

3

Recent government measures



The Japanese government has set a target of 100 trillion yen in FDI stock by 2030 and is taking various measures to achieve this goal.

Section 1. Basic Policy on Economic and Fiscal Management and Reform 2024

■ Aiming to make strategic investments in areas such as green technologies, digital, and economic and energy security

The wages have risen to the highest level in 33 years and corporate capital investment is at an all-time high in Japan, despite the growing need to address economic security and strengthen international competitiveness amid the increasing uncertainty in the international situation. Under these circumstances, the Basic Policy on Economic and Fiscal Management and Reform 2024 was approved by the Cabinet in June 2024.

The Basic Policy states that the government will improve income and productivity based on wage increases and review fiscal reconstruction plans with the cooperation of both the public and private sectors in order to realize the "transition to a new growth-oriented economic stage." It also includes the Economic and Fiscal Revitalization Plan covering the period up to 2030 and has set a target of a "nominal gross domestic product (GDP) of 1,000 trillion yen" by around 2040. In addition to stabilizing prices, the goal is to take measures to address the population

decline that is expected to accelerate after 2030, as well as to overcome deflation and move to a new economic stage.

Moreover, it states that the public and private sectors are to work together for increase in wages and investment to realize a growth economy driven by them. Particularly, as to investment, it suggests that the both sectors cooperate to make strategic investments in areas such as green technologies, digital, science, technology and innovation, and economic and energy security, taking a long-term perspective. It has also identified eight items as the direction of the government's economic and fiscal policy and its specific measures. From the viewpoint of promoting investment in Japan, we will take up herein the following items among them: "Responding to social issues through increasing investment and implementing innovative technologies in society" (Chart 3-1) and "Responding to social issues through building startup networks and improving connectivity overseas" (Chart 3-2).

Chart 3-1: Responding to social issues through increasing investment and implementing innovative technologies in society

No.	Outline	Plans
1	Digital Transformation (DX)	<ul style="list-style-type: none"> Developing a database for public basic information and promoting its use Developing quasi-zenith satellites and utilizing satellite data for organizing geospatial information and promoting their wider use and social implementation Promoting DFFT (Data Free Flow with Trust), strengthening Japan's AI competitiveness, and ensuring its safety in an integrated manner Exploring legislative measures for mass production of next-generation semiconductors, etc. Promoting digital government; digital transformation (DX) for health, long-term, and child care; DX for education; DX for transportation and logistics; DX for disaster risk reduction; and DX for tourism
2	Green Transformation (GX) and Energy security	<ul style="list-style-type: none"> Developing the national strategy for GX by the end of FY 2024 and revising the Strategic Energy Plan, etc. Promoting energy conservation, expanding the deployment of renewable energy, utilizing nuclear power, and implementing low-carbon hydrogen and its derivatives in society Realizing and implementing the Pro-Growth Carbon Pricing Concept, among other actions Realizing the AZEC(Asia Zero Emission Community) initiative and developing technology for domestic marine resources
3	Development of Frontiers	<ul style="list-style-type: none"> Implementing measures under the Space Technology Strategy, providing support through the Space Strategy Fund, and exploring the possibility of revising Act on Launching of Spacecraft, etc. and Control of Spacecraft Implementing measures based on the Ocean Development Strategy, building an MSIL (MDA Situational Indications Linkages) business platform, and strengthening the command function for ocean policy
4	Promotion of Science, Technology and Innovation	<ul style="list-style-type: none"> Promoting R&D in such fields as fusion energy, quantum technology, AI, biotechnology, materials, semiconductors, 6G, and health and medicine, among other actions
5	Promoting Japan as a Leading Asset Management Center	<ul style="list-style-type: none"> Developing the Asset Owner Principles Promoting the Special Zones for Financial and Asset Management Businesses by leveraging the National Strategic Special Zones Exploring the possibility of raising the iDeCo (individual-type defined contribution pension plan) contribution limits, among other actions

Source: Based on "Basic Policy on Economic and Fiscal Management and Reform 2024—Realizing a Growth-oriented Economy Driven by Wage Increases and Investment" (June 2024) by the Cabinet Office

Chart 3-2: Responding to social issues through building startup networks and improving connectivity overseas

