

Project Commissioned by the Ministry of
Economy, Trade and Industry



Japan attractiveness survey 2008

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This report is based on a survey of Japan's attractiveness to foreign direct investment carried out between February and April 2008 by Ernst & Young.

Here, we highlight the main results of the *Japan attractiveness survey* under four headings:

- ▶ Summary of the objectives of the survey and the its methodology
- ▶ Focus on Japan's competitive position in Asia
- ▶ Focus on Japan's attractiveness profile
- ▶ Presentation of perspectives and measures needed

Introduction

Inward foreign direct investment towards Japan has recorded a steady increase since 2003, with the action program for promotion of Foreign Direct Investment in Japan, planned in 2003 under the strong leadership of Prime Minister Junichiro Koizumi. Although current opportunities are therefore potentially more limited, opportunities remain for foreign investors due to the depreciation of the yen, economic deflation in Japan, high-tech industry agglomerations and Japan's positioning as the second largest market globally. Thus, we still have a role to play in promoting the country to foreign companies. We should continue to value the importance of analyzing the strength and weaknesses of Japan's investment environment and promote its attractiveness strongly and effectively to foreign companies. Researching investor's FDI determinants and their interest and perceptions of Japan are a fundamental part of such an analysis.

This survey result is based on telephone interviews with senior executives of US, European and Asian companies. The report addresses the following key issues:

The position and perceptions of Japan and its strengths and weaknesses, future investment intentions in the Asia region, the sources that investors use when gathering information about Japan and expectations of IPAs.

The interviews targeted five sectors that are expected to have high investment potential in Japan:

1. Information and Telecommunication Technologies
2. Wholesale, distribution, logistics and other B to B services
3. Chemical, pharmaceutical and medical equipment manufacturing – life sciences
4. Automotive (manufacturing and equipment)
5. Manufacturing of electronics, electrical instruments and high-tech machinery

The survey enables an analysis of the latest trends of Japan's comparative advantages as well as issues to be addressed. We hope this report will be used by central and regional governments in planning effective investment strategies as well as foreign companies that are interested in investing in Japan.

June 2008

Japan External Trade Organization

Invest Japan Division

Invest Japan Department

Executive summary

▶ **Japan looks good, but China gets more investment**

Japan and China are jointly perceived as the most attractive countries in Asia for foreign direct investment. Each gets a 27% rating. However, there is a big gap between perceptions and the reality of Japan's attractiveness: Japan ranks 5th in Asia for actual inward Foreign Direct Investment (FDI) projects. At a global level, China is number one, whilst Japan is in 20th place 20 - behind the Czech Republic.

▶ **Japan's strengths: quality, infrastructure and stability**

Japan clearly stands head and shoulders above its Asian competitors on criteria of quality and connectivity criteria: the country is deemed the most attractive for the quality of telecommunications, transport and logistics infrastructure (32% and 33% of citation rate respectively).

On research and development (R&D) availability and quality, investors confirm Japan's image for quality - 39% of them mention it as the most attractive country on this criterion.

On risk related factors, Japan also has a large lead over its Asian competitors. Overall, 32% of investors cite Japan as the most attractive country for political stability. Japan is also ranked as the most attractive location for labor skills, achieving a citation rate of 27%, ahead of China.

▶ **A stand-alone market, not a gateway to Asia**

Despite its strong quality and infrastructure advantages, Japan is seen as a market in itself (69% of investors) rather than a gateway to the Asian wider market (21% of perceptions).

▶ **Japan's biggest weakness: costs**

However, whilst Japan enjoys a clear advantage over its Asian competitors on quality, connectivity and risk criteria, it loses out on costs. It is not Japan, but China which is number one on costs. 45% of prospective investors questioned said China was the most attractive country for labor costs and 52% the most attractive for manufacturing activities.

▶ **Asia's future looks bright**

There are a number of high-value, knowledge-based investment opportunities planned by foreign investors in Asia (24% of these investment projects are in Research and Development (R&D) and headquarter HQ activities). Japan is among the top three destination countries considered for direct investments in Asia (but scores only 18%, behind China with 57%). Location intentions are mainly driven by costs and market opportunities (47% and 46% respectively).

There is a high level of confidence in the future development of Asia's attractiveness: 71% of respondents believe the attractiveness of Asia will improve in the next three years.

▶ **Japan still has room to be more attractive**

Many investors want action to make Japan more attractive. Overall, 45% of investors are expecting measures to reduce taxation and 38% hope for a reduction in labor costs. Furthermore, 40% of investors wish for the effective measures to reduce language barriers.

1. Objectives and methodology



Who we asked, what, and why

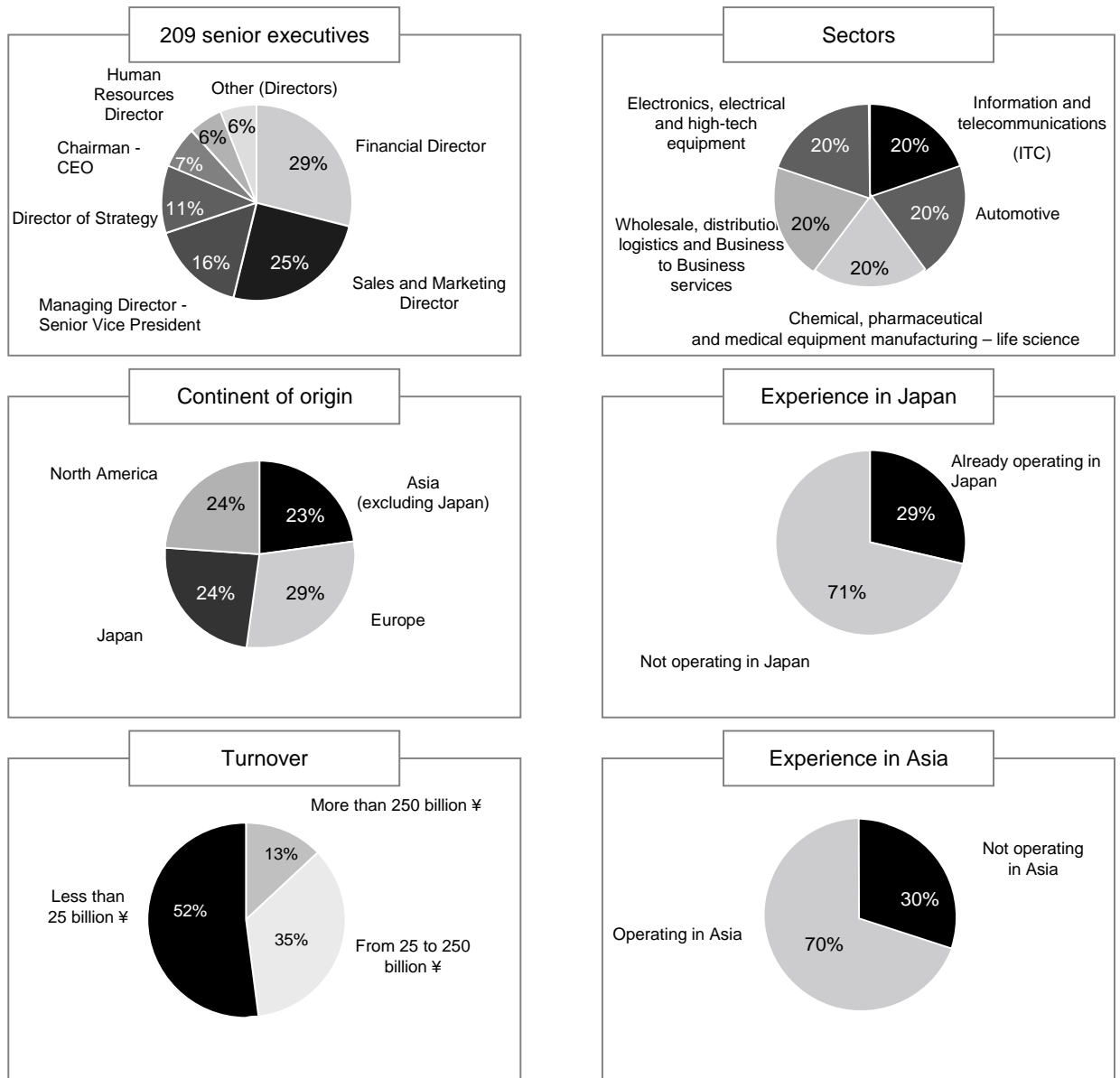
The Japan attractiveness survey 2008 by Ernst & Young gives a high-level, detailed analysis of the views and perceptions of international business leaders regarding Japan's profile and position relative to Asian competitors for inward Foreign Direct Investment (FDI).

In all, 209 international senior executives were interviewed by telephone in six languages from 19 December 2007 to 25 January 2008.

The panel of respondents covers a representative sample of businesses, detailed in the graphs on page 8. The following topics were addressed during the survey:

- ▶ Japan's position within Asia
- ▶ The perception of Japan's strengths and weaknesses
- ▶ Location intentions in Asia
- ▶ Measures to improve Japan's attractiveness

Figure 1 – Sample of investors



Source: Japan attractiveness survey 2008

The sectors surveyed were weighted as shown below so as to reach a balanced sample:

	Raw results	Weighted results
Information and telecommunication technologies (ITC)	24%	20%
Wholesale, distribution, logistics and other Business to Business services	22%	20%
Chemical, pharmaceutical and medical equipment manufacturing - life sciences	22%	20%
Automotive (manufacturing and equipment)	11%	20%
Manufacturing of electronics, electrical instruments and high-tech equipment	22%	20%

2.

Japan's competitive positioning within Asia

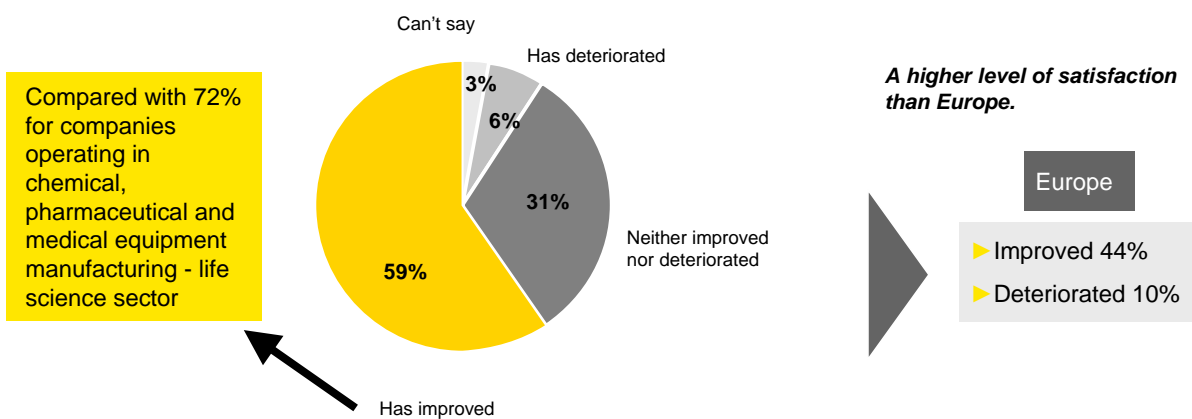


2.1 How investors see Asia and Japan

Asia is on the up: International investors believe it is becoming more attractive, more quickly, than Europe

When looking at how the attractiveness of Asia has changed over the past year, 59% of investors note an improvement. Only 6% observe a deterioration of the region's attractiveness. That compares very favorably with investor perceptions of European attractiveness – only 44% of potential investors see an improvement there (Figure 2). Satisfaction with Asia is particularly high among investors operating in the chemical, pharmaceutical and medical equipment manufacturing - life science sector (72%).

