

IV Conception of the Business Environment in Japan among Foreign-affiliated Companies

~From the Survey on Japan's Investment Climate 2016 Results~

From June to July 2016, JETRO conducted the "Survey on Japan's Investment Climate" designed for present data analysis to develop a more attractive investment environment for foreign-affiliated companies and make policy recommendations for this purpose. JETRO analyzed the attractiveness and challenges of doing business in Japan, as well as obstacles to entering the market. The questionnaire was sent to about 1,300 companies with focus on foreign affiliates supported by JETRO in their entry into the Japanese market. 197 companies responded.

Regarding the investment plan within the next five years, approximately 80% of them answered that they will expand their business, while over 70% answered that they will increase the number of employees, showing strong motivation to invest in Japan following the previous year's survey result. In respect to locations of expansion and their functions, the results revealed unique characteristics of each prefecture.

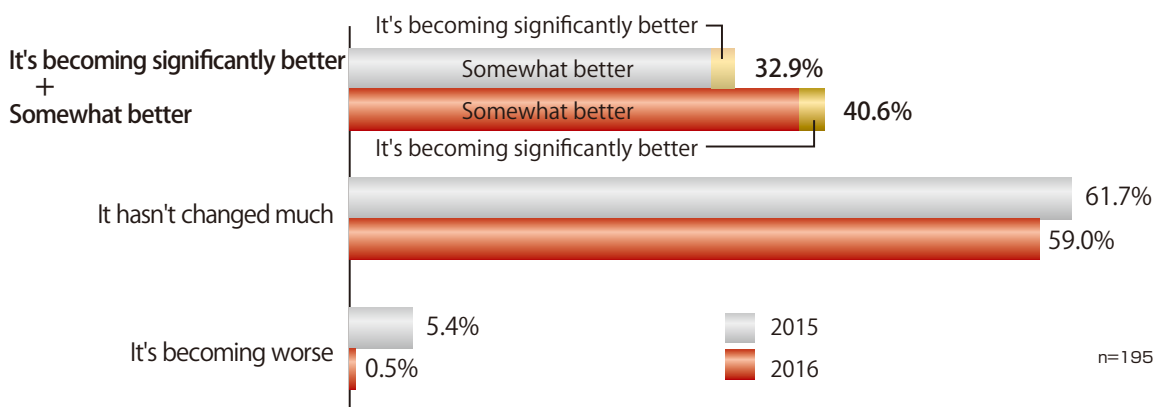
Respondents chose "difficulty in finding human resources," "difficulty in communicating in non-Japanese languages," "high business costs," "complicated administrative procedures and business permits" and the like as obstacles, though the ranks were slightly changed from the 2015 survey. "Complicated administrative procedures and business permits" moved down from the first place of the previous year to the fourth, in recognition of the deregulation by the government (see Chapter 2). Difficulty in finding human resources and administrative procedures will be discussed later.

1. More than 40% of the companies are feeling improvement in the business climate

Over 40% of the companies answered that the business climate was "becoming significantly better" or "becoming somewhat better." The ratio increased nearly 8% from 32.9% of 2015 survey. Companies that answered "becoming worse" account for only 0.5%, further decreasing from 5.4% in 2015 (Chart 4-1).

As especially effective measures for improving the business climate, "corporate tax reduction (38.9%)" and "regulatory reform (37.2%)" were chosen by nearly 40% of the respondents, followed by "immigration rules reform (33.6%)," "administrative procedures reform (20.4%)" and "corporate governance reform (8.8%)." While corporate tax in Japan is perceived to be "at the level of other countries," the tax reduction was appreciated because it helped improve the competitiveness of enterprises. In respect to deregulation, many respondents appreciated the reforms of bedrock regulations, specifically acceleration of pharmaceutical approval in the pharmaceutical and medical equipment area, and the reform of the electricity retail market. Other factors leading to the improved business climate chosen by them include "increased inbound businesses with focus on tourists," "measures to promote innovations" and "strengthened support for foreign-affiliated companies" as concrete examples.

Chart 4-1 Do you feel that the Japanese business climate has become better?



2. Nearly 80% of the companies are willing to expand investment

To the question about business plans within the next 5 years, 77.1% of the companies answered that they will “expand business,” while no company chose “scale down business” or “exit Japan.” Following the 2015 survey, the results show prosperous business of foreign-affiliated companies and a prospect for active investment in the future (Chart 4-2, 4-3).

Similarly, 75.9% of the companies answered they “will increase the number of employees,” while only 1.5% answered that they will “decrease” (Chart 4-4, 4-5).

Companies answering that they are planning business expansion in Japan were asked a question on concrete plans and reasons. There are a lot of ambitious comments and the major purposes of investment expansion are divided into three categories: (1) consolidation/expansion of business locations, (2) acquisition of market outside the Tokyo metropolitan area, and (3) function enhancement. Many companies showed a strong investment intention as follows:

Chart 4-2 Business plans in Japan (within the next 5 years)