No.	Outline	Plans
1	Supporting startups and building their networks	<ul style="list-style-type: none"> • Developing human resources for startups and enhancing entrepreneurship education • Giving shape to the Global Startup Campus Initiative • Supporting startups through public procurement and expanding opportunities for matching between the government sector and startups • Invigorating M&A toward diversifying exit strategies and submitting swiftly a bill that permits the reduction of financial debts through a majority vote
2	Leveraging overseas vitality	<ul style="list-style-type: none"> • Expanding a free and fair economic zone as well as maintaining and strengthening the rules-based multilateral trading system • Promoting trade DX, encouraging Japanese companies to expand their operations overseas, revising the Infrastructure System Overseas Promotion Strategy with a focus on 2030, and improving broad-based connectivity with the Global South • Implementing the Priority Program for Attracting Foreign Direct Investment, etc. for an achievement of the target of "100 trillion yen" in inward foreign direct investment by 2030 at an earliest date • Establishing the UHC (Universal Health Coverage) Knowledge Hub in Japan, promoting the international expansion of health and long-term care, including medical inbound, and contributing to the Vaccine Alliance, among other actions • Supporting the content industry in doing business overseas (e.g., training creators, luring shooting crews to Japan, and developing guidelines for regulation on transactions) • Developing systems for acceptance foreign nationals
3	Promoting the EXPO 2025 OSAKA, KANSAI, JAPAN	<ul style="list-style-type: none"> • Securing participating countries for the 2025 EXPO; constructing the venue; demonstrating, implementing, and showcasing technologies that help solve social issues; and building national momentum

Source: Based on "Basic Policy on Economic and Fiscal Management and Reform 2024—Realizing a Growth-oriented Economy Driven by Wage Increases and Investment" (June 2024) by the Cabinet Office

Section 2. Priority Program for Attracting Foreign Direct Investment

■ Strengthening activities to attract foreign investment and secure human resources aiming for 100 trillion yen in FDI stock by 2030

The Action Plan for Attracting Human and Financial Resources from Overseas (hereinafter the "Action Plan") was decided at the Council for Promotion of Foreign Direct Investment in Japan *1, which compiled 100 policy measures for promoting FDI and set a target of increasing the FDI stock in Japan to 100 trillion yen by 2030.

The council established the FDI Task Force for Attracting Human and Financial Resources from Overseas to follow up the Action Plan, where they discussed matters for which efforts should be

accelerated and deepened. The Cabinet Office also conducted interviews with embassies in Tokyo, chambers of commerce and industry, local governments, financial institutions, and so forth.

From among the 100 measures set forth in the Action Plan and the feedback received in the interviews, the Priority Program for Attracting Foreign Direct Investment with 4 pillars and 10 policy measures was presented as the items to be particularly focused on and the policy responses to be taken in the future.

Chart 3-3: Priority Program for Attracting Foreign Direct Investment: 4 Pillars and 10 Policys

No.	4 pillars of priority programs	10 policy measures
1	Expanding investment opportunities in Japan	1) Ensuring implementation of the Comprehensive Economic Measures to End Deflation Completely, and its PR 2) Identifying the challenges for foreign companies in making follow-up investments in Japan 3) Promoting activities abroad to attract FDIs in Japan by the FDI Task Forces established in five diplomatic missions (U.S., U.K., France, Germany, and Australia)
2	Securing highly skilled human resources in Asia and other regions	4) Conducting comparative study with overseas on securing human resources in the semiconductors and key fields 5) Conducting needs survey on residential status and exploring possible measures based on the result of the survey 6) Attracting world-class researchers and expanding the acceptance of highly educated foreign students from Southeast Asia, India, and other countries, and supporting their employment in Japan
3	Promoting collaborations between domestic and foreign companies	7) Supporting the matching between Japanese startups with foreign venture capitals, disseminating compiled good cases of collaboration between foreign and Japanese companies (incl. SMEs), and considering further measures 8) Promoting compliance of standards with international ones on performance evaluation of VC funds made by investors and disclosure of indicators that are considered important for their management
4	Improving business and living environments that are in high demand by foreign companies	9) Promoting English-language documentation and one-stop procedures for establishing corporations 10) Speeding up and facilitating procedures for opening bank accounts

Source: Based on "Priority Program for Attracting Foreign Direct Investment in Japan" (May 2024) by the Cabinet Office

Note *1: The Council for Promotion of FDI in Japan is a government-sponsored conference that promotes direct investment in Japan, while directly hearing the views of foreign company managers and others.