Figure 2 – Evolution in Asian attractiveness over the last year



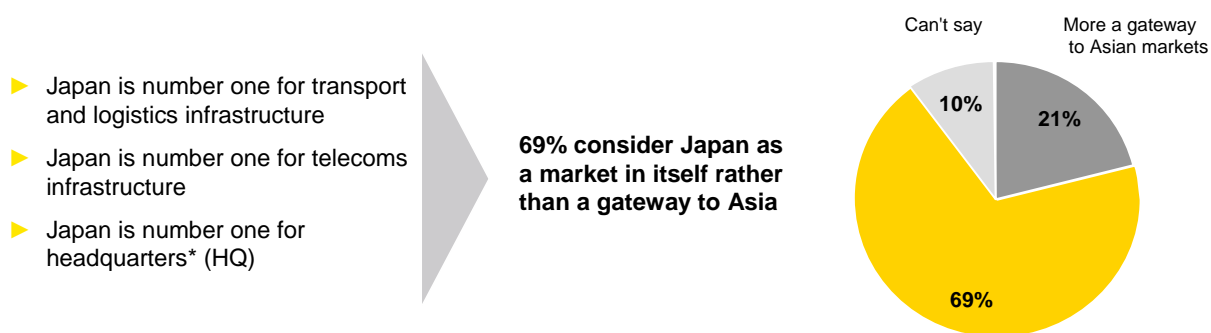
Source: Japan attractiveness survey 2008

Japan has great connections

Japan enjoys a clear leadership in physical and communications infrastructure. Indeed, Japan is the regional leader in terms of perceived attractiveness for telecommunications networks, as well as for transport and logistics facilities.

Among investors interviewed, 69% see Japan as a market in itself, as shown in Figure 3 below, while 21% consider it to be a potential gateway to other Asian markets.

Figure 3 - Perception of the Japanese Market



Source: Japan attractiveness survey 2008

Table 1 below highlights the significant differences in investors' perception of the Japanese market according to which sector they belong.

Table 1 - Breakdown by sector

	Information and Telecommunication technologies (ITC)	Wholesale, distribution, logistics and other Business services	Chemical, pharmaceutical and medical equipment manufacturing - life science	Automotive	Manufacturing of electronics, electrical instruments and high-tech equipment
A market in itself	68%	64%	74%	77%	61%
More a gateway to Asian markets	24%	29%	11%	9%	33%
Can't say	8%	7%	15%	14%	7%

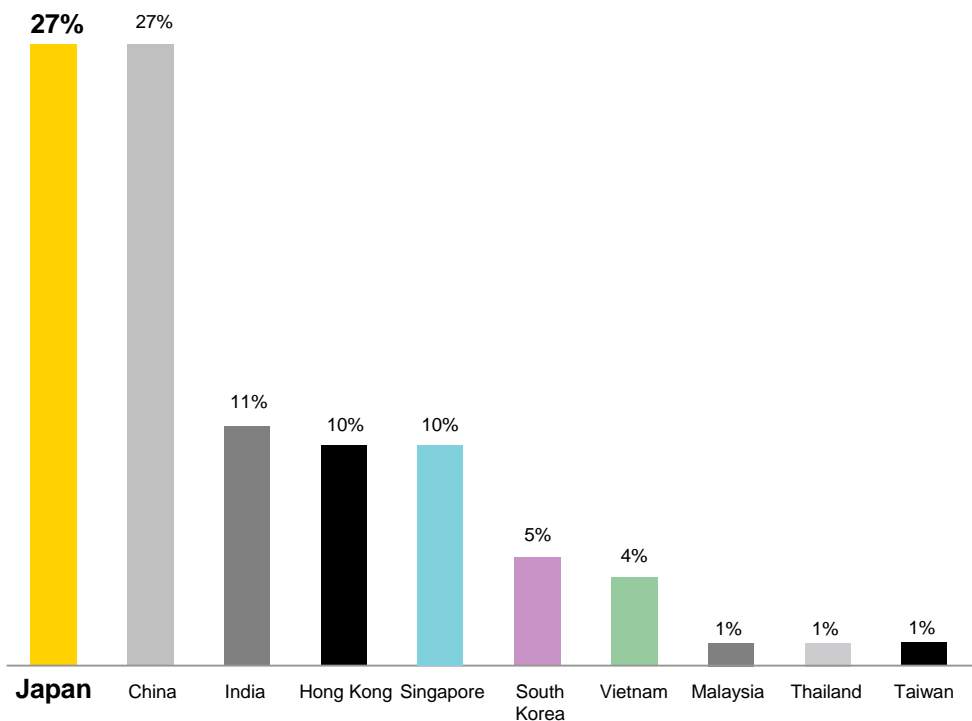
Source: Japan attractiveness survey 2008

2.2 Asian competition: where next?

Japan and China share the top spot with equal rankings for investor perceptions overall. But investors already active in Japan rank Japan their number one.

The overall attractiveness ranking, measured by the average of the 19 location criteria surveyed, places Japan on a par with China with a 27% citation rate, followed by India with 11% (Figure 4). In terms of overall attractiveness, Japan appears to be as attractive as China to investors, indicating tough competition between these two countries.

Figure 4 - Top 10 Asian countries (average of the 19 location criteria surveyed)



Source: Japan attractiveness survey 2008

Table 2 shows that the level of satisfaction with Japan is even more substantial among investors already operating in the country, reaching 40%, compared with a 27% average overall rating. On this basis, the country appears more attractive than China, (26% citation rate).

Conversely, China is perceived as the overall most attractive Asian country by 28% of investors lacking experience in Japan.

Table 2 – Perception gap according to investors’ experience in Japan

		Japan	China
Operating in Japan	Rank	# 1	# 2
	Score	40%	26%
Not operating in Japan	Rank	# 2	# 1
	Score	22%	28%

Source: Japan attractiveness survey 2008

Table 3 below offers a breakdown by sector and shows a higher rate of perceived attractiveness than the average among investors who belong to the wholesale, distribution and Business to Business sector, as 35% of them cite Japan as the most attractive location against 27% on average. China receives the highest level of satisfaction among investors operating in the manufacturing of electronics and high-tech equipment.

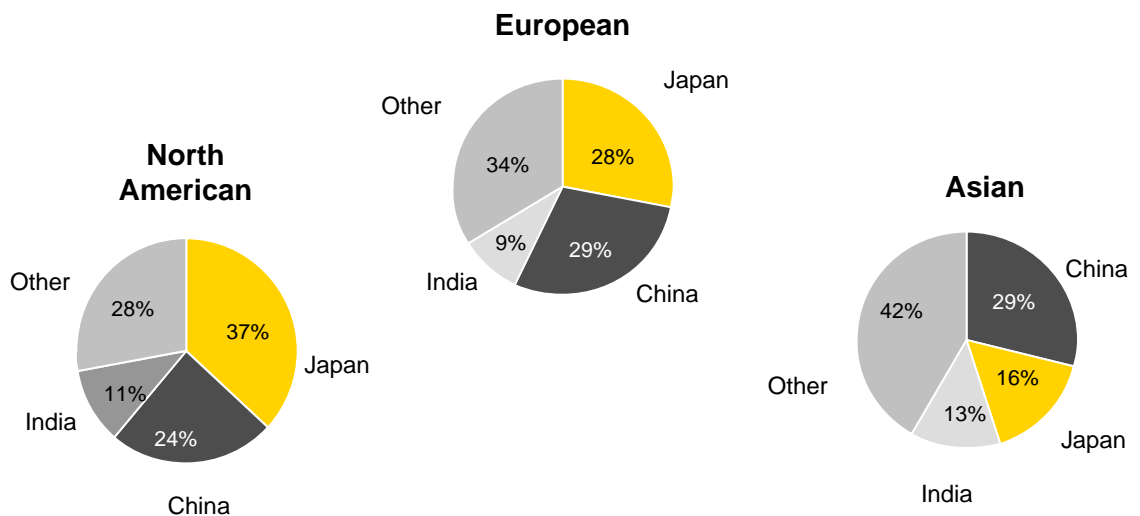
Table 3 – Most attractive Asian country: breakdown by sector

	Total	Information and Telecommunication technologies (ITC)	Wholesale, distribution, logistics and other Business to Business services	Chemical, pharmaceutical and medical equipment manufacturing - life science	Automotive	Manufacturing of electronics, electrical instruments and high-tech equipment
Japan	27%	28%	35%	29%	20%	25%
China	27%	22%	26%	23%	29%	35%
India	11%	15%	4%	17%	12%	6%

Source: Japan attractiveness survey 2008

Figure 5 below shows that investor satisfaction with Asian countries' varies according to their nationality. Investors from North America have a higher satisfaction rate with Japan, with a 37% citation rate, compared with those from Asia, (16% rating). European companies' satisfaction rate remains very close to the average, with a 28% citation rate.

Figure 5 – Most attractive Asian countries: breakdown by nationality of the company



Source: Japan attractiveness survey 2008

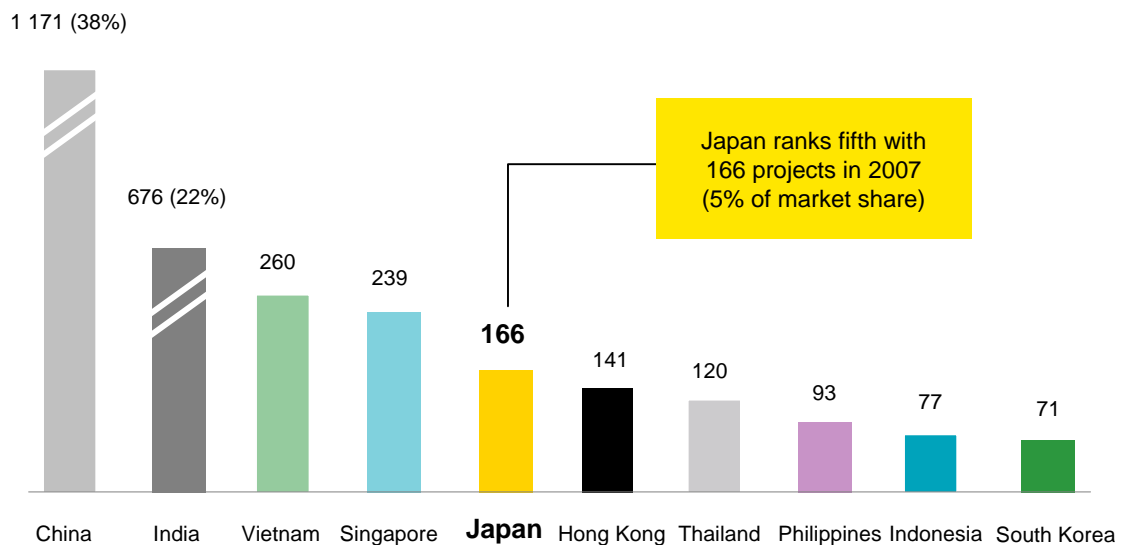
Investment: where it went

Though now *seen* as equally attractive, Japan ranks far behind China for *actual* Foreign Direct Investment (FDI) projects implemented

While Japan and China appear to be on the same level of attractiveness in terms of perception, available data on Foreign Direct Investment (FDI) projects show that China is by far the largest host country for Foreign Direct Investment (FDI) projects in Asia (Figure 6).