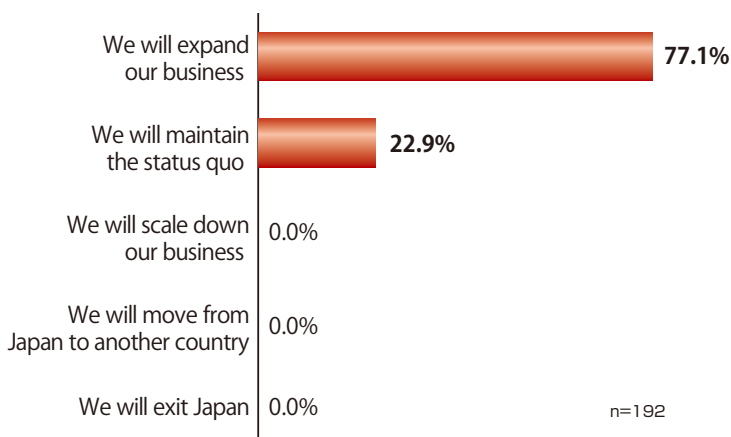


Chart 4-4 Projected number of employees in Japan

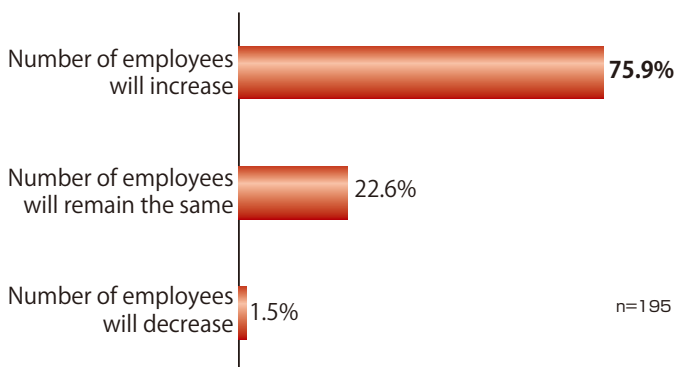


Chart 4-3 What type of business are you planning to expand?

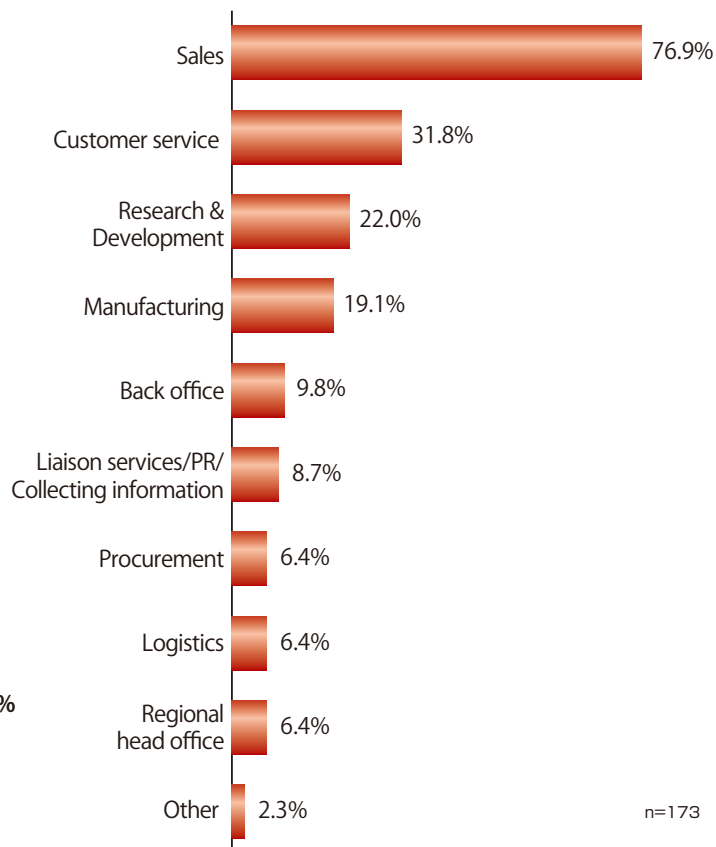
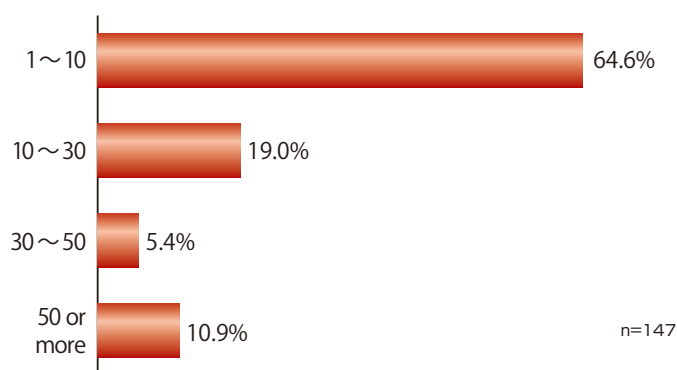


Chart 4-5 Number of the increase



Consolidation/ expansion of business locations

- We will employ an additional 300 people in the coming two years. (North America, Medicine/medical devices)
- We will consolidate our Singapore office and establish a Japan office of 7 people within this year, and expand the team to 15 people within five years. (Europe, Service)
- We will double our Tokyo offices within three years and open stores also in Nagoya and/or Osaka as needed, because sales and product support are growing. (Europe, ICT/telecommunications)
- We will open 12 to 15 stores in Japan in five years. (Europe, Apparel)
- We plan to establish a mass production plant in Japan within five years because Japan is in proximity to the world's production bases in Asia. (North America, Electric/electronic and precision devices)
- We will establish a new plant in Japan in the next five years. (Europe, Medicine/medical devices)
- We will increase staff within five years because customers and sales are increasing. (Europe, ICT/telecommunications)

