

# Recent Trends in Foreign Investment in Japan & Related JETRO Services



Author Takeshi Saito

By Takeshi Saito

The balance of foreign direct investment (FDI) in Japan reached 17.81 trillion yen as of Dec. 31, 2013, an increase of 260 billion yen from the previous year. Taking over in December 2013, the administration of Prime Minister Shinzo Abe launched a set of economic policies quickly dubbed “Abenomics” that has raised expectations of economic recovery, lower exchange rates for the yen, and deregulation, laying the groundwork for conditions favorable to inward investments into Japan by foreign businesses.

The “Japan Revitalization Strategy — JAPAN is BACK”, adopted by a Cabinet decision in June 2013, emphasizes the importance of inward direct investment in revitalizing the Japanese economy and looks to JETRO to play a major role within the government framework for inviting foreign businesses to Japan and supporting them here. In this report, I will introduce the activities conducted by JETRO to promote inward investment as well as the services provided to foreign businesses. But first, let us look at recent trends in foreign investment in Japan after the launching of Abenomics.

## Recent Trends in Foreign Investment in Japan

Inward direct investment in Japan, FDI balance, increased year-on-year in 2012. Inward direct investment, FDI balance, which peaked at 18.46 trillion yen in 2008 and had trended down since then, increased in 2011 for the first time in three years and has been recovering since, albeit modestly. Inward direct investment continues to increase in 2013. The inward direct investment, FDI balance, as of June 30, 2013 (revised estimate) announced in December 2013 increased year-on-year to 18.04 trillion yen (Chart 1).

Manufacturing, electrical machinery and appliances, chemicals and pharmaceuticals in particular played a major role in inward direct

investment in 2012. Investments by Taiwanese firms in Japanese firms and investments by Chinese and British firms impacted electrical equipment and appliances, while major European chemical and material manufacturers establishing footholds and foreign pharmaceutical companies upgrading existing establishments had a similar effect on chemicals and pharmaceuticals. Direct investment from Asia in particular showed significant growth.

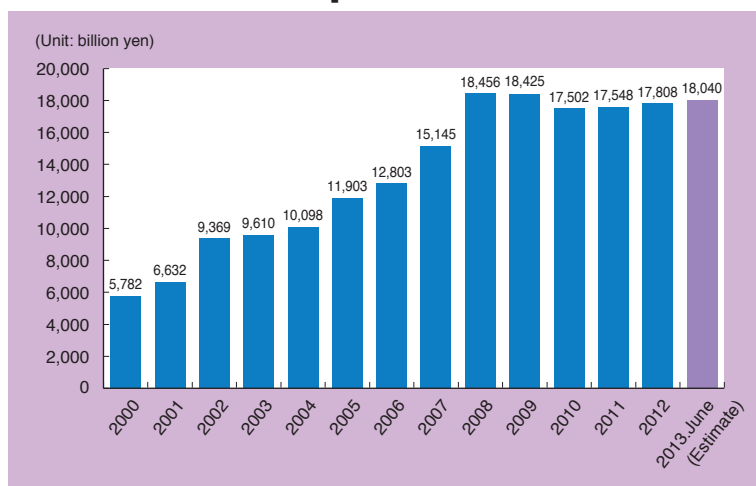
According to the analysis in the 2013 *JETRO White Paper and JETRO Global Trade and Investment Report*, the 2012 rate of return for direct investment by foreign firms was 6.9% in Japan, higher than in the United States (4.9%), Germany (4.0%), and South Korea (4.4%). Moreover, according to the *Survey of Trends in Business Activities of Foreign Affiliates* conducted annually by the Ministry of Economy, Trade and Industry, the ratio of current profits to assets of foreign affiliates (excluding finance and insurance and real estate) bottomed out in 2008 and has trended upward since then, reaching 4.8% in 2011, well above the 3.3% average for all firms in Japan.

If lower exchange rates for the yen and regulatory reform take hold, this will reduce investment costs for foreign firms interested in investing in Japan, further improving the business environment for foreign firms.

