# Japan's Policies for Attracting New Foreign Investment

By Takeshi Saito

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**"Abenomics", the economic policy of Prime Minister Shinzo Abe's administration known for its "three arrows" approach, was announced in December 2012. Following the launch of the first arrow (an aggressive monetary policy), second arrow (a flexible fiscal policy), and third arrow (a growth strategy that encourages private sector investment), we are beginning to see a path toward sustainable economic growth.**

**Foreign direct investment (FDI) in Japan is positioned as one of the most important elements of the growth strategy (known as the "Japan Revitalization Strategy"). Such investment brings new technologies and business models into Japan from overseas while triggering local economic revitalization and new opportunities for employment. In this paper, I will provide an overview of Japan's policies for attracting new foreign investment and explain how they may influence future foreign investment in Japan.**

## Japan's Growth Strategy in the Spotlight

The improvement in economic indicators such as stock prices, corporate performance, economic growth rate, and employment has driven overseas interest in Japan higher perhaps than at any point over the last 20 years. In addition to the positive performance of the economy, other background contributing factors include the decision to hold the 2020 Olympic and Paralympic Games in Tokyo, the rising number of overseas tourists visiting Japan as a result of the depreciation of the yen and looser visa requirements for Southeast Asian countries, as well as growing interest in Japanese culture generally, including its media contents and cuisine.

The Abe administration's growth strategy was originally outlined in the Japan Revitalization Strategy dated June 2013, but a revised version was announced a year later in June 2014. Titled "Japan Revitalization Strategy (Revised 2014): Japan's Challenge for the Future", this update evaluated the state of progress toward achieving the key performance indicators (KPIs) contained in the original strategy and described directions for solving important remaining issues deliberated by the Industrial Competitiveness Council over the intervening year. Among these issues, the following are believed to be of particular importance with respect to FDI in Japan:

### 1. Corporate tax reform

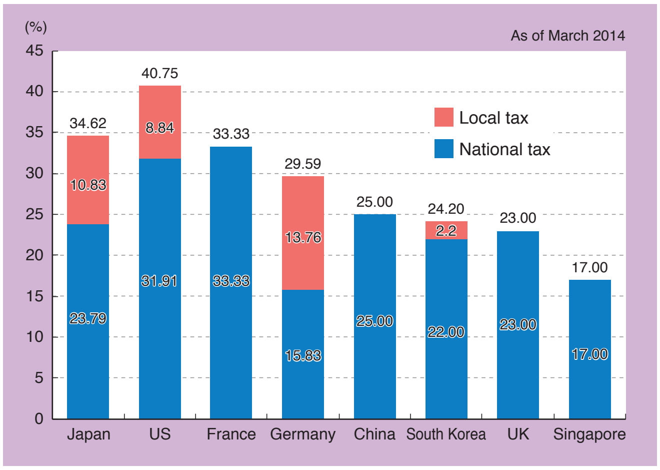
The revised version explicitly mentions corporate tax reform. Specifically, it establishes the aim of lowering the effective corporate tax rate to below 30% over the course of several years beginning in FY 2015. The effective corporate tax rate in Japan (national and local) is 34.62%; although gradually lowered in recent years, it still remains high by international standards *(Chart 1)*. The discrepancy is particularly large relative to Asian countries that are aggressively pursuing foreign investment such as South Korea (24.20%) and Singapore (17.00%). Reducing the corporate tax rate is expected to make Japan more competitive as a prospective business location.

### 2. Enabling foreigners to play an active role in Japanese society

The revised version discusses many measures related to the utilization of foreign human resources. Among them, relating to the preparation of an environment that facilitates immigration of highly skilled foreign professionals — a matter of deep concern to corporations investing in Japan — is a commitment to revise the procedures for and otherwise improve the usability of the already introduced system of points-based preferential immigration treatment for highly skilled foreign professionals. Also included is a commitment to move forward in discussing ways to enable, on a trial basis within National Strategic Special Economic Zones and under a measure of supervision by local government, the entry and residence of foreign housekeeping support workers — something much in demand by employees of foreign corporations posted to Japan — and to move quickly in implementing necessary measures.