Acquisition of trading area

- Planning to increase business bases in Kansai or Chubu as we release new products. (Europe, ICT/telecommunications)
- Planning to set up a sales hub in West Japan to develop the market there. (North America, Logistics)
- Planning to open a branch in West Japan because of sales increase. (Europe, ICT/telecommunications)
- Set up new branches in other cities such as Nagoya and Fukuoka. (Asia, Finance)
- Open a hub in Osaka to expand business partners in remote regions. (Europe, Electric/electronic and precision devices)
- Planning to open business offices in Kansai. (Europe, Airline)
- Open new routes to Okinawa, Osaka and Sapporo and establish business bases there. (Asia, Airline)
- Planning to open additional stores outside Tokyo within five years. (Asia, Service)

Function enhancement

- Planning to increase sales and solution development staff with expansion of our business. (Asia, ICT/telecommunications)
- Increase personnel for global support and domestic parts supply for new products of Japanese car manufacturers, and strengthen development capabilities. (North America, Vehicle and parts)
- Because we are a logistics company, we will increase warehouse locations in Japan with focus on Kanto and expand the accompanying service functions. (Asia, Logistics)
- Planning to open a lab in Aichi within two years to respond to requests from our car industry customers. (North America, Other)
- Open a new R&D center in Yokohama. (Europe, Vehicle and parts)
- Planning to open a new business base and increase staff for rental business. (Europe, Electric/electronic and precision devices)

3. Expanding business sites for production, R&D, regional head office or back office, taking advantage of the regional characteristics

In addition to the prefectures where additional investment is planned, the business function intended there was also included in a question. As locations for the secondary investment, Tokyo, Osaka, Aichi and Kanagawa ranked high. In respect to business function, "sales" is common to most prefectures, while Aichi was chosen for "manufacturing, R&D," Fukuoka for "Asian head office" and Hokkaido for "back office," revealing the regional characteristics (Chart 4-6).

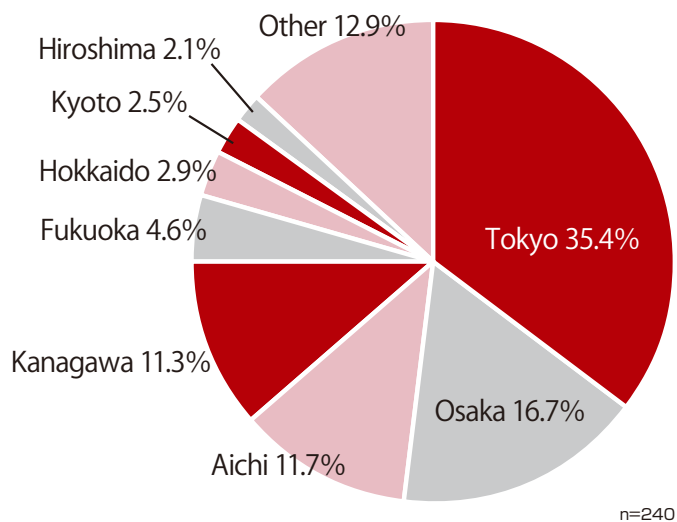
To the question about the factors which the companies consider the most important when deciding on the location of additional

investment, "proximity to customers" was chosen by 45.1% of the respondents. This is followed by "infrastructure (transportation, logistics, ICT, energy, etc.)" at 34.6%, "market size (marketability)" at 30.7%, "costs (land, personnel, etc.)" at 29.4% and "access or distance from other offices or places in Japan" at 27.5% (Chart 4-7).

To the question about the incentives offered by the Japanese government (including local governments) which the company has used, the largest number of respondents (35.6%) chose "We have never used these incentives" because "We did not know about them." The incentives offered by the central and local governments are not sufficiently known to foreign-affiliated companies. The result revealed the need to improve their recognition for the future.

IV Conception of the Business Environment in Japan among Foreign-affiliated Companies

Chart 4-6 Where to make secondary investment (prefecture) and the type of business



Rank	City	No. of Projects	Type of business, Rank 1	Rank 2	Rank 3
1	Tokyo	85	Sales	Regional head office (Japan head office)	Manufacturing, Research & Development
2	Osaka	40	Sales	Customer service	Liaison services/ PR/Collecting information
3	Aichi	28	Sales	Manufacturing, Research & Development, Customer service, Logistics	
4	Kanagawa	27	Sales	Research & Development	Manufacturing
5	Fukuoka	11	Sales	Manufacturing, Regional head office (Asian head office)	
6	Hokkaido	7	Sales	Back office, Customer service, Regional head office (Japan head office)	
7	Kyoto	6	Research & Development	Sales, Manufacturing	
8	Hiroshima	5	Manufacturing, Research & Development, Customer service, Regional head office (Asian head office)		
9	Other	31			

Chart 4-7 The most important factors when deciding on the location of secondary investment