Section 3. National Strategic Special Zones "Special Zones for Financial and Asset Management Businesses"

■ Aiming to activate investment specializing in financial and asset management in four cities in Japan

In June 2024, the Financial Services Agency announced that it would designate the four regions of Hokkaido and Sapporo, Tokyo, Osaka (Pref. and City), and Fukuoka (Pref. and City) as Special Zones for Financial and Asset Management Businesses.

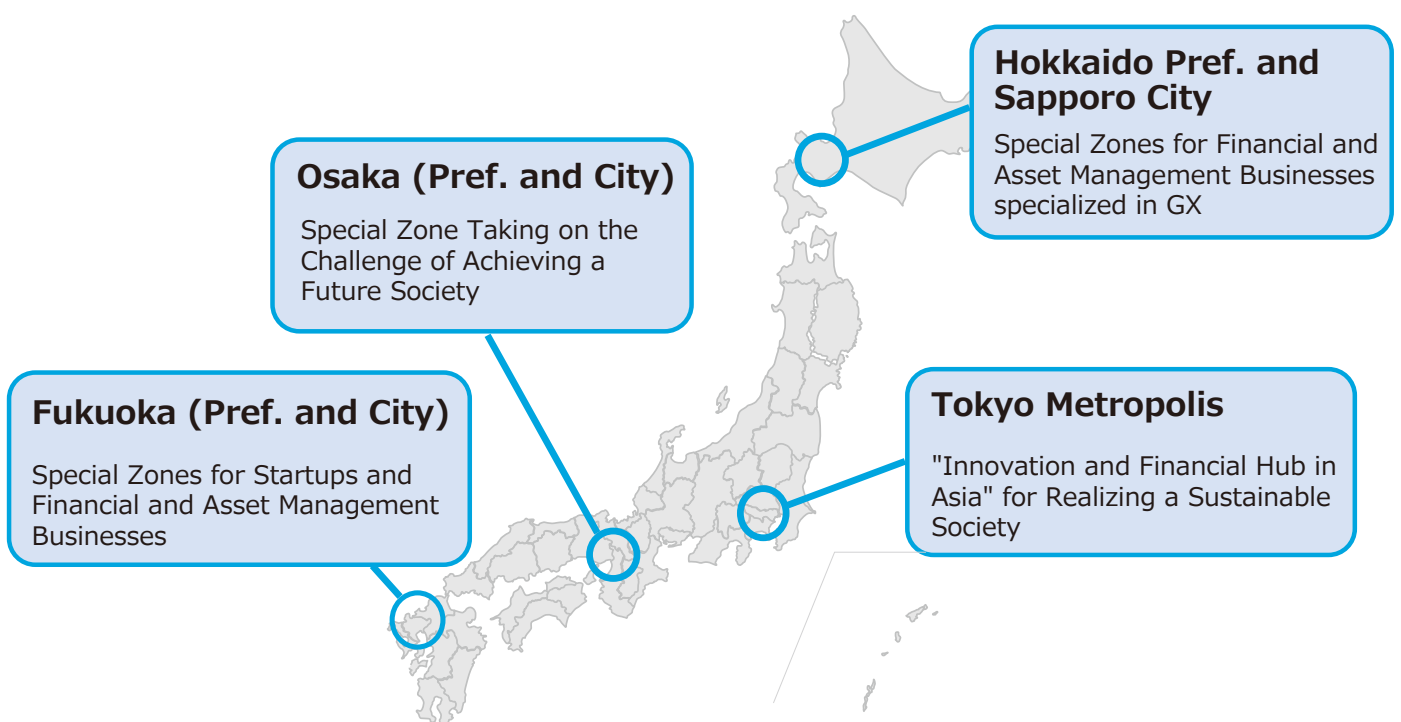
This special zone is designed to realize a "virtuous cycle of growth and distribution" that accelerates the flow of funds through the reform of asset management. By allowing special deregulation and support measures in the target areas, new investments will be attracted from both within and outside Japan, leading to the development of the financial industry and regional industries.

In the Special Zones for Financial and Asset Management Businesses, efforts will be made from the perspectives of (1) clustering domestic and foreign financial and asset management

companies, (2) having those financial and asset management companies support the fostering of regional growth industries, and (3) promoting and fostering growth industries themselves. Specifically, the national government will implement regulatory reform and operational measures not only for the financial sector but also with regard to the business and living environments and industries targeted for investment. In that process, for matters subject to regulatory reform for which demonstrative measures by limiting target areas are preferable, the system of National Strategic Special Zones is to be utilized.