## Japan Revitalization Strategy & Promotion of Inward Direct Investment

One of the “Examples of Necessary Key Measures in Line with the ‘Roadmap to Growth’” in the Japan Revitalization Strategy is complete globalization by advancing the notion of “Cool Japan”, increasing the

CHART 1  
Inward FDI into Japan: 2000–June 2013



Sources: Ministry of Finance, Bank of Japan

number of foreign visitors to Japan, and encouraging inward direct investment into Japan. Doubling inward direct investment, FDI balance (17.8 trillion yen as of Dec. 31, 2012), to 35 trillion yen in 2020 has been set as a target. The strategy lays out the following specific measures to achieve this:

1. Fundamental reform of the special zone system (develop the best environment in the world for business activities by using National Strategic Special Zones)
2. Drastically strengthening the government's capability for attracting foreign companies and its support framework (strengthen the function of JETRO's industry specialists ("Invest Japan Attachés"), develop a comprehensive support system including the reception and processing of inquiries and consultations related to investing in Japan regarding systems and administrative procedures and requests regarding regulatory reform at JETRO as a one-stop window)
3. Creating and reinforcing the framework to attract more international conferences, etc. (MICE)
4. Utilizing highly skilled overseas personnel (reviewing the points-based preferential immigration treatment for highly skilled foreign professionals)

With regard to No. 2, preparations are under way to launch the support framework for "Invest Japan Attachés", industry specialists that JETRO is expected to reinforce, in fiscal year 2013, while JETRO has created the "Invest Japan Hotline", in operation since September 2013, to handle investment inquiries. Under this hotline mechanism, JETRO serves as a one-stop window (services available in languages other than Japanese) for receiving and processing consultations from foreign firms regarding investment in Japan (administrative procedures, substance of regulations and systems, requests for regulatory reform, and the like).

Inquiries about regulations and systems regarding investment in Japan are processed immediately where JETRO can provide the answers. If it is deemed that face-to-face talks are necessary, JETRO arranges meetings with the relevant ministries and/or agencies, in principle to be conducted within a week (excepting Saturdays, Sundays, and national holidays). JETRO officers in principle attend the meetings and provide language and other support as necessary.

Requests concerning regulatory reform are submitted to the Office for the Promotion of Regulatory Reform in the Cabinet Office. After examining the requests, the office asks the relevant ministries and/or agencies to consider them, and the responses are reported to the Regulatory Reform Council in due time.

Please visit the JETRO website for details:

<http://www.jetro.go.jp/en/invest/hotline>

## Inward Investment Promotion Activities at JETRO

JETRO began inward investment promotion activities in earnest in 2003. In the 10 years since then, it has attracted over 1,000 foreign firms to Japan, with North America, Europe, and Asia each

accounting for approximately 300 firms. The US, China, and Germany are the top three sources with 318, 107, and 98 respectively.

Let me provide a brief introduction to the services that JETRO offers to foreign firms that want to move into the Japanese market. The JETRO activities for attracting foreign firms are conducted as a continuum from 1) public communication efforts concerning the investment climate in Japan, through 2) individualized support for firms interested in investing in Japan, to 3) follow-up activities aimed at firms after they set up business in Japan.

### 1. Public Communication Concerning the Investment Climate in Japan

In order to provide information overseas on the investment environment in Japan including the state of the Japanese economy, the latest business trends, and deregulation, new incentives and other policy initiatives, JETRO conducts seminars, symposiums and other activities overseas. In fiscal year 2013, it is hosting large overseas symposiums in Sydney (November 2013), London (January 2014), and San Francisco (February 2014). It also conducts briefings on incentives for foreign firms already based in Japan.

Also important as a public communication conduit for the investment environment in Japan is the "Investing in Japan" website. This JETRO website has a significant presence as a means for public communication, recording more than 5 million page views annually. It is available in five languages: English, German, French, Chinese (simplified Chinese characters and traditional Chinese characters), and Korean. It contains the latest news concerning investment in Japan as well as information such as procedures for setting up business in Japan and the investment environment in Japanese prefectures and municipalities.

### 2. Individualized Support for Firms Interested in Investing in Japan

JETRO unearths firms interested in investing in Japan through its overseas offices by visiting firms, participating in business fairs, and other means. It provides information that meets the individual needs of companies that have interest in the Japanese market and/or investing in Japan. Specifically, it makes available information concerning such matters as the Japanese market and industries, licensing and approval, relevant laws and regulations, procedural requirements for setting up business, securing human resources, office space and factories, and national and local government incentives.