In 2007, 38% of the FDI projects in Asia were directed to China (a total of 1,171 projects), followed by India with 22% (a total of 676 projects), while Japan ranked fifth with a market share of 5% (166 projects)¹. Japan's positive image has therefore yet to be matched in actual Foreign Direct Investment (FDI).

Figure 6 - Top 10 Asian countries (number of projects received in 2007)



Break of scale

Source: OCO Monitor 2008

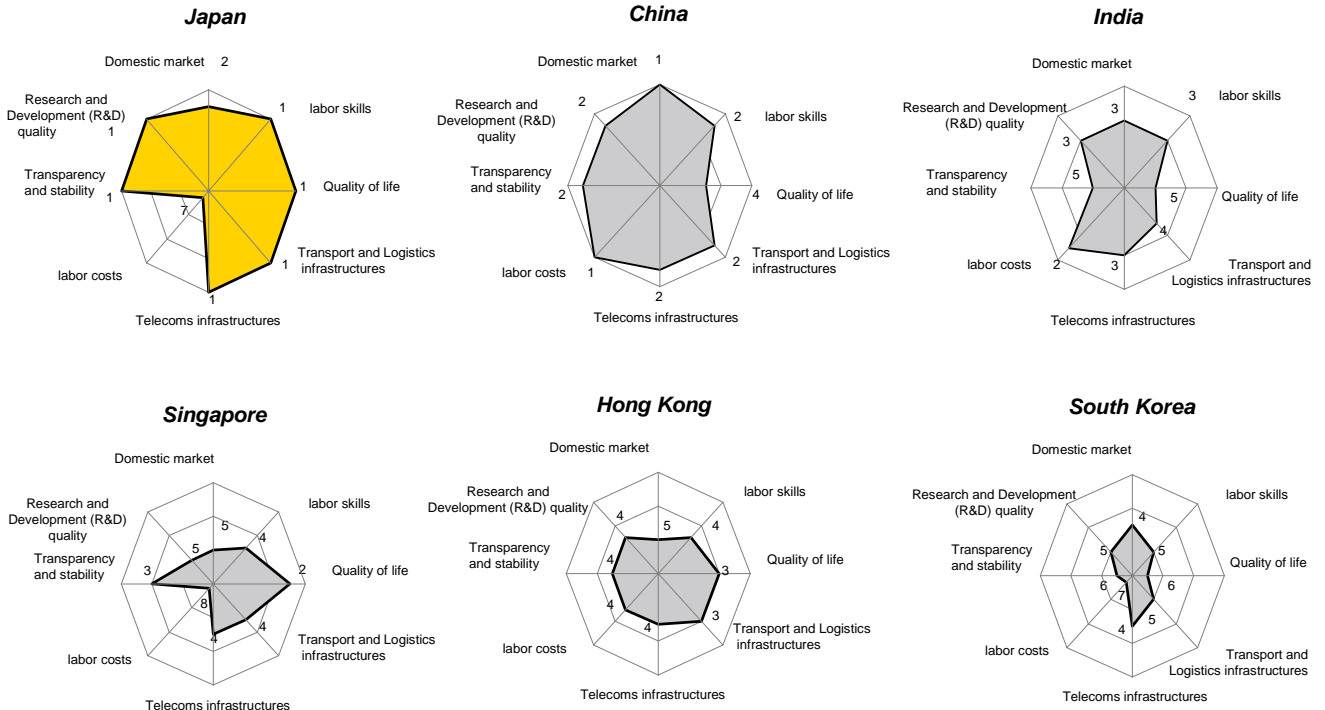
¹OCO Monitor: The information about Foreign Direct Investment (FDI) is collected from 9,000 media sources, 300 industry organizations and Investment Promotion Agencies (IPA), and data purchased from market research and publication companies. Over 90% of projects are validated with company sources. The trends and differences between countries are based on the same methodology for every country.

Strengths and weaknesses

Japan and China are locked in a battle to fulfill investor criteria

The survey results clearly reflect growing competition between Japan and China as highlighted in the overall attractiveness ranking. To further illustrate this harsh competition, the graphs below offer a ranking of the top six countries on the basis of eight selected location criteria that refer to quality, business environment, risk and costs factors¹.

Figure 7 - Attractiveness profiles according to eight location criteria



Source: Japan attractiveness survey 2008

¹ The sample of location criteria selected for these benchmarks is based on location rankings given by more than 800 international senior executives (Source: Ernst and Young European Attractiveness Survey 2007). It is representative of the four categories of location criteria: quality, costs, business environment and risk.

On quality, Japan wins

Japanese skills and knowledge make it Asia's quality champion

Japan particularly differentiates itself from its Asian competitors in terms of location criteria related to quality. For example, Japan is ranked as the most attractive location for labor skills by the investors interviewed, with a citation rate of 27%, ahead of China and India (Figure 8).

This image of quality attributed to Japan is also confirmed by its ranking on research and development (R&D) availability and quality. Japan is perceived as being the most attractive location by 39% of investors interviewed when considering this criterion (Figure 9). Japan thus maintains a technological lead over its Chinese challenger which is placed second (a 16% citation rate) and India, occupying third place (a 10% citation rate). However, investors not operating in Japan rank China first, with a 23% citation rate, while Japan ranks second with 20%.

Figure 8 - Most attractive location for labor skills level

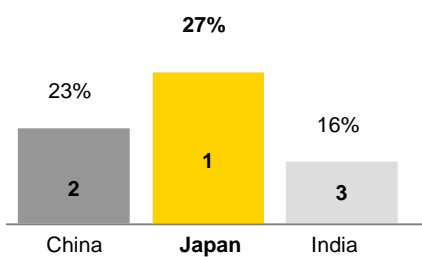
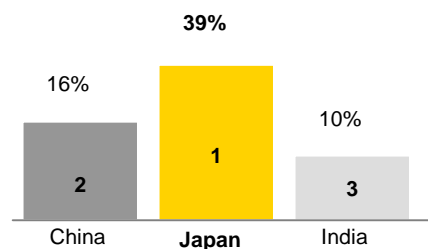


Figure 9 - Most attractive location for research and development (R&D) availability and quality



Perception gap for investors **not** operating in Japan: China number one (23%), ahead of Japan (20%)

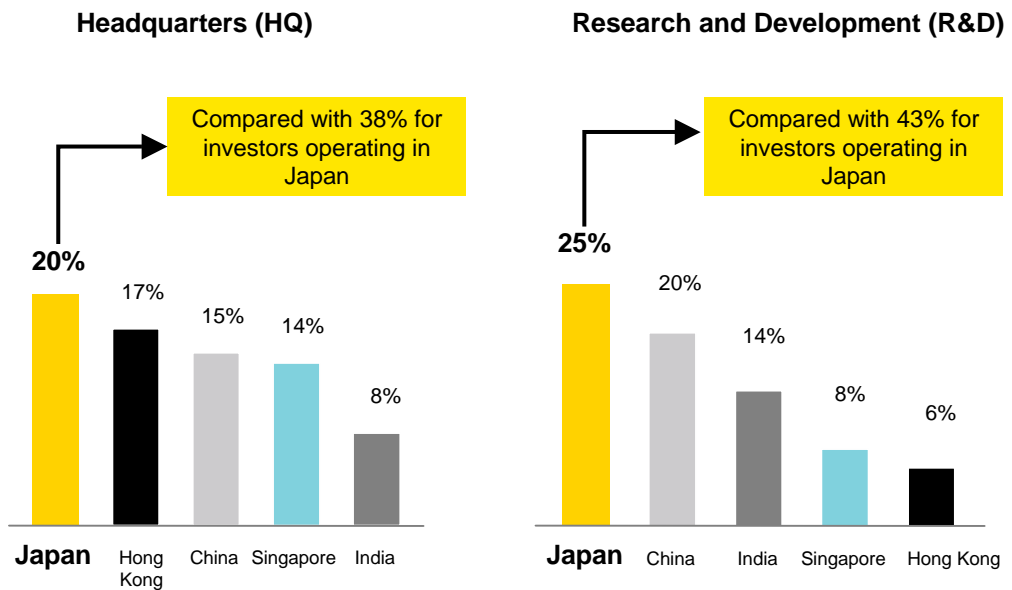
Source: Japan attractiveness survey 2008

Brains and skills attract

This quality image attributed to Japan is further reinforced by investors' perception of the most attractive location for establishing knowledge-intensive activities such as research and development (R&D) centers or headquarters (HQ). Japan ranks highest as a research and development (R&D) center and headquarters (HQ) location, with 25% and 20% of citation rates respectively (Figure 10).

These rates increase among investors already operating in Japan: 43% and 38% of them respectively cite Japan as the most attractive location for a research and development (R&D) center and headquarters (HQ).

Figure 10 - Most attractive countries for headquarters (HQ) and research and development (R&D) centers



Source: Japan attractiveness survey 2008

*Headquarters (HQ): decision-making centers for Japanese and / or Asian markets

Japan's strength, in depth

Table 4 below highlights differences in investors' perception with the attractiveness of labor skills, according to the sector to which they belong. Investors from the wholesale, distribution and business to business sectors express an above average level of satisfaction with Japan on criteria relating to labor skills.

Table 4 – Breakdown by sector on skilled labor attractiveness

	Total	Information and telecommunication technologies (ITC)	Wholesale, distribution, logistics and other business to business services	Chemical, pharmaceutical and medical equipment manufacturing - life science	Automotive	Manufacturing of electronics, electrical instruments and high-tech equipment
Japan	27%	22%	38%	24%	27%	24%
China	23%	22%	27%	15%	27%	24%
India	16%	24%	7%	24%	14%	11%

Source: Japan attractiveness survey 2008

The breakdown by sector on research and development (R&D) availability and quality shows very few significant differences among investors. However, investors from the information and telecommunication (ITC) sector tend to be less satisfied with Japan in relation to Japan's attractiveness on research and development (R&D) availability.