Each of the four target regions has a special zone concept and vision that capitalizes on its unique characteristics. In order to realize these goals, each region will promote initiatives in cooperation with a wide range of stakeholders.

Chart 3-4: Concepts of Four Areas Designated as "Special Zones for Financial and Asset Management Businesses"



Source: Based on "Policy Package to Achieve Special Zones for Financial and Asset Management Businesses" by the Financial Services Agency

1. Hokkaido and Sapporo—Special Zones for Financial and Asset Management Businesses specialized in Green Transformation (GX)

■ Focusing on GX

Hokkaido prefecture and Sapporo City will fully utilize the prefecture's potential to produce the largest amount of renewable energy in Japan and Sapporo's attractive feature, a well-balanced harmony of city functions and nature, aiming to create an Asian and world financial center where funds, human resources, and information concerning GX concentrate. In addition, they will strengthen financial functions and build a supply chain for the GX industry and create employment

opportunities as a renewable energy supply base for the whole nation.

Under the initiative of the Team Sapporo-Hokkaido, a GX-financial consortium consisting of 21 organizations, which was established in June 2023 in collaboration among the industry, the academia, governments, and the financial sector, Hokkaido and Sapporo will promote the vitalization of financial transactions through GX investments.

Chart 3-5: Special Zones for Financial and Asset Management Businesses (Hokkaido Prefecture and Sapporo City)
—Special Zones for Financial and Asset Management Businesses specialized in GX

No.	Targets	Specific Activities
1	Clustering of funds, human resources, and information related to GX	<p>Against the backdrop of Hokkaido's renewable energy potential, the following eight projects related to investing in GX are being focused on, and AI will be utilized in promoting demonstration and implementation of each project. In addition, efforts will be made to secure highly skilled personnel for each project.</p> <ul style="list-style-type: none"> (1) Sustainable aviation fuel (SAF) (2) Hydrogen (3) Offshore wind (4) Storage batteries (5) Next-generation semiconductors (6) Electrical and hydrogen carriers (7) Submarine DC power grid (8) Data center
2	Strengthening/clustering of financial functions	In addition to building supply chains and creating jobs for GX industry, create and nurture startups that generate new technologies and innovations, and attract asset management companies and other financial functions from around the world to Hokkaido and Sapporo.

Case Study:

Zero Carbon Challenger

as one of the measures to promote GX

The Zero Carbon Challenger is an initiative to achieve "Zero Carbon Hokkaido," which aims to achieve virtually zero greenhouse gas emissions by 2050.

Registered companies aim to promote decarbonization and economic revitalization at the same time. The Japan Finance Corporation's SME Program and Hokkaido are working together to create a new loan program, which is linked to this activity.

Source: Based on "Policy Package to Achieve Special Zones for Financial and Asset Management Businesses" by the Financial Services Agency and briefing materials of proposal for "GX Financial and Asset Management Special Zone" by Sapporo City

2. Tokyo—Innovation and Financial Hub in Asia

■ Aiming to become a global top-class financial city and conducting various promotional activities

Tokyo aims to further develop the environment as an international financial center and promote the development of sustainable finance and startups in Japan and Asia, contributing to the growth of Japan and Asia as a gateway to attract funds, talent, technology, and information around the world. For that purpose, the Tokyo metropolitan government has set up three pillars: the leading city for sustainable finance, the city where global Startups are born, and the city with the global standard for business in English.

In order to promote these initiatives and achieve a sustainable society, the Tokyo metropolitan government collaborates with the Organization of Global Financial City Tokyo (FinCity.Tokyo), which is the first public-private financial promotion organization in Japan, with diverse public and private players relating to finance and startups, and also with major overseas financial cities such as the city of London, the United Kingdom (concluded an agreement on exchange and cooperation).