CHART 1

**International comparison of effective corporate tax rates** (national & local combined)




*Source: Based on data from the Ministry of Finance website*

### 3. Flexibility in employment systems

Flexible, highly transparent employment systems are an important point for foreign corporations considering expansion into Japan. As a means of achieving more flexible, diverse ways of working, the current revision includes a commitment to review the flextime and discretionary labor systems and to deliberate the creation not only of a working-hour system that enables performance-based evaluation but also a more predictable system of dispute resolution. With regard to this last point, given that most advanced countries have already developed mechanisms for pecuniary remedies through court decisions, it is hoped that deliberations will move in the direction of a globally acceptable labor dispute resolution system.

### 4. Promoting scientific & technological innovation

The revised version emphasizes the importance of creating mechanisms to promote scientific and technological innovation and to connect businesses with the seeds of innovative technologies, specifically mentioning the possibility of achieving an industrial revolution through robots. Foreign corporations already appreciate the environment for R&D activities in Japan, and the promotion of scientific and technological innovation can be expected to further improve Japan's reputation overseas. In addition, the revised version also mentions reforms to promote more aggressive agriculture, forestry, and fisheries industries, a reevaluation of how the Government Pension Investment Fund is managed, and reforms to the medical system designed to stimulate the healthcare industry. Carrying out such reforms is sure to draw the attention of foreign corporations in related fields.

## Launch of National Strategic Special Economic Zones

One of the new systems at the heart of the "third arrow" of Abenomics is National Strategic Special Economic Zones. This system was established to stimulate private-sector investment by implementing preferential regulatory measures on a limited regional basis to create environments that are the easiest in the world for corporations to do business in. While previous special zone efforts such as Comprehensive Special Zones were "bottom-up" systems grounded in local initiatives, National Strategic Special Economic Zones are driven by national strategic policy.

The law establishing the National Strategic Special Economic Zone system was approved on Dec. 7, 2013. Based on this, a proposal was announced on March 28, 2104 that outlined specific zones and the direction for each. The six zones were: the Tokyo metropolitan area, the Kansai metropolitan area, Niigata city in Niigata Prefecture, Yabu city in Hyogo Prefecture, Fukuoka city in Fukuoka Prefecture, and Okinawa Prefecture. Among these, the following three are most deeply related to the issue of attracting foreign corporations:

### 1. Tokyo metropolitan area

The zone to be established in the Tokyo metropolitan area consists of nine Tokyo wards (including Chuo-ku, Minato-ku, and Shinjuku-ku), the entirety of Kanagawa Prefecture, and Narita city in Chiba Prefecture. With a view to the 2020 Olympics in Tokyo, the aim is to create an environment that is the easiest in the world to do business in and to create an international business hub that draws funding, talent, and companies from around the world. In addition, the zone also seeks to create new, internationally competitive businesses through entrepreneurship and innovation in fields such as drug discovery. Notable among the business and regulatory reforms expected to be implemented within this zone that are particularly related to attracting foreign capital, in addition to improving terms of employment for global corporations, rethinking residence criteria for foreigners, and providing medical care for foreigners, is the expectation that one-stop service windows will be set up for establishing corporations and the required documentation translated into English.

### 2. Kansai metropolitan area

The zone to be established in the Kansai metropolitan area consists of three prefectures: Osaka, Hyogo, and Kyoto. Establishment of the zone has two primary aims. The first is to create an international innovation hub in the area of heath care and medicine. The second is to create an international city that attracts ambitious talent. Because the medical field cluster in the Kansai region has already drawn many domestic and international corporations, and many foreign-affiliated companies are already on the ground, improving the environment for business in this field is expected to attract even more foreign companies in the future.