Table 5 – Breakdown by sector on attractiveness of research and development (R&D) availability

	Total	Information and telecommunication technologies (ITC)	Wholesale, distribution, logistics and other business to business services	Chemical, pharmaceutical and medical equipment manufacturing - life science	Automotive	Manufacturing of electronics, electrical instruments and high-tech equipment
Japan	39%	28%	40%	41%	45%	39%
China	16%	16%	11%	13%	13%	22%
India	10%	18%	4%	15%	9%	2%

Source: Japan attractiveness survey 2008

Top quality infrastructure, from telecoms to roads, is a formidable Japanese asset

In terms of criteria related to the local environment, Japan clearly stands apart from its Asian competitors, particularly on telecommunications, transport and logistics infrastructure. For telecommunications infrastructure, Japan ranks first, ahead of China with a citation rate of 32%. Moreover, 43% of investors already operating in the country cite Japan as the most attractive location for this criterion (Figure 11).

Japan is also cited by investors as the most attractive location for the quality of its transport and logistics infrastructure, with a 33% citation rate. This rate increases to 44% among investors who are already operating in the country (Figure 12).

Figure 11 – Most attractive location for quality of telecommunications infrastructure

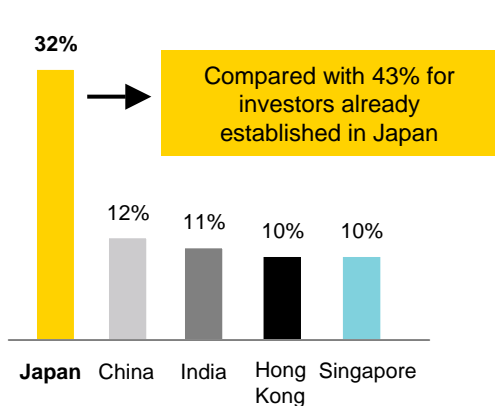
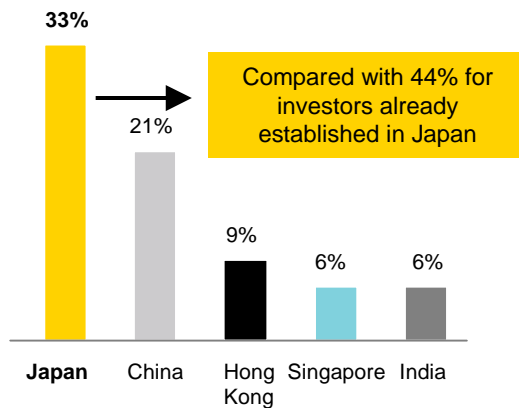


Figure 12 – Most attractive location for quality of transport and logistics infrastructure



Source: Japan attractiveness survey 2008

More detailed analysis of investors' perception of the attractiveness of telecommunications infrastructures indicates a higher level of satisfaction among investors that operate in the information and telecommunication (ITC) sector. Indeed, 48% of investors from this sector cited Japan as the most attractive country based on this criteria, against an average 32% (Table 6).

Table 6 – Breakdown by sector on attractiveness of telecommunications infrastructure

	Total	Information and telecommunication technologies (ITC)	Wholesale, distribution, logistics and other business to business services	Chemical, pharmaceutical and medical equipment manufacturing - life science	Automotive	Manufacturing of electronics, electrical instruments and high-tech equipment
Japan	32%	48%	31%	33%	14%	35%
China	12%	8%	13%	11%	9%	17%
India	11%	10%	4%	13%	23%	4%

Source: Japan attractiveness survey 2008

On transport and logistic infrastructure attractiveness, satisfaction is above average among investors in the wholesale, distribution and business to business services sector, as well as those from the chemical, pharmaceutical and medical equipment manufacturing - life sciences sector (Table 7).

Table 7 – Breakdown by sector on attractiveness of transport and logistics infrastructure

	Total	Information and telecommunication technologies (ITC)	Wholesale, distribution, logistics and other business to business services	Chemical, pharmaceutical and medical equipment manufacturing - life science	Automotive	Manufacturing of electronics, electrical instruments and high-tech equipment
Japan	33%	30%	44%	46%	14%	33%
China	21%	16%	11%	20%	27%	30%
Hong Kong	9%	8%	7%	11%	14%	4%

Source: Japan attractiveness survey 2008

Low risk Japan: A predictable, business-friendly environment

On risk-related factors, Japan benefits from a wide lead over its Asian competitors. When transparency and stability of the political and legal environment are considered, Japan enjoys a 32% citation rate among all investors, and 50% among those who are already operating in Japan (Figure 13).

Further, Japan is ranked as the most attractive location for its social climate and stable environment, with a 33% citation rate. This rate increases to 50% satisfaction among investors already operating in Japan (Figure 14).

Figure 13 – Most attractive location for transparency and stability of political and legal environments

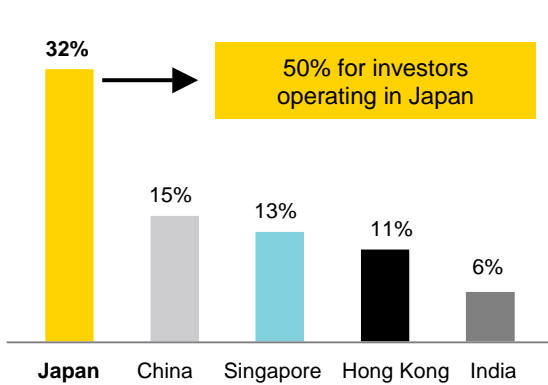
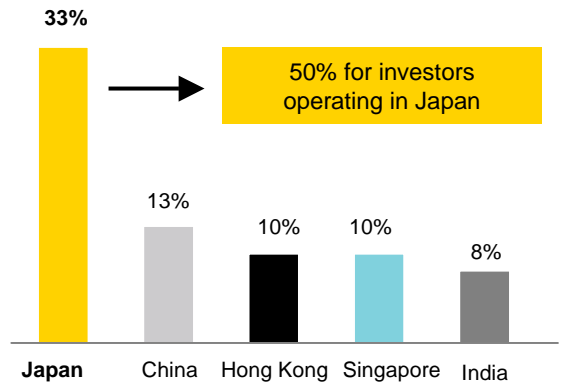


Figure 14 – Most attractive location for social climate and stability



Source: Japan attractiveness survey 2008

The breakdown by sector shows no significant differences among investors in the perception of transparency and political stability (Table 8).

Table 8 – Breakdown by sector on transparency and political stability

	Total	Information and telecommunication technologies (ITC)	Wholesale, distribution, logistics and other business to business services	Chemical, pharmaceutical and medical equipment manufacturing - life science	Automotive	Manufacturing of electronics, electrical instruments and high-tech equipment
Japan	32%	32%	36%	26%	41%	26%
China	15%	12%	13%	15%	14%	20%
Singapore	13%	14%	13%	9%	9%	17%

Source: Japan attractiveness survey 2008

On issues of social climate and political stability, the breakdown by sector shows no significant differences among investors (Table 8 and 9).

Table 9 – Breakdown by sector on social climate and stability

	Total	Information and Telecommunication technologies (ITC)	Wholesale, distribution, logistics and other Business to Business services	Chemical, pharmaceutical and medical equipment manufacturing - life science	Automotive	Manufacturing of electronics, electrical instruments and high-tech equipment
Japan	33%	30%	40%	41%	27%	28%
China	13%	10%	16%	2%	18%	17%
Hong Kong	10%	14%	7%	2%	14%	15%

Source: Japan attractiveness survey 2008

Japan's weakness: costs and tax

High business costs, and uncompetitive taxes, handicap Japan

While Japan enjoys an undeniable advantage over its Asian competitors, especially on factors related to quality, local environment and risk, its position on business costs suffers seriously from tough regional competition led by China.

Indeed, China is by far the leader on business costs in the region, cited by 45% of investors as the most attractive country for labor costs, compared with 2% for Japan, which occupies seventh place (Figure 15). China also appears to be the most attractive location for corporate income tax, with a citation rate of 20% compared with 9% for Japan (Figure 16).

Figure 15 - Most attractive location for labor costs

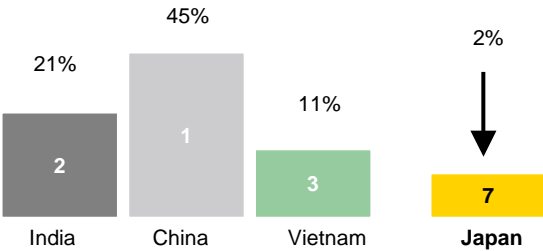
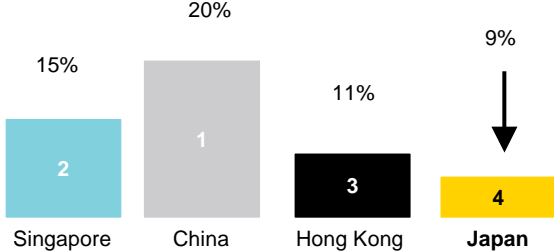


Figure 16 - Most attractive location for corporate income tax



Source: Japan attractiveness survey 2008

Table 10 – Breakdown on labor costs by sector

	Total	Information and telecommunication technologies (ITC)	Wholesale, distribution, logistics and other business to business services	Chemical, pharmaceutical and medical equipment manufacturing - life science	Automotive	Manufacturing of electronics, electrical instruments and high-tech equipment
China	45%	48%	51%	39%	36%	50%
India	21%	26%	13%	37%	14%	15%
Vietnam	11%	4%	9%	7%	27%	9%
Hong Kong	3%	4%	4%	-	5%	-
Thailand	3%	4%	4%	-	-	4%
South Korea	2%	-	2%	7%	-	2%
Japan	2%	4%	2%	-	-	2%

Source: Japan attractiveness survey 2008

Table 11 – Breakdown on corporate income tax by sector

	Total	Information and telecommunication technologies (ITC)	Wholesale, distribution, logistics and other business to business services	Chemical, pharmaceutical and medical equipment manufacturing - life science	Automotive	Manufacturing of electronics, electrical instruments and high-tech equipment
China	20%	14%	27%	15%	18%	28%
Singapore	15%	14%	18%	13%	14%	17%
Hong Kong	11%	20%	9%	2%	9%	13%
Japan	9%	10%	11%	11%	9%	2%

Source: Japan attractiveness survey 2008

2.3 Asian competition by business activity: where's best, for what?

Japan leads on quality, China on cost, and is challenging on R&D

The tough competition between Japan and China is equally reflected in an analysis of location preferences for business activities (Figure 17).