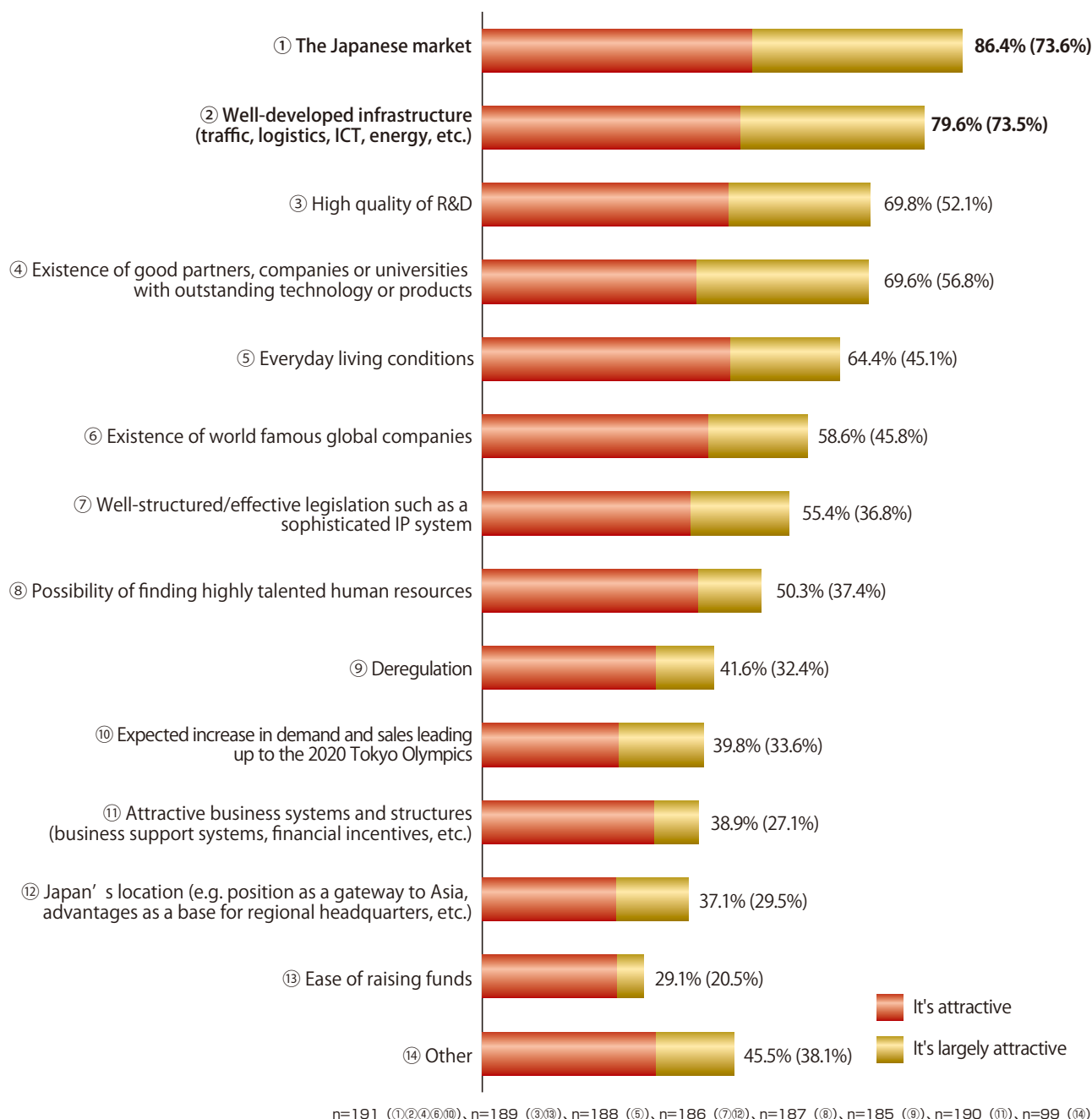
4. Attractiveness of doing business in Japan - The greatest appeal is "Japanese market"

As attractiveness of doing business in Japan, 86.4% of the companies answered "Japanese market" followed by "well-developed infrastructure (transportation, logistics, ICT, energy, etc.)" at 79.6%, "high-quality of R&D" at 69.8% and "existence of good partners, companies or universities with outstanding technologies or products" at 69.6% (Chart 4-8). The top two have not changed from the result of the previous year's survey. As "Other," convenient living and the national character of the Japanese were also

mentioned, such as "well-maintained public peace," "neatness," "transparency," "politeness" and "trustworthy people."

As especially attractive factors of the Japanese market, an overwhelming 73.4% answered "market size" followed by "consumer purchasing power" (33.5%) and "advantageous for expanding business in other markets (e.g., Asian countries)" at 31.9% (Chart 4-9). As "Other," in addition to purchasing power, respondents mentioned consumer preference such as "customers demanding sophistication" and "sophisticated customers willing to pay higher price for high-quality products."

Chart 4-8 The attractiveness of doing business in Japan (those who chose the top two options among the available four options*)
(() indicates % in 2015 survey)



* The four options available were: "It's largely attractive," "It's attractive," "It's a little attractive," and "It's not attractive."

IV Conception of the Business Environment in Japan among Foreign-affiliated Companies

In this survey, we asked about “the merit of partnering with Japanese companies and universities.” An overwhelming majority chose “expansion of sales network (62.0%)” followed by “acquisition of new business (35.8%)” and “improving technology/expertise (30.5%)” (Chart 4-10). The result shows that foreign-affiliated companies are trying to use the sales network and know-how of Japanese companies by partnering with them, in order to quickly expand sales channels in the Japanese market that is seen as the most attractive factor in doing business in Japan.