JETRO has an Invest Japan Business Support Center/IBSC in each of six cities (Tokyo, Yokohama, Nagoya, Osaka, Kobe, and Fukuoka) to support setting up business in Japan. IBSC Tokyo provides rooms in an office building in Akasaka to foreign firms considering setting up business in Japan. The rooms are available free of charge for up to 50 working days. (This can be extended for up to 25 more working days, for which rent will be charged.) They are open from 8

CHART 2

## JETRO's activities in promoting FDI (FY2003-2012)

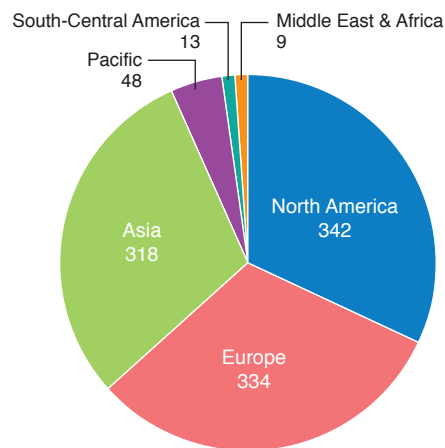
Number of successful investment cases in Japan (only higher-ranking countries between FY2003 & 2012 are shown)

Total of 1,064 projects: North America: 342, Europe: 334, Asia: 318, Other areas: 70

| Rank | Country     | No. of cases | Rank | Country     | No. of cases |
|------|-------------|--------------|------|-------------|--------------|
| 1    | US          | 318          | 11   | Italy       | 28           |
| 2    | China       | 107          | 12   | Canada      | 24           |
| 3    | Germany     | 98           | 13   | India       | 21           |
| 4    | South Korea | 65           | 14   | Netherlands | 18           |
| 5    | UK          | 63           | 15   | Switzerland | 13           |
| 6    | France      | 51           | 15   | Finland     | 13           |
| 7    | Australia   | 40           | 17   | Belgium     | 8            |
| 8    | Singapore   | 34           | 17   | Thailand    | 8            |
| 9    | Hong Kong   | 31           | 17   | Spain       | 8            |
| 10   | Taiwan      | 30           | 20   | Austria     | 7            |

Source: JETRO

Number & share of successful cases by region



a.m. to 10 p.m. on weekdays. Each room is fully furnished with a desk, chairs, telephone, fax, Internet connection, and other necessities. Occupant firms will be able to concentrate on setting up business in Japan while receiving advice from JETRO officials and experts working for JETRO.

### 3. Follow-up

JETRO helps foreign firms already in Japan with follow-up support to expand their business establishments through such cooperative efforts as searching for property for new factories interfacing with local governments. It also provides foreign firms in Japan with information on such matters as new subsidies, tax incentives, and other government measures.

### Establishment of Invest Japan Task Force

In July 2013, JETRO established the Invest Japan Task Force headed by its chairman in order to reinforce its efforts in activities to promote inward investment and to study and implement the reinforcement of JETRO's institutional framework and functions in order to achieve the policy objectives of the government. The task force held its first meeting in September.

The first meeting opened with an inaugural speech by Minister of Economy, Trade and Industry Toshimitsu Motegi, followed by an active discussion among outside experts with in-depth knowledge of the situation of foreign firms in Japan, senior government officials from the relevant departments in attendance (METI, Cabinet Office, etc.), and JETRO directors, department heads, and representatives of local and overseas offices.

In his speech, Motegi stated that 1) now is the time for Japan to set forth and implement an economic growth strategy, and global outreach is one of its major pillars; 2) a situation has been created

where overseas investors are looking towards Japan again as the economy continues to improve; 3) it is important for the state to enhance the attractiveness of Japan as an investment destination by taking care of the business environment and reinforcing support measures, and to actively demonstrate to the rest of the world what makes Japan attractive; and 4) he hopes JETRO will have an awareness of its role as a provider of services to foreign firms as clients in listening to the real voices and demands of businesses and reflecting them in its activities.

Arthur Mitchell (chairman of the Government Relations Committee of the American Chamber of Commerce in Japan) stated as an outside expert that 1) promotion of labor market liquidity, improvements in corporate governance, and tax reform are necessary to increase inward direct investment into Japan; and 2) to enable foreign and Japanese firms to compete on an equal footing, the Japanese government should prioritize the implementation of regulatory reform over support.

Likewise in attendance as an outside expert, Richard Collasse (honorary chairman of the European Business Council in Japan) stated that 1) he looks to JETRO for individualized support for investors; and 2) a fund to assist foreign firms investing in Japan to secure financing is necessary.

JETRO's overseas offices reported on the unprecedented level of overseas interest in the Japanese economy. Many expressed the view that JETRO should take this opportunity to undertake a strategic advertising campaign on what Japan has to offer.

The opinions expressed at the meeting and the conclusions of the discussion will be used to the advantage of JETRO's inward investment promotion activities. Meetings will be held regularly in order to enhance the results of the activities.

## Firms Recently Setting Up Business with JETRO Support

Let me introduce some recent examples of firms that have set up business in Japan with support from JETRO.