### 3. Fukuoka city

The orientation for the Fukuoka zone is to focus on the clear objectives of strengthening support for entrepreneurial start-ups, improving the international competitiveness of industry, and expanding employment. It is hoped that in working to achieve these goals, improvements will be made to the environment for incoming foreign corporations, including clarifying terms of employment, reviewing the status of residence for arriving foreigners, and providing medical services to foreigners.

## Government Deliberations on Measures to Promote FDI

On April 4, 2014, a joint meeting was held between the Council on Economic and Fiscal Policy and the Industrial Competitiveness Council to discuss "domestic globalization". In these deliberations, FDI in Japan was positioned as just as important to the government's international strategy as infrastructure exports, and it was decided that both the Japan External Trade Organization (JETRO) and diplomatic establishments abroad would devote their efforts to searching out opportunities for foreign investment in Japan.

In advance of that meeting, in order to organize the issues related to promoting FDI in Japan on behalf of the government, the Expert Group Meeting on Foreign Direct Investment in Japan met five times between February and April 2014. These meetings were designed to conduct interviews with foreign corporations, to identify the issues they face in conducting business in Japan, and to put together policy recommendations.

Representatives from foreign-affiliated corporations in Japan, from the headquarters of foreign corporations, and from organizations of foreign corporations in Japan (American Chamber of Commerce in

Japan, European Business Council in Japan, etc.) attended these meetings and offered their opinions, which were included in the group's report.

This report was translated into English and posted on the government's website (http://www5.cao.go.jp/keizai-shimon/kaigi/special/investment/report_en.pdf).

The main policy recommendations in the report included harmonization with global systems (tax policy, cultivating globally competitive human resources and admitting talent from overseas, corporate governance, etc.), the improvement of living conditions (promotion of English and alphabetic signage, increasing the number of medical practitioners capable of speaking English, etc.), the need for support and preferential measures for FDI in Japan, and the importance of promoting the appeal of Japan.

Following these meetings, the Council for Promotion of Foreign Direct Investment in Japan, whose members include the minister of state for regulatory reforms, the minister of foreign affairs, and the minister of economy, trade, and industry under the leadership of Minister of State for Economic and Fiscal Policy Akira Amari, was convened on April 25. This cabinet-level conference serves as a command center for coordination among related ministries and agencies in moving forward with the domestic institutional reforms needed to drive FDI in Japan, uncovering and attracting opportunities for foreign investment, and top-level sales efforts by cabinet members while overseas. This is the first council with cabinet-level members related to FDI in Japan in the seven years since the disbanding of the Japan Investment Council in 2007. The council seeks to draw input directly from executives at foreign corporations and to work to achieve regulatory and institutional reforms and support measures that contribute to bettering the environment for investment.

CHART 2

**JETRO's Success in attracting foreign investment in Japan** (FY 2003–2013; top only)

**Total 1,136** : North America 367, Europe 354, Asia 341, Other regions 74

| Fiscal year | Number attracted |
|---|---|
| 2003 | 93 |
| 2004 | 103 |
| 2005 | 110 |
| 2006 | 115 |
| 2007 | 125 |
| 2008 | 123 |
| 2009 | 121 |
| 2010 | 111 |
| 2011 | 69 |
| 2012 | 94 |
| 2013 | 72 |
| Total | 1,136 |

| Rank | Country | Number |
|---|---|---|
| 1 | US | 341 |
| 2 | China | 114 |
| 3 | Germany | 99 |
| 4 | South Korea | 73 |
| 5 | UK | 68 |
| 6 | France | 57 |
| 7 | Australia | 42 |
| 8 | Singapore | 34 |
| 9 | Taiwan | 33 |
| 10 | Hong Kong | 32 |

| Rank | Country | Number |
|---|---|---|
| 11 | Italy | 30 |
| 12 | Canada | 26 |
| 13 | India | 23 |
| 14 | Netherlands | 20 |
| 15 | Switzerland | 13 |
| 15 | Finland | 13 |
| 17 | Belgium | 9 |
| 17 | Malaysia | 9 |
| 19 | Thailand | 8 |
| 19 | Spain | 8 |

*Source: JETRO*

## JETRO Efforts to Promote FDI in Japan

JETRO launched full-scale efforts to promote FDI in Japan in 2003, and during the 11 years through the end of FY 2013 had attracted 1,136 foreign corporations to Japan. These are distributed roughly equally across the three regions of North America, Europe, and Asia. The top three individual countries are the United States (341), China (114), and Germany (99) *(Chart 2)*.