72% of foreign-affiliated companies answered they “have ever partnered with Japanese companies for their business” (Chart 4-11). As to “interest in partnering with Japanese companies for future business,” 90% of the companies are interested in partnership with 45.4% choosing “aggressively promote business partnerships with Japanese companies” and 44.8% choosing “partner with Japanese companies as needed” (Chart 4-12). Most foreign-affiliated companies are positive about partnering with Japanese companies in the future.

Chart 4-9 Two of the options which you think are most attractive in the “Japanese Market”

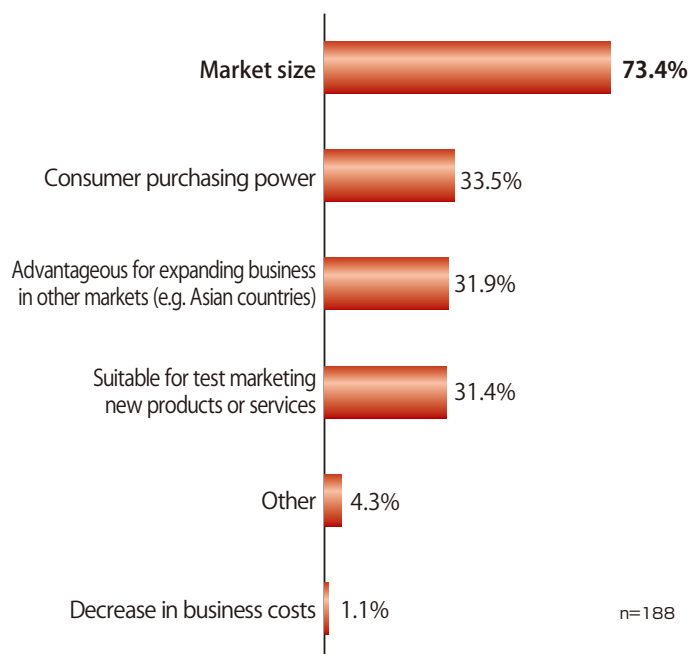


Chart 4-10 Two of the options which you think are the merit of partnering with Japanese companies and universities

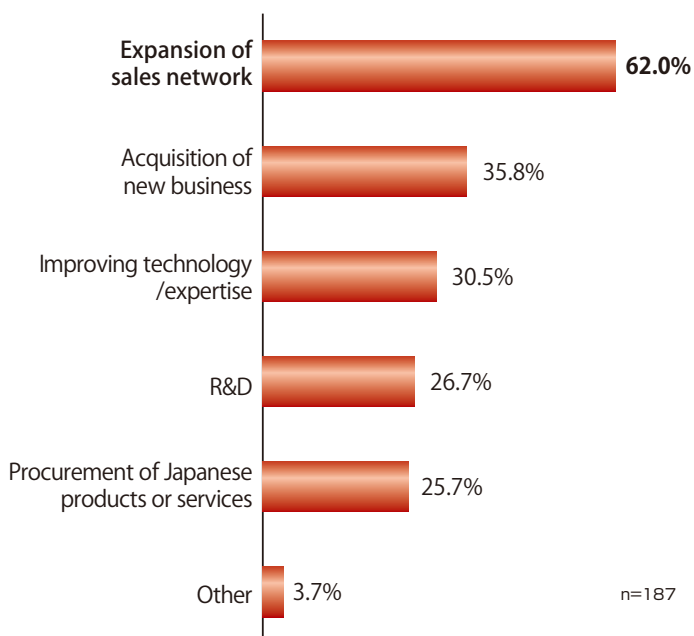


Chart 4-11 Have you ever partnering with Japanese companies for your business?

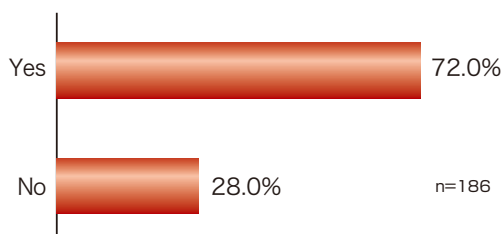
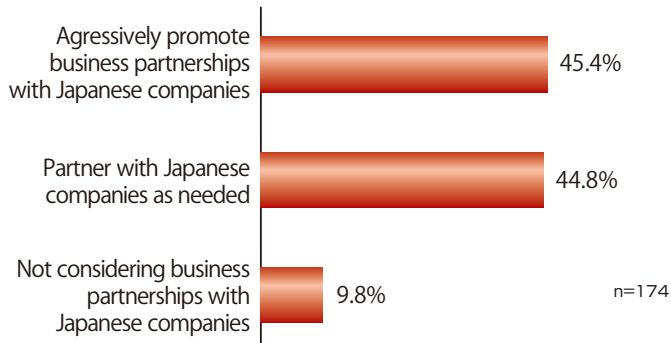


Chart 4-12 Interest in partnering with Japanese companies in the future



5. Obstacles to doing business in Japan - Finding human resources is a challenge -

As obstacles to doing business in Japan, 48.2% of the companies, slightly higher than the 2015 survey, chose "difficulty in finding human resources" followed by "difficulty in communication in non-Japanese languages (in business)" that was chosen by over 40% of respondents (Chart 4-13). Answers choosing "complicated administrative procedures and regulations" that was the No.1 obstacle in the 2015 survey decreased nearly 9 points and moved down to No.4.

