Foreign Investment in Japan to Double in 5 Years

– Koizumi Cabinet Vows to Promote Structural Reform –

Interviewer: Okabe Hiroshi

SHIMADA Haruo, professor at Keio University and chairman of the Fujitsu Research Institute, chairs the Expert Committee of the Japan Investment Council, a ministerial-level group headed by the prime minister. Shimada speaks of the need for foreign investment in this aging nation with a mature economy.

From now on, it will be very important for Japan to promote foreign investment in the country. Japan's population is aging, and its economy has matured. Various social systems have become considerably inflexible. To utilize Japan's resources such as capital, technologies and personnel effectively, stimulation from the outside world is necessary. Although financial institutions are rich in assets, they could not, until very recently, make active investments due to their massive bad loans. Japan's mature economy needs foreign investment in various fields, including management, human resources, capital and technologies. Under such circumstances, Prime Minister Koizumi Junichiro unveiled a plan in 2003 to double the balance of foreign investment in Japan in five years. In response to his initiative, a policy platform was complied in March 2003 that covers five fields with 74* policy items to promote foreign investment in Japan. Foreign investment is extremely significant in the Koizumi administration's structural reform efforts.

INVEST JAPAN

Japan Launches Its Own Investment Promotion Plan

Let's look at the history of Japan's foreign investment promotion policy. The establishment of the Japan Investment Council dates back to 1994, when then Prime Minister Hosokawa Morihiro and US President Bill Clinton failed to reach agreement at the bilateral framework talks whose main topic was Japan's market-opening measures. At that time, Hosokawa expressed the view that bilateral ties had become a "relationship between grown-ups," and calls to promote foreign investment to boost Japan's economic growth using outside stimulus and to make Japan lead the world's economic growth became popular in Japan. Japan decided to make systematic responses at its own initiative, not under Washington's pressure, and established the Japan Investment Council in 1994. The prime minister chairs the council while Cabinet ministers are its members. The Expert Committee was established under its wing, comprising experts from Japan and other countries.

While President Ronald Reagan was in office, Japan and the United States held the so-called Structural Impediments Initiative talks in which each side filed its demands with the other. The Clinton administration however, demanded that Japan open its market almost one-sidedly, designating some specific fields, such as automobiles and insurance. The demands from the US Democratic administration were really tough. The situation changed significantly after the Republican President George W. Bush assumed power – no particular demands have been filed with Japan. Shortly after the Koizumi administration was launched, I went to Washington as a special envoy of the prime minister to pave the way for a summit meeting between the two countries. During the four-day trip, I made a dozen speeches, and had in-depth discussions with Lawrence Lindsey, then presidential assistant. "All that Larry (Summers: presidential assistant to the Clinton administration) did was preach, but he did not help Japan. But this Larry will never preach but will help Japan." This was the gist of Lindsey's first remarks in welcoming me to the White House. This meant that the Bush administration's economic policies would take a completely different approach from the Clinton administration, which repeatedly lodged tough demands with Japan.

While the United States came to take different approaches toward Japan, as Lindsey indicated, Japan decided to increase foreign investment at its own initiative, not under foreign pressure. We decided to utilize the existing organization, the Japan Investment Council, and hold open discussions across government ministries and agencies. If it is easy for foreign firms to invest in Japan from abroad, it will be easier for Japanese companies to invest domestically. This will be a driving force to promote structural reforms.

**Note :* As of March, 2003. Now it has been changed to 87 policy items.

Promotion of 87 Policy Items in 5 Fields

Our policy platform covers five fields – domestic and overseas promotion, improvement of the business environment, review of administrative procedures, improvement of the employment and living environments and overhaul of the central and local government systems. I was involved in coordination work with the relevant ministries and agencies for all the policy items. We asked the prime minister to take the leadership in the promotion and ran a TV commercial called "Invest Japan" in various countries. Britain and France had offered the so-called "one-stop total service" which processes paperwork on investment literally at one stop. There was no such service in Japan at that time, and foreign investors showed strong dissatisfaction with the complex administrative procedures at various government departments. We therefore created a similar one-stop service in Japan, shortening the procedural period to only three days from the previous three months.

It is also an important policy theme to provide housing, insurance and education services to foreigners who conduct business activities in Japan. There are many foreign schools in Japan but most of them are not authorized under Japan's Fundamental Law of Education. No government subsidies are provided and the graduates are not qualified to take university entrance examinations. We are addressing these problems to improve the situation.

Another major issue is corporate mergers and acquisitions (M&As). Japan lagged behind other advanced countries in its legal system for foreign firms' acquisitions of Japanese companies. A foreign corporation could easily buy a Japanese company without cash if it is allowed to make a stock swap, but the Japanese Corporate Act does not anticipate takeovers by foreign companies. Under such circumstances, a new type of M&A, called a triangular merger, has emerged. The triangular merger concept allows a parent foreign company to issue its own shares as payments for a merger between its Japanese subsidiary and a Japanese company. In parallel with this introduction, we had coordinated a measure to allow foreign firms to defer tax payment on capital gains stemming from share transactions in a triangular merger.

Unfortunately, however, the introduction of the triangular merger was postponed for one year to 2007 amid a growing sense of vigilance in the political world against foreign firms. This was because Internet service provider livedoor staged a bitter battle with Fuji Television Network for the control of radio broadcaster Nippon Broadcasting System. Japan's business circles apparently harbor a sense of caution against foreign companies, but they should note that the promotion of foreign investment in Japan will definitely revitalize economic activities in Japan. Inflows of fresh capital and new managers from abroad will surely change Japanese corporations. Many Japanese firms are shining abroad. It is only natural for foreign firms to come to flourish in the Japanese market.

Despite a setback in the M&A legislation, as seen in the one-year postponement of the introduction of the triangular merger, foreign investment in Japan is on the increase as a whole. I think our target of doubling foreign investment in Japan in five years will be achieved.

Rising Importance of Foreign Investment amid Demographic Changes

It will be a trend of the times that Japan will see an increase in foreign investment not only from the United States or Europe but from China and other Asian countries. China has strategically promoted takeovers of foreign firms. Japan must be an attractive market for the four newly industrializing countries known as BRICs (Brazil, Russia, India and China), and such a trend must gain strength.

The promotion of foreign investment in Japan is a pillar of the country's economic policies. Japan suffers from a massive budget deficit and faces such problems as a ballooning government sector and social security costs caused by its aging society. A decline in the national savings rate stemming from demographic changes would have a serious effect on the Japanese economy, and would lead to a collapse of the conventional notion that rich household savings support corporate investment. Only foreign investment from abroad can be the alternative to national savings. No one will invest in Japan because of a simple call. Japan must convince foreign investors that their investment in Japan will be more advantageous than doing so in China or other countries. Therefore, we must take thorough measures to make Japan an attractive market for the world. In this sense, the promotion of foreign investment in Japan is a major policy agenda that should be considered on a long-range basis spanning a century of the nation's history. JS

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