### 1. Juwi Shizen Energy Inc.

This is a joint venture established in Tokyo by Juwi Holding AG, a major German firm in integrated engineering, procurement and construction (EPC) of renewable energy plants, and Shizen Energy Inc. Juwi Holding AG began to consider going into the Japanese market when feed-in tariffs were introduced there in 2012. By entering into a joint venture with Shizen Energy Inc., a Japanese firm with experience and knowhow as a domestic renewable energy operator, it established an effective organizational framework for smoothly navigating its way through Japanese regulations and conducting negotiations with local players. To help the establishment of Juwi Holding AG's Japanese foothold, JETRO lent temporary office space at IBSC Tokyo and provided information on the Japanese energy market, local government incentives, and other matters.

### 2. Flying Tiger Copenhagen

Lifestyle-oriented variety stores started in 1995 in Copenhagen, Denmark, by Zebra A/S. The company sells tableware and other household goods, stationery, toys, cosmetics, and other creative and colorful general goods through more than 240 shops in 19 countries, mostly in Europe. Zebra A/S opened its first Asian shop in Shinsaibashi (Amerikamura) in the city of Osaka, where the outlet was so popular that it temporarily ran out of stock. It opened its second shop in Omotesando, Tokyo, as its flagship shop in October 2013.

JETRO lent temporary office space at its Osaka IBSC to Zebra A/S when the company entered the Japanese market, and provided consultation for the establishment of a corporation with regard to registration, tax, labor relations, visas, etc. JETRO also introduced the company to staffing agencies, cooperated in finding permanent office and store space, gave help in public communication, and provided information on the actual procedures for importation.

### 3. Tommy Bahama

This is a US apparel brand launched in 1992. Promoting an island lifestyle, it targets men and women in their 30s and 40s with a wide range of fashion items carrying the brand message "Make Life One Long Weekend". Having already opened shops in Singapore, Hong Kong, Macao, and elsewhere, it decided to enter the Japanese market, judging that Japan, with a highly educated population willing to enjoy a wide range of foreign cultures through travel and other means, had the foundations for accepting its brand concept.

Tommy Bahama opened its flagship store in Japan in Ginza in April 2013. It is the first Tommy Bahama store outside of the US to adopt the in-store bar-and-restaurant style. It chose to move into the Ginza

fashion battlefield in order to make an aggressive push to saturate the Japanese market with its brand concept, as well as to send a message to the rest of Asia through foreign tourists in Japan and raise brand awareness throughout Asia. JETRO provided consultations concerning entry into the Japanese market, information concerning import regulations, introductions to service providers, and other support for its entry into the Japanese market.

### 4. Zabbix SIA

A software development firm based in Riga, Latvia, Zabbix decided to establish itself in Japan in order to increase sales and reinforce support for its integrated surveillance software. JETRO provided temporary office space at its Tokyo IBSC, advice regarding corporate registration, taxation, legal matters, and labor relations, introductions to outside sources for tax accounting, and other support.

### 5. Shanghai Spring International Travel Services, Ltd.

A major travel agency based in Shanghai since its establishment in 1981, Shanghai Spring International Travel Services, Ltd. conducts such business activities as tourism; hotel reservations, arrangements, and management; conference and trade fair management; visa acquisition; and planning, management, and making arrangements for sports and cultural events. It has a unique business model that enables it to collaborate with an airline to create tourism packages through its ownership of the low-cost carrier Spring Airlines. The Japanese corporation that it set up in Tokyo in November 2012 sells China tourism packages to Japanese tourists as well as operating as a land operator specializing in arranging accommodations, sightseeing trips and local transportation at sites for Chinese tourists visiting Japan.

JETRO provided temporary office space at its Tokyo IBSC, advice regarding the establishment of its Japanese corporation (registration and taxation), an introduction to an outside source for corporate registration, introductions to banks, information on licensing and approvals, and other support.

The Investment News page of the JETRO website gives details of these and other examples of firms that have set up business in Japan with support from JETRO: <http://www.jetro.go.jp/en/invest/newsroom>

Finally, a detailed explanation of the state of inward direct investment in Japan is available in *JETRO Sekai Boueki Toushi Houkoku* (JETRO World Trade and Investment Report), while the Invest Japan pages on the JETRO website give more information on JETRO services and government policy measures concerning inward investment in Japan.

**JS**

*Takeshi Saito is a director of JETRO's Invest Japan Coordination Division. He has worked for JETRO since 1988, and was previously based in Düsseldorf, Germany and Atlanta, US among other postings.*