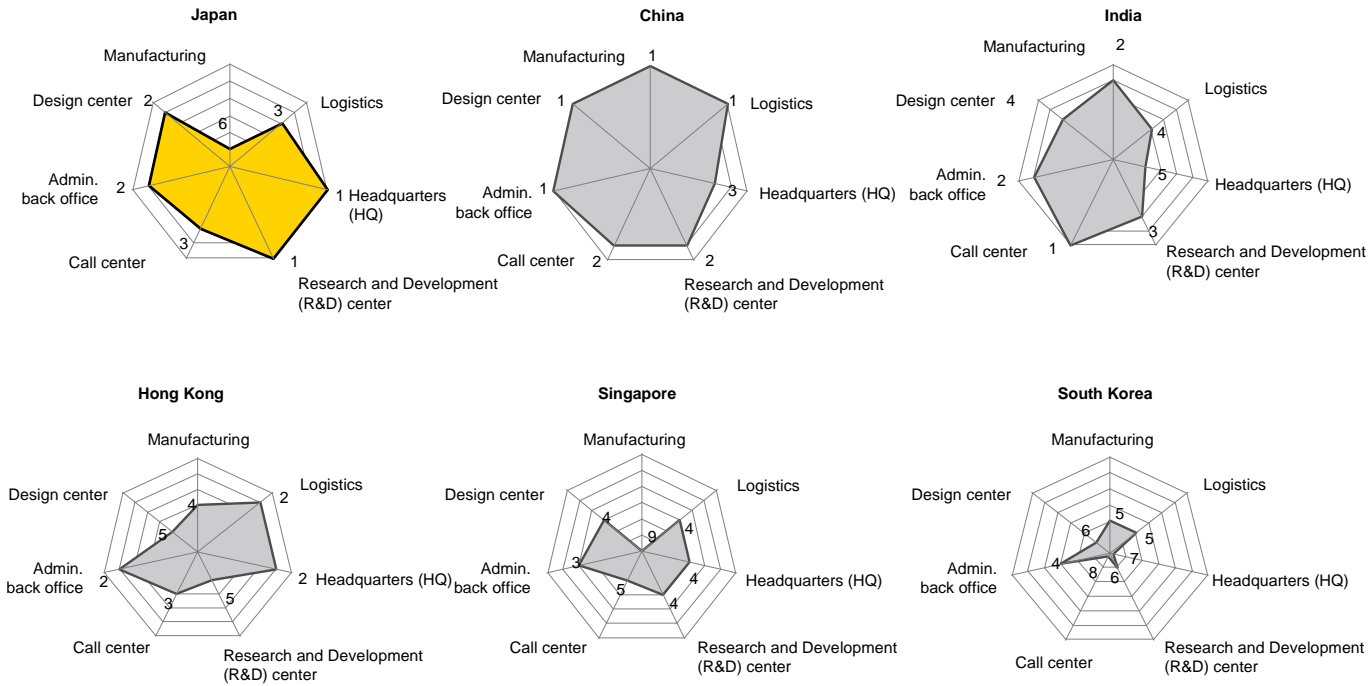
As shown in Figure 17 and Table 12, which follow, Japan tops the ranking for knowledge-intensive activities. The country is deemed number one by investors as a location for research and development (R&D) centers (25%) and headquarters (HQ) (20%).

China confirms its leading position for labor-intensive activities, dominating manufacturing (52%) and with a strong lead on logistics (35%), as well as administrative back office (21%) and design center (22%) capabilities, although Japan holds a challenging position regarding the latter criterion (21%). China holds a challenging number two position for R&D activities, with a 20% citation rate, closely trailing Japan (25%).

India has a clear number three profile in the overall business activities competition, being number one on call centers (32%), number two on manufacturing (11%) and administrative back office (13%) and number three on R&D activities, with a 14% rating.

Hong Kong, Singapore and South Korea vie for fourth place, with the lead being taken by Hong Kong. Despite its world-renowned gateway position, our survey indicates that Singapore has been unable to attain the highest attractiveness score for HQ and logistics activities, ranking just behind Japan with scores of 8% and 9%, respectively.

Figure 17 – Asian competition by business activity



Source: Japan attractiveness survey 2008

The numbers indicate the ranking.

Table 12 – Asian competition by business activity

	Manufacturing	Logistics	Headquarters (HQ)	Research and Development (R&D) center	Call center	Administrative back office	Design center
Japan	3%	9%	20%	25%	7%	13%	21%
China	52%	35%	15%	20%	16%	21%	22%
India	11%	8%	8%	14%	32%	13%	9%
Singapore	1%	8%	14%	8%	3%	10%	8%
Hong Kong	4%	12%	17%	6%	4%	13%	7%
South Korea	4%	5%	4%	3%	2%	4%	4%

Source: Japan attractiveness survey 2008

2.4 Japan's attractiveness profile: So what does it all add up to?

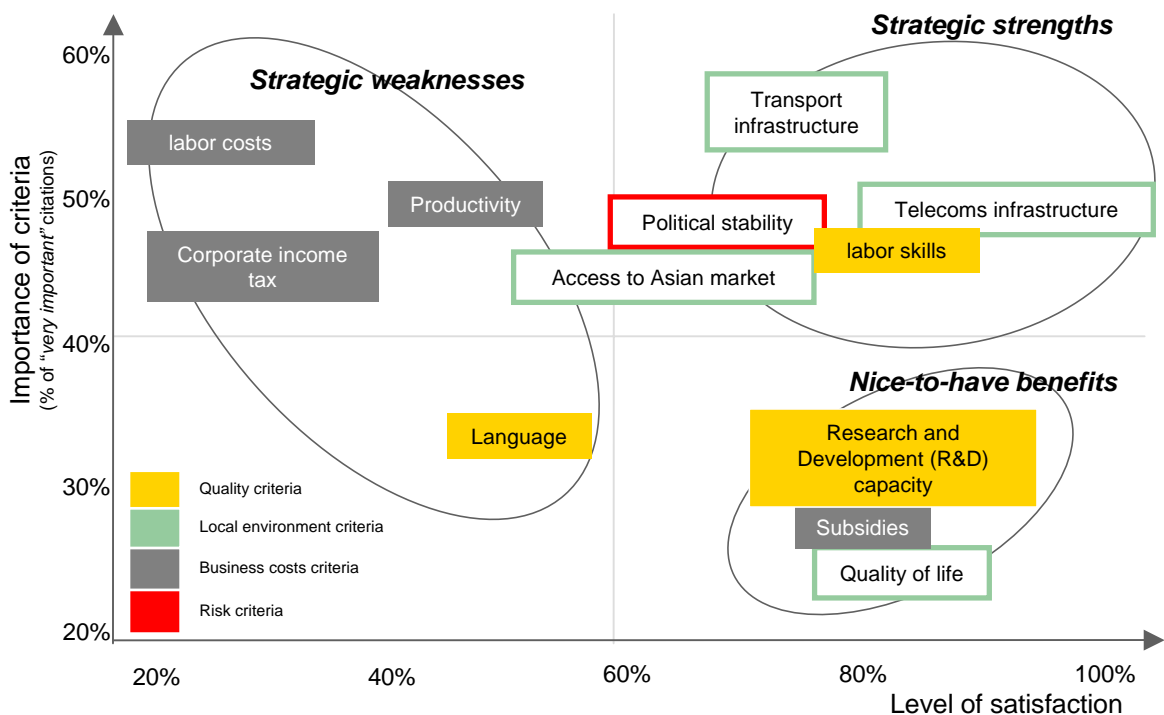
Profile of Japan based on location criteria

The matrix below summarizes the strengths and weaknesses of Japan on each attractiveness criterion, according to their importance and the level of satisfaction reached. The vertical axis represents the importance of criteria, while the horizontal axis refers to the investors' satisfaction on each criteria.

As shown in the matrix (Figure 18), we observe a very high level of satisfaction with quality and business-environment criteria (labor skills, political stability, and transport and telecoms infrastructure).

On the other hand, investors show a very low level of satisfaction with cost-related criteria such as labor costs, productivity and corporate income tax.

Figure 18 – Japan's attractiveness scoreboard

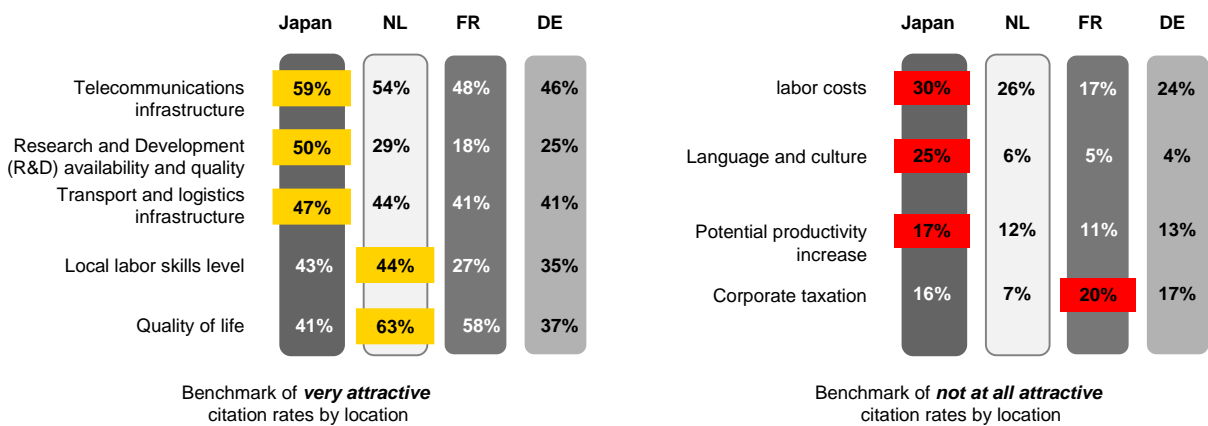


Source: Japan attractiveness survey 2008

In addition to Japan's strong advantages over its Asian competitors, it also rates favorably for the main location criteria when compared with European countries.

Investors rate Japan more highly than major European destinations such as The Netherlands, France or Germany for factors related to quality. Japan obtains the highest satisfaction score on telecommunications infrastructure, R&D availability and quality, as well as on transport and logistics infrastructures (Figure 19).

Figure 19 – Benchmark* against European countries

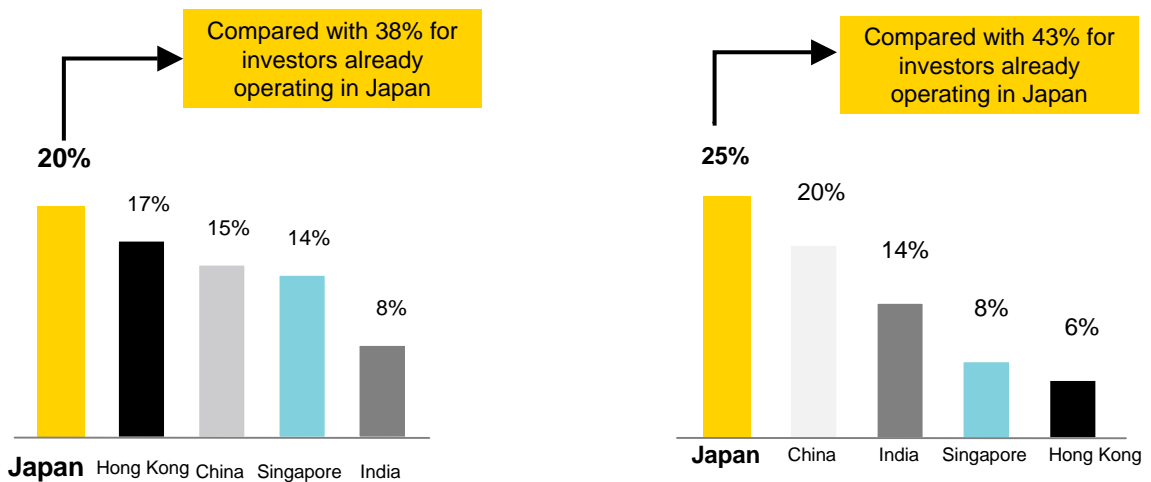


Source: Japan attractiveness survey 2008, European attractiveness surveys 2007, Ernst & Young

*European benchmark scores are drawn, respectively, from the Dutch, French and German Attractiveness Surveys carried out in 2007 by Ernst and Young and are based on the same methodology and questions as the Japan attractiveness survey.