Chart 3-6: Special Zones for Financial and Asset Management Businesses (Tokyo)
—Innovation and Financial Hub in Asia

No.	Targets	Specific Activities
1	Leading city for sustainable finance	<ul style="list-style-type: none"> (1) Relaxation of requirements for entry of foreign asset management companies (2) Establishment of a new registration system for fund management companies (3) Relaxation of regulations on investment management business for qualified investors (4) Relaxation of the mandated reporting on the net asset values of private placement funds for professional investors (5) Development of laws on issuance of digital securities by local governments (6) Expansion of the range of the finance and insurance industry subject to the credit-guarantee system (7) Abolishment of withholding tax on investment profits of foreign investors (8) Expansion of investment fund contributions to new asset management companies (9) Preferential treatment for investment in infrastructure funds
2	City where global startups are born	<ul style="list-style-type: none"> (1) Development of an environment of startup investment by public university cooperations (2) Further expansion of investment in startups by bank groups (3) Financing for startups by means of investment trust (4) Support for startups in the later stage through sovereign wealth funds
3	City with the global standard for business in English	<ul style="list-style-type: none"> (1) Enhancing procedures in English at the time of founding (2) Establishment of open status of residence to attract diverse talent (3) Promotion of information disclosure in English

Case Study:

The Organization of Global Financial City Tokyo (FinCity.Tokyo)

FinCity.Tokyo is an organization that aims to boost the attractiveness of Tokyo's financial markets and raise its profile as a top-class global financial city, while conducting various promotional activities through private-public partnerships. With members comprising financial institutions, operating companies, industry groups, and government agencies, we are striving to showcase Tokyo as a convenient financial city, while providing relevant institutions with information on user experiences.

Source: Based on "Policy Package to Achieve Special Zones for Financial and Asset Management Businesses" by the Financial Services Agency and "Proposal for a Sustainable Society: Tokyo—Innovation and Financial Hub in Asia" by the Tokyo Metropolitan Government

3. Osaka—Special Zone Taking on the Challenge of Achieving a Future Society

■ Strengthening initiatives for post Expo 2025 Osaka, Kansai

Osaka Prefecture and Osaka City aim to create an environment to enable startups and universities, etc. to boldly take on challenges, instead of wasting the opportunity of the EXPO 2025 OSAKA, KANSAI, JAPAN merely as a temporary event, with the final aim of achieving a future society where new innovations are created one after another. For that purpose, they will implement regulatory reform to satisfy the global standard and strengthen financial functions by attracting investments from overseas.

These activities will be led by the Global Financial City OSAKA Promotion Committee (participated in by 40 organizations as of February 2024), which was established in March 2021 and is an all-Osaka collaboration of Osaka Prefecture, Osaka City, and related organizations in industry, government, and academia. For the time being, efforts will be intensively made to attract human resources, companies, and funds from Asia and the rest of the world and cluster startups that will be investment targets.

Chart 3-7: Special Zones for Financial and Asset Management Businesses (Osaka Prefecture and City)
—Special zone taking on the challenge of achieving a future society

No.	Targets	Specific Activities	Shared Initiatives to Realize the Targets 1 and 2
1	Global city that develops by leveraging finance	<ul style="list-style-type: none"> (1) Promote financial initiatives for attractive community development (2) Encourage diversity in financing to revitalize startups and local communities (3) Strengthen hub functions to improve resilience (4) Revitalize domestic financial markets 	<ul style="list-style-type: none"> (1) Establish attractive living conditions for foreign nationals (2) Create a business environment that attracts companies and people from within Japan and abroad (3) Disseminate information and conduct promotion activities (4) Collaborate with overseas entities (5) Osaka Prefecture and City to implement innovative and impactful initiatives
2	Front-running city in finance	<ul style="list-style-type: none"> (1) Create cutting-edge, innovative financial products and markets (2) Implement initiatives for an advanced city in sustainable finance (3) Encourage a review of regulations related to financial services (4) Nurture highly skilled professionals in the field of finance 	

Case Study:

Osaka Global Finance One-Stop Service Center

To realize Osaka as a global financial city, the Center offers one-stop services in both Japanese and English for professional inquiries on financial licenses and other matters, and consultation on business and daily life to foreign financial companies and foreign investors wishing to set up operations in Osaka.

Source: Based on "Policy Package to Achieve Special Zones for Financial and Asset Management Businesses" by the Financial Services Agency and "Global Financial City OSAKA Strategy" by the Global Financial City OSAKA Promotion Committee

4. Fukuoka—Special Zones for Startups and Financial and Asset Management Businesses

■ Attracting foreign and domestic investments with the geographical advantage of proximity to Asia

Fukuoka Prefecture and Fukuoka City will cluster global financial institutions and their affiliated companies, and highly-skilled financial specialists by leveraging the characteristics of Fukuoka as a gateway to Asia. While capturing the vitality of Asian countries, they provide growth funds for startups in Fukuoka and Kyushu, as well as for companies in growth industries clustered within the prefecture, thereby strengthening the ecosystem.