The services that JETRO provides to foreign corporations hoping to enter Japan primarily fall into the following three categories: 1) conducting public relations activities related to the investment environment in Japan (website management, holding seminars and symposiums in Japan and overseas); 2) providing individual assistance to corporations interested in investing in Japan (consulting services related to the establishment of bases in Japan, information and referrals related to licenses and related regulations, temporary office space, site-specific information in coordination with local governments throughout the country); and 3) providing follow-up services after the establishment of bases in Japan (information on incentives related to site location subsidies).

I would like now to introduce some new projects established in response to the course of the growth strategy and the establishment of government councils, as well as some recent topics.

### 1. Active efforts to attract foreign corporations

Targeting major investments above a certain scale and those expected to have significant economic ripple effects — such as production facilities that generate material employment, R&D facilities, and projects that contribute to the revitalization of local communities — JETRO is taking a proactive stance with regard to sales, stationing both in Japan and overseas around 60 Invest Japan Attaches with industry knowledge, contact networks, and the ability to approach executives at global corporations about investing in Japan. These activities were included in the 2013 Japan Revitalization Strategy under the heading "Drastically Strengthening the Government's Capability for Attracting Foreign Companies and its Support Framework" and launched as a new project in FY 2014.

### 2. Promoting tie-ups between foreign companies & SMEs in Japan

In order to enable Japan's domestic small and medium-sized enterprises (SMEs) to utilize the sales channels and technology of foreign companies, and to provide opportunities for foreign companies to expand their businesses by entering Japan, JETRO has begun holding business matching forums to facilitate face-to-face meetings between domestic SMEs with outstanding technology, products, and business models and world-leading foreign companies as a way to promote business tie-ups between them.

The first such event was held on May 25, 2014 at JETRO headquarters in Tokyo: a business-matching event for the medical device field. Representatives from the Japanese subsidiaries of four major foreign medical device makers (GE Healthcare; 3M Health Care; Becton, Dickinson and Company; and Medtronic) took part in this event, together with 119 people from SMEs in Japan. The foreign-affiliated companies each made presentations describing the products they deal in, their R&D efforts, and the technology and products they seek from Japanese companies, and then networked with the Japanese companies in attendance.

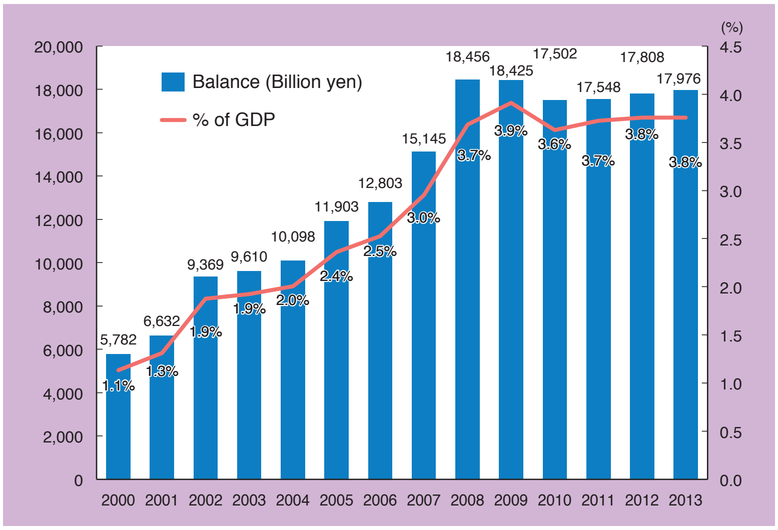
The second such event, a business-matching seminar for the tourism field, was held in downtown Tokyo on July 2. Representatives from the Japanese subsidiaries of five foreign-affiliated companies in the tourism field (Uber, Spring Airlines Group, AirAsia X, HRS, and TripAdvisor) introduced the services they offer to foreign tourists and spoke on the topic of partnerships with Japanese companies. They also networked with the 110 people who attended from Japanese companies.