Japan's high-quality image gives the country a significant lead in knowledge-based activities, such as the establishment of an R&D center or a headquarters operation (Figure 20). Furthermore, investors with business experience in Japan are apt to rate Japan more highly than those without experience of the country. This is particularly true for headquarters and R&D centers (38% and 43% of citation rate respectively).

Figure 20 (copy of Figure 10) - Most attractive countries for headquarters (HQ)* and Research and Development (R&D) centers



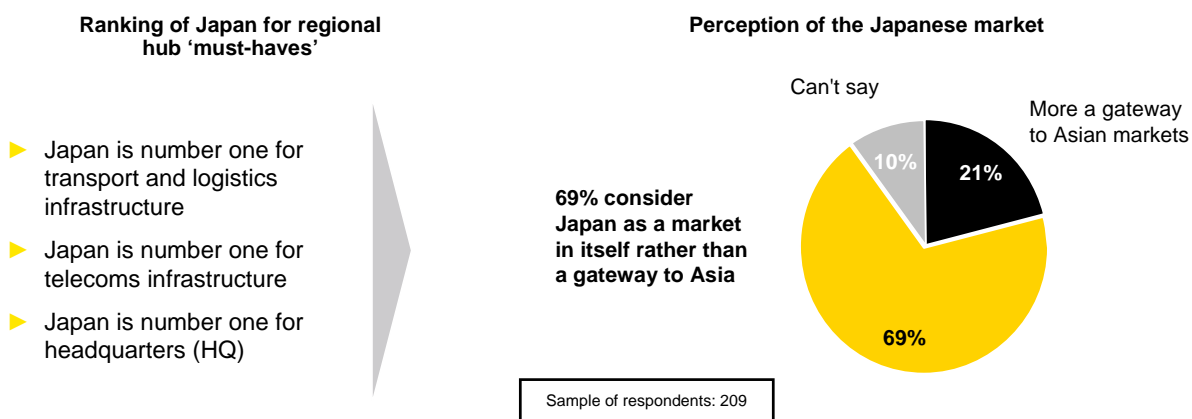
Source: Japan attractiveness survey 2008

*Headquarters (HQ): decision-making centers for Japanese and / or Asian markets

Japan ranks first for these two business activities, but is strongly challenged by its direct Asian competitors, specifically for headquarters functions. To develop or even maintain an Asian-hub positioning, Japan must retain and strengthen its advantages, particularly in relation to headquarters operations.

As shown in figure 21 below, almost 70% of investors are interested in Japan for its large internal market. Only 21% consider Japan as a gateway to Asia, but those currently operating in Japan are less interested in its strategic position for access to its surrounding market (17% consider it a gateway to Asia). Our survey indicates that Japan is the first choice for headquarters operations but the country is still not seen as a gateway to the Asian regional market.

Figure 21 – Perception of the Japanese market



Source: Japan attractiveness survey 2008

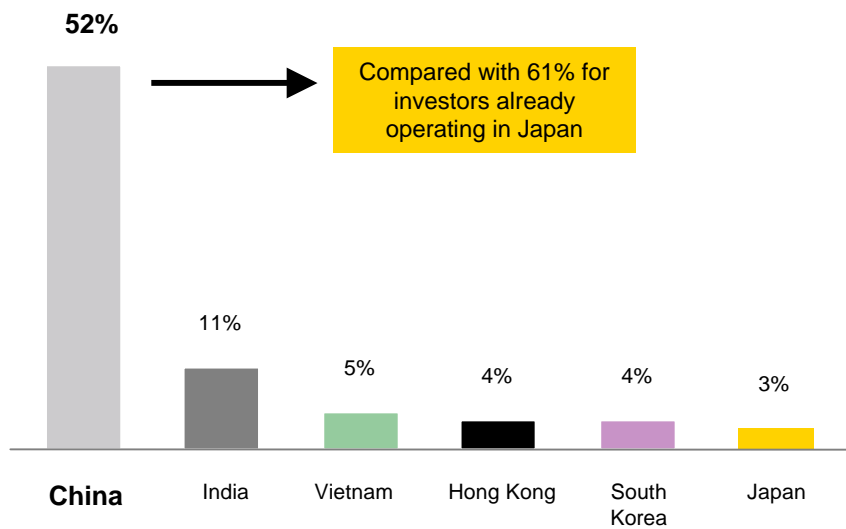
*Headquarters (HQ): decision-making centers for Japanese and / or Asian markets

However, the comparison between Japan and its European competitors also reveals Japan's weaknesses on cost criteria, with a 30% "not at all attractive" citation rate among investors when considering labor costs (Figure 19).

This dissatisfaction with Japan is also reflected in its low attractiveness for labor-intensive activities: Japan has only a 3% citation rate, far behind that of China, which is considered by 52% of investors interviewed as the most attractive country for manufacturing activities. This rate rises to 61% among investors already operating in Japan, confirming China's attractiveness on labor intensive activities.

Figure 22 below highlights Japan's reliance on location strengths to attract or sustain manufacturing activities.

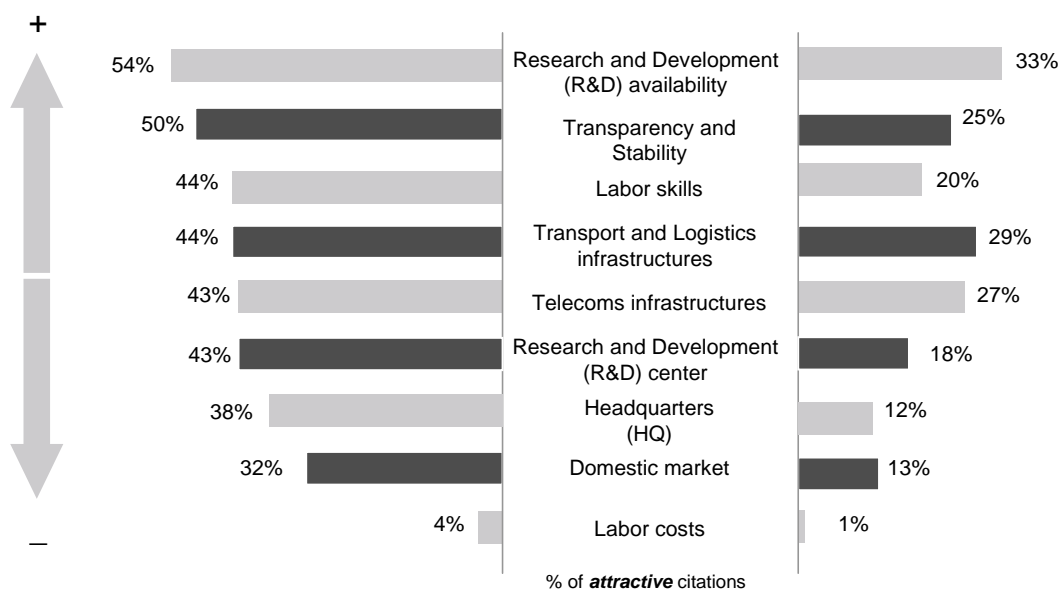
Figure 22 - Most attractive countries for manufacturing activities



Source: Japan attractiveness survey 2008

The graph below underlines the perception gap among investors surveyed based on their experience with Japan (Figure 23).

Figure 23 - Investors already operating in Japan, compared with those not operating in Japan



Source: Japan attractiveness survey 2008

Experience of investment in Japan improves investor perceptions

Investors' satisfaction with Japan on location criteria tends to increase once they have experience in the country. Satisfaction rates among investors already operating in Japan are higher than those among investors with little or no experience of the country.

The results are particularly noticeable on quality issues such as labor skills and R&D availability.

As seen in this section, Japan's attractiveness profile can be labeled a "no-compromise profile," with highly qualitative strategic assets counterbalancing considerable weaknesses on business cost criteria.

The following section addresses future perspectives in Asia and Japan as well as measures to be taken to improve Japan's attractiveness.

3.

Looking ahead



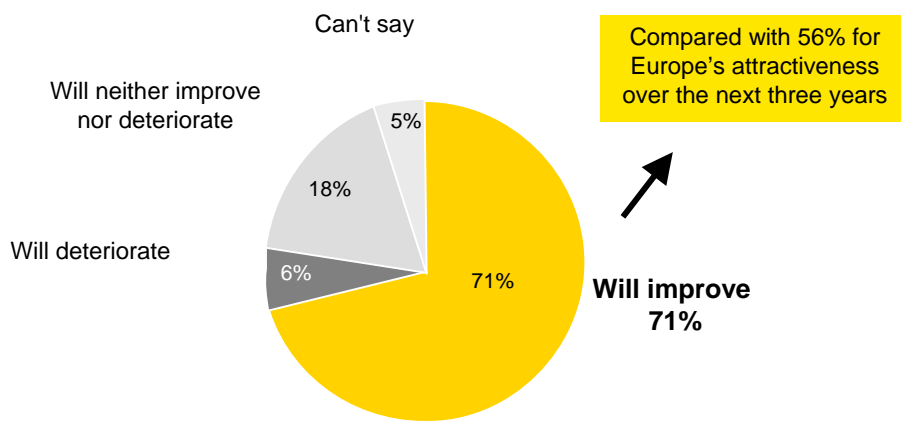
Looking ahead

3.1 Asia rising: Attractiveness of Asia and Japan in the future

Optimism about Asia is strong, outpacing optimism about Europe

Analysis of the anticipated changes in the Asian market's attractiveness over the next three years reveals a high level of confidence among international investors. Indeed, 71% of investors are expecting an improvement in the Asian market's attractiveness over the next three years, compared with only 56% for Europe (Figure 24).

Figure 24 – Changes in the attractiveness of the Asian market over the next three years



Source: Japan attractiveness survey 2008

Japan is one of the top three destination countries for future investment projects in Asia

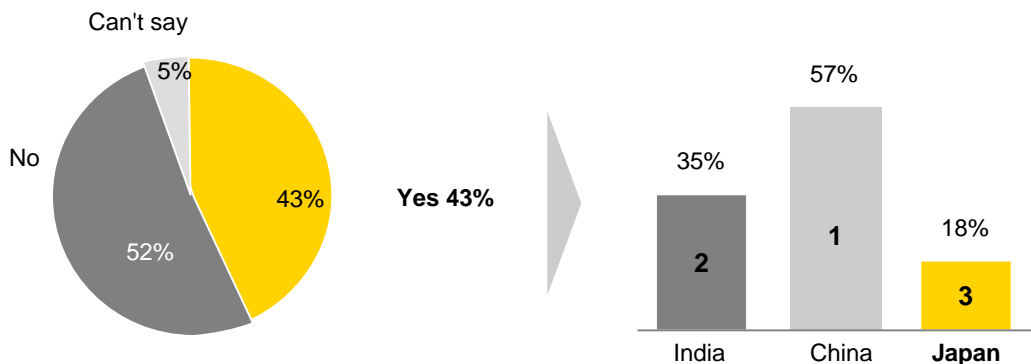
With regard to location intentions of investors in Asia, 43% state that they are actively considering establishing or developing activities in Asia (Figure 25).

