the investment environment there.

On March 23, 2012, for example, at IBSC Hall, JETRO Tokyo, a special briefing for the diplomatic corps and foreign-affiliated companies in Japan was held and attended by representatives of foreign-affiliates in Japan and of embassies in Tokyo. At the briefing, the Reconstruction Agency and representatives of each affected prefecture explained the special reconstruction zone system and the investment environment of each area (with Japanese-English simultaneous interpretation). The event was a great success, with over 100 participants.

“The Japan Business Forum: New Initiatives for Sustainable Growth” was held in New York on July 17. The first half of this event focused on explaining the investment environment of the affected areas, while the second half featured a panel discussion on “Japan’s Path from Reconstruction to a New Energy Future” that provided an opportunity to transmit information on Japan’s renewable energy market, in which there is also considerable interest in the US.

In relation to the affected areas, JETRO cooperated with the US Embassy, the Ministry of the Environment, and Fukushima Prefecture at the end of June in welcoming to Japan a group of 33 US companies involved in radioactive decontamination. Their visit included meetings to exchange information with Japanese companies and a trip to Fukushima Prefecture to see some of the decontamination areas.

For the recovery of the areas, a wide variety of efforts are being made throughout Japan. JETRO intends to continue transmitting information on the special-zone incentives to other countries and trying to attract foreign companies to the areas.

**(References:** In regard to inward FDI in Japan from 2011 onward, a detailed explanation can be seen in JETRO’s World Trade and Investment Report ([http://www.jetro.go.jp/en/reports/white\\_paper/](http://www.jetro.go.jp/en/reports/white_paper/)). Also, in regard to the government’s incentives related to inward FDI, see the related pages (FDI) on the JETRO website ([http://www.jetro.go.jp/en/invest/incentive\\_programs/](http://www.jetro.go.jp/en/invest/incentive_programs/)). In particular, in regard to investment incentives for the areas affected by the disaster, see the pamphlet “Your Business Chance in Recovering Japan” on the same website ([http://www.jetro.go.jp/en/invest/reports/pdf/fukko\\_e.pdf](http://www.jetro.go.jp/en/invest/reports/pdf/fukko_e.pdf)).)



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