Underlying the moving down of "complicated administrative procedures and regulations" as obstacles, it is viewed that the

Japanese government's initiatives toward "the greatest ease of doing business in the whole world" is producing effects little by little. Actually, over 40% of the companies responding to the survey answered positively about the Japanese business climate by choosing "becoming significantly better" or "becoming somewhat better." They chose "corporate tax reduction (38.9%)," "regulatory reform (37.2%)," "immigration rules reform (33.6%)" and "administrative procedures reform (20.4%)" as the most effective measures.

On the other hand, "difficulty in finding human resources (48.2%: 1st in this survey and 2nd in the previous survey)" and "difficulty in communicating in non-Japanese languages (in business) (42.3%: 2nd in this survey and 3rd in the previous survey)" were chosen by many foreign-affiliated companies as challenges.

Chart 4-13 Top five obstacles – Comparison of the 2013, 2014 and 2015 Surveys

Rank	2013 Survey	2015 Survey	%	2016 Survey	%
1	High business costs	Complicated administrative procedures	46.3%	Difficulty in finding human resources	48.2%
2	Particularities of Japanese market	Difficulty in finding human resources	44.9%	Difficulty in communicating in non-Japanese languages (in business)	42.3%
3	Difficulty in communicating in non-Japanese languages	Difficulty in communicating in non-Japanese languages	44.2%	High business costs	38.2%
4	Complicated administrative procedures	Particularities of Japanese market	35.4%	Complicated administrative procedures	37.5%
5	Difficulty in finding human resources	High business costs	34.2%	Particularities of Japanese market	37.0%

*The percentage of the 2013 survey is not included above because the research method was different from that of the 2015 and 2016 surveys. The percentage in the 2015 and 2016 surveys indicates those who chose the top two options among the available four options.

* The four options available were: "It's a very large obstacle," "It's an obstacle," "It's a small obstacle," and "It's not an obstacle."

Chart 4-14 The largest obstacles in "difficulty in finding human resources" (top two options)

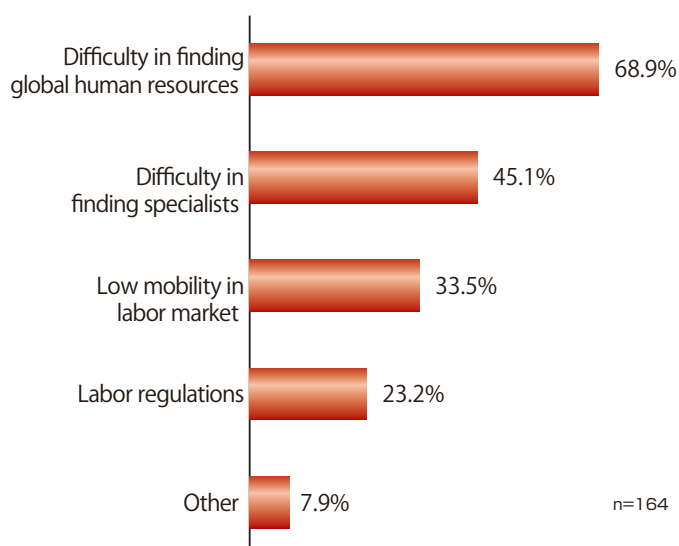
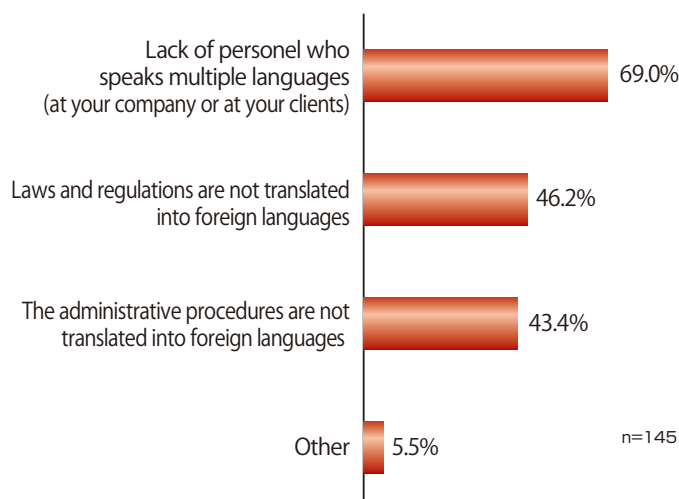


Chart 4-15 The largest obstacles in "difficulty in communicating in non-Japanese languages (in business)" (top two options)



IV Conception of the Business Environment in Japan among Foreign-affiliated Companies

In the breakdown of “difficulty in finding human resources,” “difficulty in finding global human resources” is recognized as an obstacle by 68.9% of the companies, followed by “difficulty in finding specialists” at 45.1% and “low mobility in labor market” at 33.5% (Chart 4-14). Also, some companies mentioned “it is difficult to find human resources who have high ability, can communicate in English and directly talk with the head office,” “it is difficult to speedily find human resources who are good at English and can work in a global environment,” or “workers prefer major corporations and do not want to work in a foreign enterprise.”

In the breakdown of “difficulty in communicating in non-Japanese languages (in business),” “lack of personnel who speak multiple languages (at your company or at your clients)” ranks first at 69% followed by “laws and regulations are not translated into foreign languages” at 46.2% and “the administrative procedures are not translated into foreign languages” at 43.4% (Chart 4-15).