China, cited by 57% of investors, receives by far the highest location intention rate, followed by India with a 35% citation rate.

Japan, lying third, with 18% of votes, is still among the top three favorite destinations in Asia for future investment projects.

Competition is therefore particularly tough between China, India and Japan, the favorite potential locations for companies considering establishing operations in Asia.

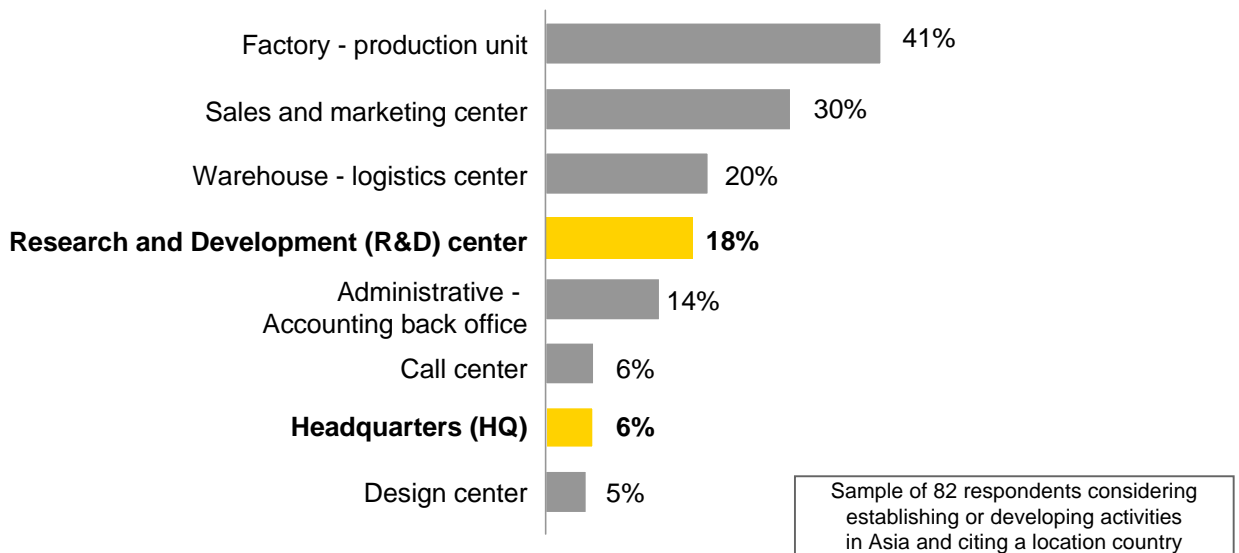
Figure 25 – Location intentions of investors in Asia and top investment destinations



Source: Japan attractiveness survey 2008

As shown in Figure 26 below, when considering which activities to develop in Asia, 41% of investors cite a factory or production unit. Sales and marketing activities are cited by 30% of investors, followed by activities related to warehousing and logistic centers. High-value opportunities exist, demonstrated by the 24% of investors who identify their intention to establish an R&D center or a headquarter in Asia.

Figure 26 – Location intentions in Asia by activity

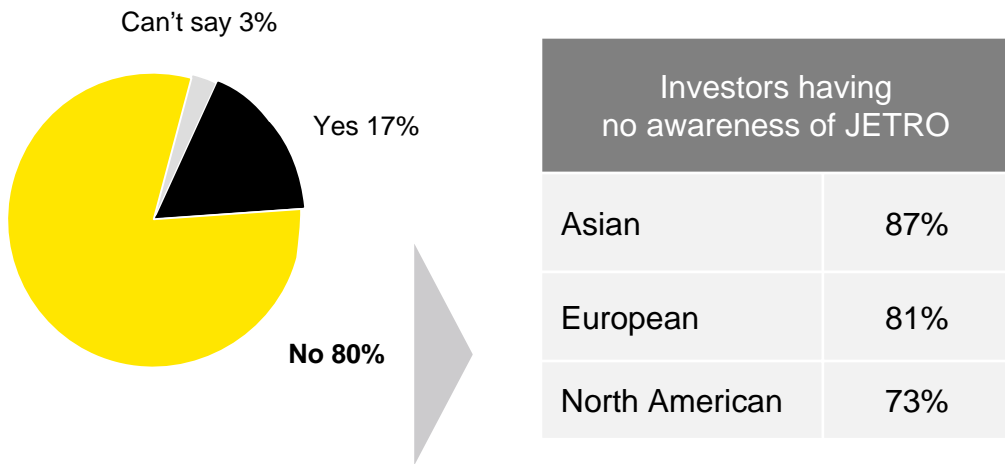


Source: Japan attractiveness survey 2008

Investors are generally unaware of JETRO

While Japan ranks among the top three destination countries cited by investors, there is a low level of awareness of JETRO's activities. Only 17% of investors with no Japanese presence were familiar with it (Figure 27). Measures to improve JETRO's visibility are therefore critical, even though not all investors are currently targeting Japan as an investment location.

Figure 27 - Investor awareness of JETRO



Sample of respondents: 158 surveyed outside Japan

Source: Japan attractiveness survey 2008

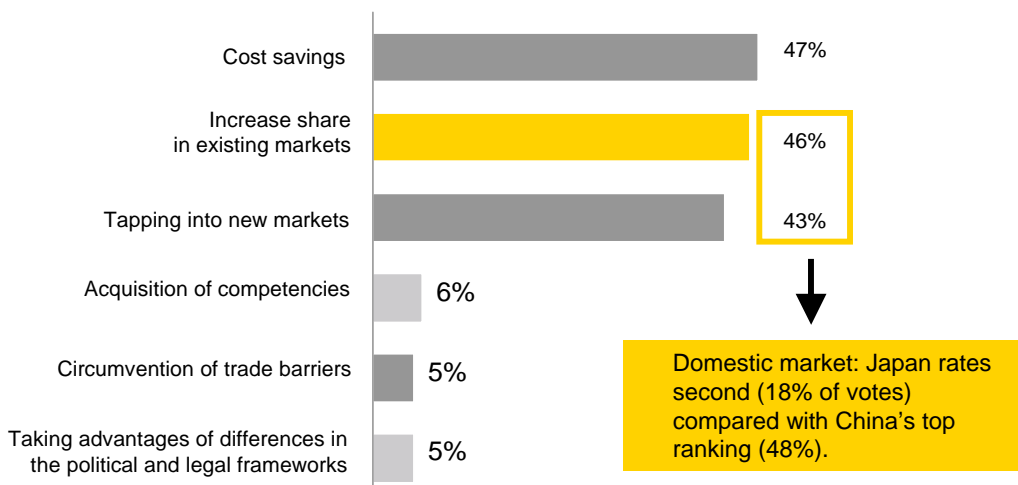
How low are the costs, who can we sell to? : Location intentions are mainly driven by costs and market opportunities

Among the different factors considered by investors before establishing or developing activities in Asia, three emerge as the main drivers for location intentions.

Investors place highest importance on the cost-saving opportunities offered by rival Asian locations, (47% citation rate), followed by the prospect of a higher market share in existing and new markets, (46% and 43% response rates respectively) (Figure 28).

As shown in the figure below, China is the most attractive country in terms of its domestic market (48%), far ahead of Japan (18%).

Figure 28 - Location intention drivers



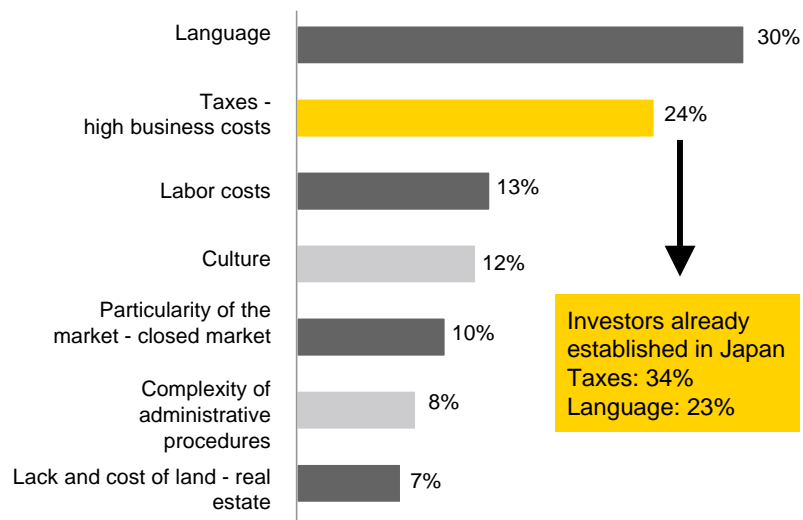
Source: Japan attractiveness survey 2008

3.2 Change, please: Reforms and expectations

What did you say? Language and costs among the main priority issues

Among the obstacles perceived by investors regarding the Japanese market, language and cost-related criteria (such as taxes and labor costs) appear to be the main barriers to be overcome. Language is cited by 30% of investors as the main obstacle perceived, followed by taxes (24%) and labor costs (13% citation rate) (Figure 29).

Figure 29 - Main obstacles to investing in Japan



Source: Japan attractiveness survey 2008

Table 13 below provides a breakdown of obstacles cited according to investors' business sector. Overall, 52% of investors from the information and telecommunication (ITC) sector cite language as the main obstacle, versus an average of 30%. Conversely, investors from the chemical, pharmaceutical and medical equipment manufacturing - life sciences sector and those from wholesale and business-to-business services tend to be less hampered by language difficulties (17% and 20% citation rate respectively).