These activities will be promoted by TEAM FUKUOKA, an

industry-government-academia collaboration established in September 2020 to attract global financial functions. As of the end of April 2024, twenty-four companies have been attracted from inside and outside Japan, and the area will continue to focus on asset management companies, fintech firms, and operations for BCPs (Business Continuity Plans), which are highly compatible with Fukuoka's regional characteristics, and will continue to work on attracting companies and improving the environment.

Chart 3-8: Special Zones for Financial and Asset Management Businesses (Fukuoka Prefecture and City)
—Special Zones for Startups and Financial and Asset Management Businesses

No.	Targets	Specific Activities
1	Establishing internationally competitive systems	(1) Tax system (tax reform in FY 2021: corporate tax, income tax, and inheritance tax) (2) Providing administrative services in English and simplifying the procedures (3) Relaxing residence status (4) Building a one-stop support system
2	Providing a comfortable business environment	(1) Securing a high-value-added office environment (2) Securing English-speaking specialized professionals (3) Nurturing local highly skilled professionals to support the asset-management business and FinTech (4) Strengthening the functions of Fukuoka Airport's international routes
3	Providing a comfortable living environment	(1) Securing residences for foreign highly skilled professionals (2) Enhancing international schools (3) Enhancing daily support (including medical support) in English
4	Conducting promotional activities	(1) Promotional activities utilizing networks and other tools

Case Study:

TEAM FUKUOKA

An all-Fukuoka organization of industry-academia-government collaboration to promote the attraction of international financial functions to Fukuoka City. The team staff, who are well-versed in the finance industry and fluent in English and Chinese, provide support as a "one-stop" center to foreign financial institutions considering a business expansion into Fukuoka City.

Source: Based on "Policy Package to Achieve Special Zones for Financial and Asset Management Businesses" by the Financial Services Agency and "TEAM FUKUOKA Direction of Attracting International Financial Functions" by the TEAM FUKUOKA Office

Section 4. Partial Revision of the Industrial Competitiveness Enhancement Act

■ Aiming to strengthen domestic investment in strategic areas such as green technologies and digital

Japan is now in a changing tide of wage increases and domestic investment at their highest levels in 30 years due to changes in the macro environment such as the expansion of geopolitical risks and new industrial policies referred to as New Direction of Economic and Industrial Policies that provide large-scale, long-term, and systematic support to help solve human and social issues such as climate change and digitalization.

Sustaining these changes can generate inflation accompanied by wage increases and economic revitalization. To achieve this, it is necessary to realize structural reform of the economy by strengthening innovative efforts such as "expanding strategic domestic investment" and "promoting innovation and metabolism that lead to expanded domestic investment," which

is a prerequisite for strengthening supply capacity through domestic investment and putting the Japanese economy on a growth track.

The Industrial Competitiveness Enhancement Act will be partially revised to implement large-scale and long-term tax measures for investment and production in strategic sectors and tax measures to strengthen location competitiveness as R&D centers, expanding strategic domestic investment, and at the same time to provide intensive support for medium-sized enterprises and startups that are the driving force of the economy, promoting innovation and rejuvenation that will lead to increased domestic investment. It will take effect in April 2025.

Chart 3-9: Points of the Revision to Promote Domestic Investment and Achieve Structural and Sustainable Wage Increases (Excerpt of only points on Promotion of Foreign Investment in Japan)

No.	Points of Revision	Specific Details
1	Establishing a tax system to promote domestic production in strategic sectors	The Strategic Sector Domestic Production Promotion Tax System, a new unprecedented investment promotion measure has been established in response to the growing competition for investment in strategic sectors around the world, in order to strongly promote domestic investment in strategic sectors, especially those with high costs at the production stage. Specifically, tax credits based on production and sales volume will be provided for electric vehicles, green steel, green chemicals, sustainable aviation fuel (SAF), and semiconductors (microcomputers and analogs) for an applicable period of 10 years.
2	Establishing the innovation center tax system (Innovation Box Tax System)	The Innovation Box Tax System, an innovation center taxation system will be established and the applicable period will be set at seven years. The tax system provides a 30% income deduction for license income and transfer income arising from intellectual property rights (patents, copyrights for AI-related programs) that have been independently researched and developed in Japan, in order to strengthen the location competitiveness of innovation centers and to develop a business environment comparable to that of overseas.