“High business costs” somewhat moved up from 5th (34.2%) in the 2015 survey to 3rd (38.2%) but still remains under 40%. As the yen was stronger compared with the previous year, many foreign-affiliated companies felt that “payroll” and “hiring cost” were high in connection with “difficulty in finding human resources” (Chart 4-16).

“Complicated administrative procedures and regulations” moved down as obstacles thanks to the success of the government initiatives as described above, but there is persistent demand for improvement of “complicated administrative procedures,” “too many legal restrictions, rigid business permit/licenses,” “internationally unharmonized and incompatible business permit/licenses” and “inconvenience caused by the lack of online procedures” (Chart 4-17). As specific procedures and regulations needing reform, “procedures for acquiring visas,” “procedures for tax matters (corporate tax, inhabitant tax etc.)” and “procedures about safety standards/regulations of products” ranked high (Chart 4-18).

Chart 4-16 The largest obstacles in “high business costs” (top two options)

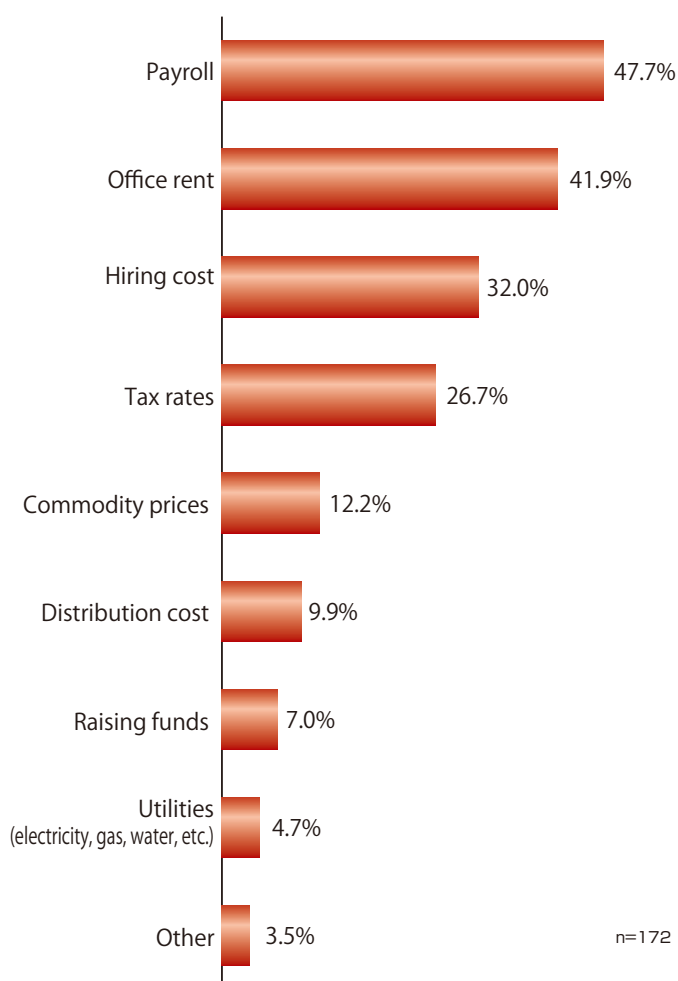


Chart 4-17 The largest obstacles in “complicated administrative procedures and regulations” (top three options)

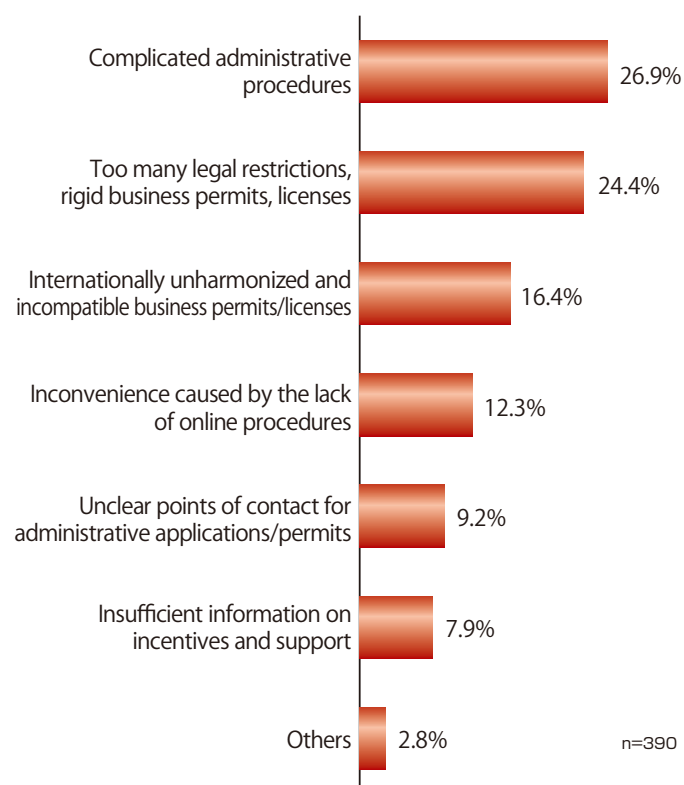
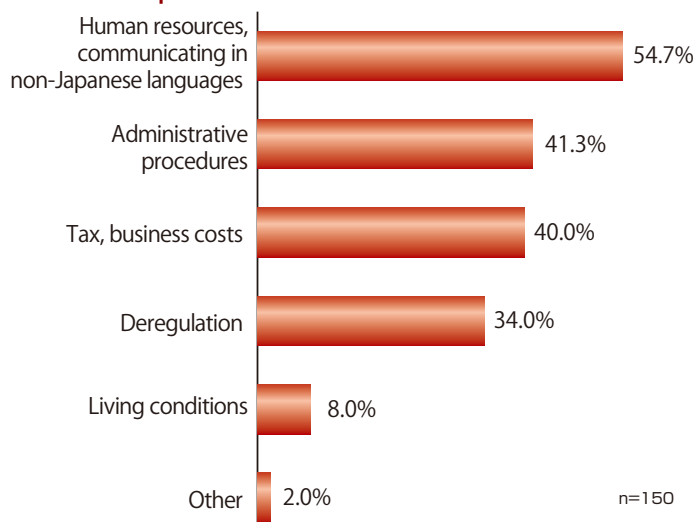