Table 13 – Breakdown of obstacles by sector

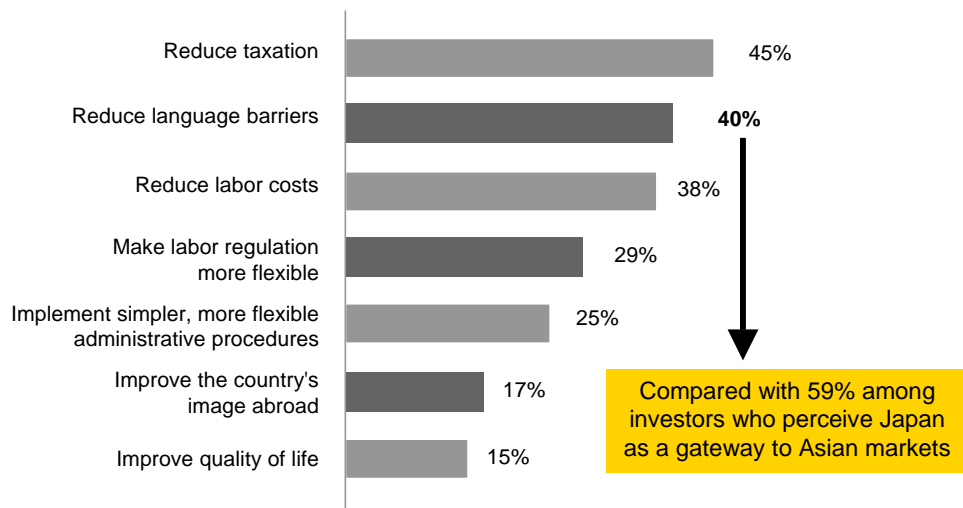
	Total	Information and telecommunication technologies (ITC)	Wholesale, distribution, logistics and other business-to-business services	Chemical, pharmaceutical and medical equipment manufacturing - life science	Automotive	Manufacturing of electronics, electrical instruments and high-tech equipment
Language	30%	52%	20%	17%	36%	26%
Taxes - high business costs	24%	14%	20%	26%	41%	17%
Labor cost	13%	10%	9%	11%	9%	24%
Culture	12%	14%	11%	17%	14%	4%
Particularity of the market - closed market	10%	10%	11%	13%	5%	11%
Complexity of administrative procedures	8%	8%	11%	13%	5%	4%
Lack and cost of land - real estate	7%	6%	11%	-	9%	7%

Source: Japan attractiveness survey 2008

As shown below, 45% of investors demand measures to reduce taxation and 38% hope for a reduction in labor costs, as shown in the graph below (Figure 30).

Furthermore, 40% of respondents would like to see the implementation of measures to reduce language barriers. This rate is particularly high among investors who perceive Japan as a gateway to the Asian market (59% citation rate).

Figure 30 - Priority measures to be taken



Source: Japan attractiveness survey 2008

Table 14 below provides a breakdown by investors according to their business sector. Investors in the Information and Telecommunication (ITC) sector feel particularly frustrated by a lack of flexibility in the labor market - 48% request measures to improve labor flexibility, compared with an average 29%.

Table 14 – Priority measures by sector

	Total	Information and telecommunication technologies (ITC)	Wholesale, distribution, logistics and other business-to-business services	Chemical, pharmaceutical and medical equipment manufacturing - life science	Automotive	Manufacturing of electronics, electrical instruments and high-tech equipment
Reduce taxation	45%	50%	44%	39%	50%	43%
Reduce language barriers	40%	42%	33%	35%	45%	46%
Reduce labor costs	38%	42%	33%	39%	32%	43%
Make labor regulation more flexible	29%	48%	24%	26%	18%	26%
Implement simpler, more flexible admin. procedures	25%	24%	20%	17%	32%	33%
Improve the country's image abroad	17%	16%	16%	17%	23%	11%
Improve quality of life	15%	20%	16%	15%	9%	13%
Improve the education system	11%	8%	22%	9%	5%	11%
Improve transport and communications infrastructure	8%	6%	13%	11%	5%	4%
Improve innovation and Research and Development (R&D)	7%	12%	7%	7%	5%	4%
Other	3%	-	2%	2%	5%	7%
Can't say	10%	4%	13%	11%	14%	7%

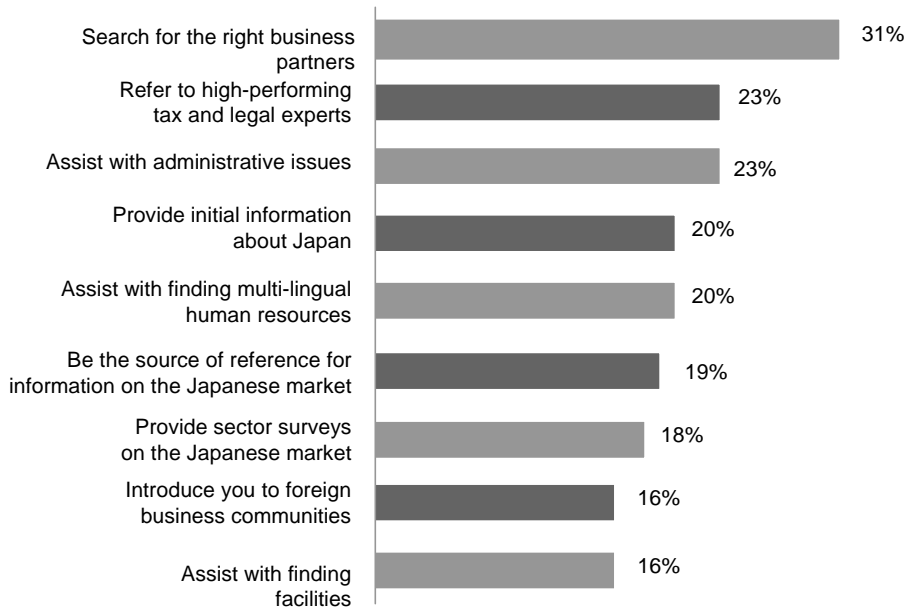
Source: Japan attractiveness survey 2008

A practical range of services to be developed to meet investors' expectations

When considering the three most important services expected from a national promotion agency, 31% of investors cite the search for the right business partners as being their primary expectation (Figure 31).

A further 23% of investors are looking for assistance with administrative issues, as well as assistance with their search for tax and legal experts.

Figure 31 - Services expected from a national promotion agency



Source: Japan attractiveness survey 2008

We note almost no significant differences in the expectation of services according to investors' business sector, as shown in Table 15 below. Therefore, a national promotion agency would not seem to need to tailor its services to individual business sectors.

Table 15 – Breakdown of services expected by sector

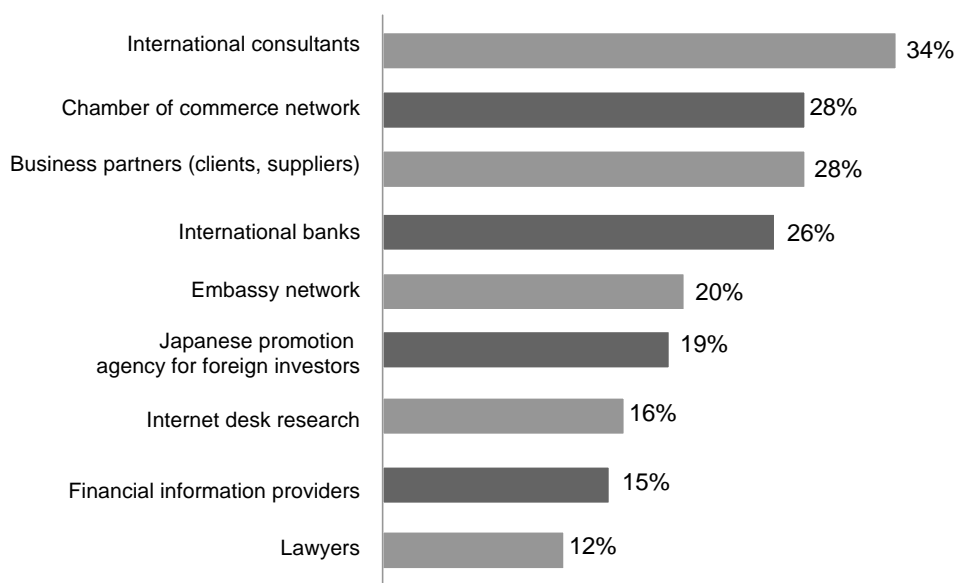
	Total	Information and telecommunication technologies (ITC)	Wholesale, distribution, logistics and other business-to-business services	Chemical, pharmaceutical and medical equipment manufacturing - life science	Automotive	Manufacturing of electronics, electrical instruments and high-tech equipment
Search for the right business partners	31%	34%	29%	30%	32%	30%
Refer to high-performing tax and legal experts	23%	22%	18%	22%	27%	28%
Assist with administrative issues	23%	20%	20%	24%	27%	24%
Provide initial information about Japan	20%	16%	24%	24%	23%	15%
Assist with finding multi-lingual human resources	20%	28%	20%	13%	18%	22%
Be the source of reference for information on Asian markets	19%	20%	22%	17%	18%	20%
Provide sector surveys on the Japanese market	18%	18%	20%	17%	18%	15%
Introduce you to the foreign business communities	16%	22%	13%	9%	18%	20%
Assist with finding facilities	16%	14%	22%	11%	18%	13%
Introduce you to the Japanese clusters in your sector	12%	10%	13%	17%	9%	9%
Be a single gateway for foreign investors	11%	10%	9%	15%	14%	9%
Relocate company expatriates and their families (housing, schools)	11%	22%	7%	4%	9%	11%
Find a job for the spouse of the senior executives	10%	16%	4%	9%	9%	13%
Other	1%	2%	-	2%	-	2%
Can't say	15%	10%	20%	20%	9%	15%

Channels used to gather information are widely diversified

When asked which types of organizations they consult if they have an investment project, 34% of investors choose consultancies, followed by chambers of commerce (28%) and business partners (28%) (Figure 32).

Government promotion agencies for foreign investors rated sixth (19%), and were not so often used at the initial planning phase of an investment project. Reasons for their answers were not sought in this survey, but some investors have indicated the following reasons for not using the services of IPAs: the confidentiality of the project, multiple location options and wariness about the motivations behind IPA services. These results indicate the importance for IPAs to enhance their contacts with the organizations and companies cited above.

Figure 32 - Channels used to gather information about Japan

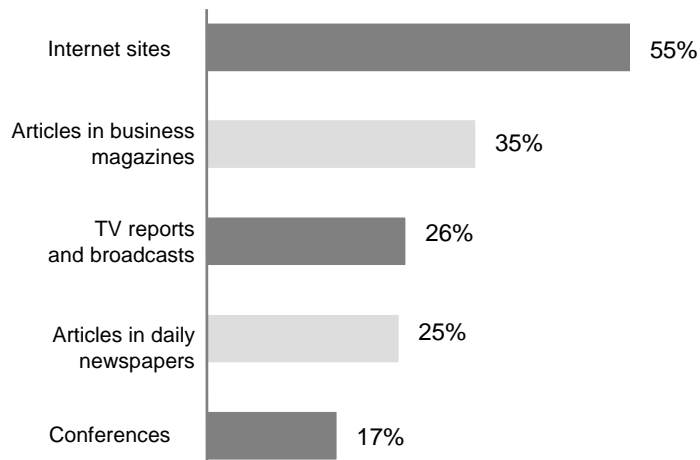


Source: Japan attractiveness survey 2008

Figure 33 below shows that the Internet is the primary channel used by 55% of investors surveyed to gather information about the country.

Finally, investors without experience in Asia (68 investors) tend to rely on TV reports (36% citation rate), while those already operating in Japan (62 investors) tend to favor newspapers (37% citation rate) as a Japanese information source.

Figure 33 - Channels used to gather information about Japan



Source: Japan attractiveness survey 2008

In this section, the survey results revealed a high level of confidence for the next three years with a large majority of investors expecting an improvement in the Asian market's attractiveness.

When considering the main reasons leading investors to establish their activities in an Asian country, costs and market opportunities emerge as the key drivers. Despite fierce competition with China and India, Japan is cited among the top three most favored locations by investors.

Finally, measures to be taken mainly concern reducing taxation and labor costs, and the language skills that investors expect to see improved.

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