### 3. Strengthening public relations activities

JETRO holds events overseas that aim to disseminate information about the state of the Japanese economy, in which Abenomics has sparked considerable interest, and recent changes in the investment environment. Notably, JETRO utilized Abe's visit to the United Kingdom as an opportunity to hold a seminar in London about investing in Japan. With Abe in attendance, the mayors and governors of four local governments that are particularly enthusiastic about attracting foreign capital (Kobe city, Fukuoka city, Mie Prefecture, and Hiroshima Prefecture) each gave presentations in English about the investment environment in their respective jurisdictions. These were followed by speeches from David Warren, former British ambassador to Japan, and representatives of UK corporations that had recently entered Japan. The event was an excellent opportunity to present the welcoming stance of Japan's national and local governments toward direct investment.

CHART 3

**Trends in balance of direct investment in Japan** (% of GDP)




*Source: "Japan's International Investment Position" (Ministry of Finance); "National Accounts of Japan" (Cabinet Office)*

### 4. Proposals to the Council for Regulatory Reform

JETRO is presenting issues to the cabinet office for deliberation by the government's Council for Regulatory Reform based on the requests for reform that it receives from foreign corporations through the Invest Japan Hotline launched in September 2013. Specific proposals are as follows:

1) When foreign companies register a subsidiary or branch in Japan, they are required to include among the Japan representatives a person with an address in Japan. However, for a foreigner to obtain an address in Japan (to register as a resident) he needs the status of residence, receiving which requires there already be a subsidiary or branch in Japan (that is, requires documentation including a Certificate of Registered Matters from the subsidiary or branch). Because this logical inconsistency creates an obstacle to foreign corporations seeking to establish bases in Japan, JETRO presented the issue to the Council for Regulatory Reform, through the cabinet office, for deliberation. As a result, this issue was included in the report produced by the council in June 2014 and in the Regulatory Reform Implementation Plan based on that report that was approved by the cabinet. Deliberating the matter both from the angle of registration procedures (reviewing the address requirements) and that of relaxing status of residence requirements, a final decision is expected during FY 2014.

2) When employees of foreign corporations posted to Japan apply for a Certificate of Eligibility through a lawyer, administrative scrivener, or other proxy, the applicant is required to be in Japan. Because such applicants are rarely called to appear in person, however, foreign companies have suggested this may be a needless regulation, so JETRO submitted it the Council for Regulatory Reform for discussion. As with the issue above, this was incorporated into the Regulatory Reform Implementation Plan and a final decision is expected during FY 2014.

## Recent Trends in Investment in Japan

The balance of inward direct investment in Japan at the end of 2013 was 17.98 trillion yen, a slight increase over the 17.81 billion yen recorded the previous year *(Chart 3)*. The balance of inward direct investment in Japan declined or held steady after peaking in 2008 at 18.46 billion yen, then in 2011 rose year-on-year for the first time in three years and has continued to rise gradually since. Achieving the target of 35 trillion yen by 2020, however, will require creating an even more appealing environment for investment than the one that exists now, promoting it worldwide, and searching out companies that have the potential to invest in Japan.

There are many challenges on the road to increasing FDI in Japan but with the Japanese government clearly indicating increased investment in Japan as a policy objective and moving forward on regulatory reforms, and growing interest in the Japanese economy overseas, there are also powerful tailwinds. JETRO will continue searching out and providing support to foreign companies that are interested in investing in Japan, while also taking an on-the-ground view in thinking about what is needed to improve the investment environment in Japan and making proposals accordingly. JS

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