Source: Based on "Revision points of tax system in related to Economy, Trade and Industry (FY 2024)" by the Ministry of Economy, Trade and Industry

Reference

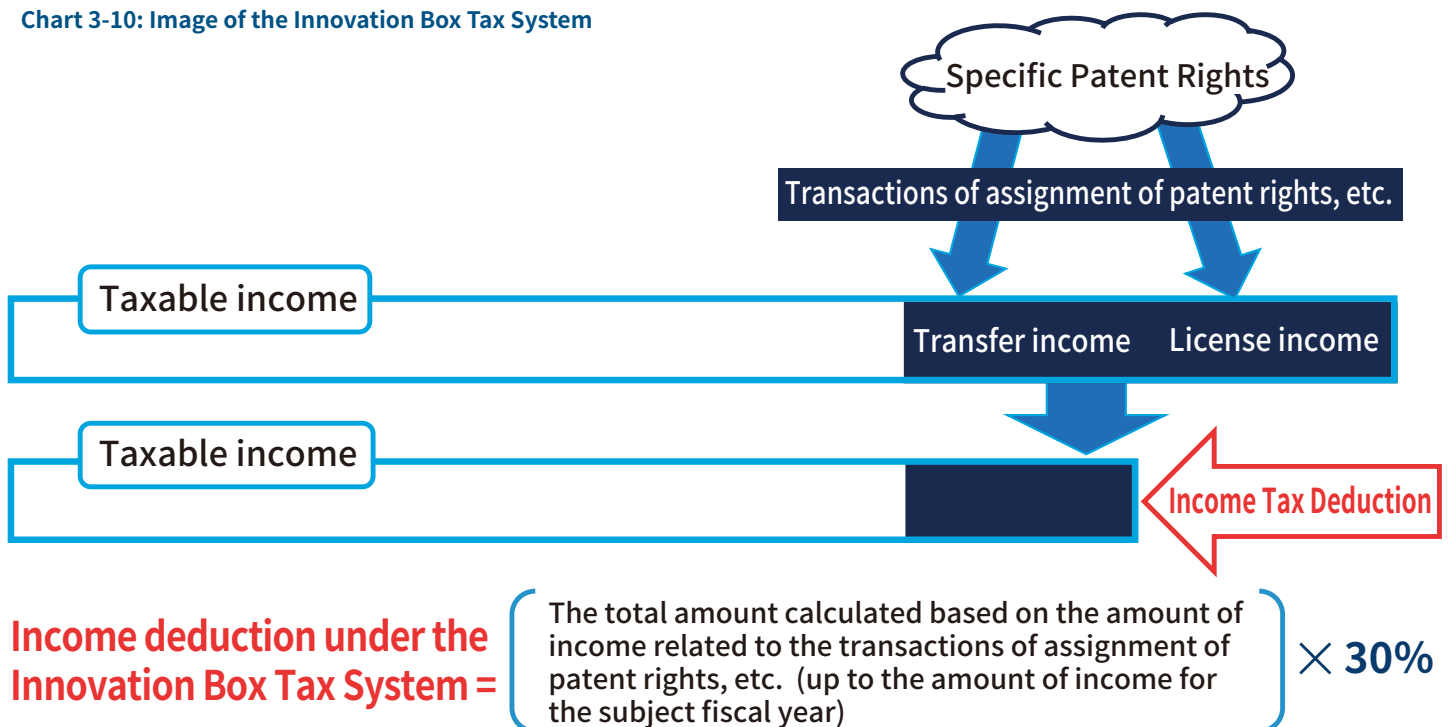
Innovation Box Tax System

■ To strengthen location competitiveness as R&D, The Innovation Box Tax System will take effect in April 2025

The Innovation Box Tax System, an innovation center tax system will be established, with the aim of strengthening location competitiveness as R&D centers and encouraging investment in intangible assets by the private sector amid intensifying international competition for innovation.

The System is a tax system that applies an income deduction of 30% to license income and transfer income arising from intellectual property rights (patents and copyrights to AI related software) due to the tax reform in FY 2024. This tax system will take effect in April 2025 and last for a period of seven years.

Chart 3-10: Image of the Innovation Box Tax System



Source: Based on 5. Establishment of Innovation Box Taxation System, "Summary of Revisions to Corporate Tax Laws and Regulations" by the National Tax Agency