Chart 4-18 Procedure/regulations related to each obstacle above (Chart 4-17) (top three options)



Chart 4-19 Regulations or permits relating to your business or industry for which you would like to see improvement/reform



Survey of Experts and Private Business Operators Supporting Setting up of Business by Foreign Companies

column

In July 2016, JETRO conducted the “Survey on obstacles to business development by foreign companies in Japan” also for judicial and administrative scriveners, private consulting firms and others who provide various services including support for setting up of business by foreign companies. The main purpose of the survey was hearing about “regulations and administrative procedures” where obstacles to entry by foreign companies might be expected.

As a result, the largest number of respondents answered that there were obstacles in “procedures for incorporation/company registration,” followed by “regulation and procedures for immigration” and “procedures for tax matters.” Among specific procedures perceived as obstacles to incorporation/company registration, “bank account opening” was chosen by the largest number of respondents. Many of them pointed out that it is difficult for a foreign corporation to open a bank account in spite of the need to have a bank account in Japan for payment of capital. Other comments include “it is difficult to make a lease contract of an office necessary for company registration” and “lack of online procedure.”

In respect to the second obstacle, “regulation and procedures for immigration,” there were demands for softening of conditions and simplification of issuance of working visas for foreign workers (managers, engineers, etc.) and complaints that the visa requirements are too strict and take time. In case of the third obstacle, “procedures for tax matters,” respondents pointed out overlapping contents of documents to submit to tax offices, prefectural tax offices, city offices and others, and the shorter due date for filing tax statements compared with other countries.

Actually, to the question “any regulations or permits relating to your business or industry for which you would like to see improvement/reform,” over half of the companies chose “human resources, communicating in non-Japanese languages” followed by “administrative procedures (41.3%),” “tax, business costs (40%)” and “deregulation (34%)” (Chart 4-19).

In order to address these challenges, the Council for Promotion of Foreign Direct Investment in Japan compiled the “Policy Package for Promoting Foreign Direct Investment into Japan to Make Japan a Global Hub” in May 2016. The package includes: The residence period requirement for highly-skilled foreign professionals to apply for permanent residence permission will be significantly shortened from the current five years. (One of the world’s most quickly obtainable “Japanese-version green card” system for highly-skilled foreign professionals); Residence status applications will be accepted online; Acceptance of foreign housekeeping support workers will be promoted in the National Strategic Special Zones; The proportion of international students employed in Japan after graduation will be raised from approximately 30% to 50% by fiscal 2020; A total of 20,000 or more external human resources including assistant language teachers (ALTs) will be deployed at all elementary schools by fiscal 2019; and an additional 500 laws and regulations at minimum will be translated into foreign languages by fiscal 2020 (See page16 of Chapter 2).

These measures are expected to improve the obstacles such as “difficulty in finding human resources” and “difficulty in communicating in non-Japanese languages” chosen by foreign-affiliated companies as obstacles to doing business in Japan, but continued human resource development will remain an important issue.

Rankings in “Doing Business” Reports of the World Bank Group

column

“Doing Business” issued by the World Bank Group every year is widely known as a ranking comparing the business climates of countries around the world.

In the Japan Revitalization Strategy (Cabinet Decision on June 14, 2013), the government set a goal to be ranked among the top three developed countries in the World Bank’s “Ease of Doing Business Ranking” by 2020. However, Japan was ranked 34th out of 189 countries in the world (24th among developed countries) in the 2016 reports.

Indicators used to evaluate in “Doing Business 2016” are: Starting a business, Dealing with construction permits, Getting electricity, Registering property, Getting credit, Protecting minority investors, Paying taxes, Trading across borders, Enforcing contracts and Resolving insolvency. Ranks are determined based on surveys of professionals (administrative scriveners, tax attorneys, etc.) and other relevant persons in the respective countries, using a method where the indices (e.g., number, time and cost of procedures) set for individual topics are quantified, and countries are ranked based on their distance to the best practice of the top country for each topic. The relatively low ranking of Japan for “Paying taxes (121st),” “Starting a business (81st),” “Getting credit (79th)” and “Dealing with construction permits (68th)” may be the factors that pushed down the overall rank (34th).

According to the “Doing Business 2016,” it takes time for “Paying taxes,” “Starting a business” and “Dealing with construction permits” in Japan (it estimates that these procedures take time about 1.3 to 1.9 times more than the average of OECD countries excluding Japan). The costs of “Paying taxes” and “Starting a business” in Japan are estimated at about 1.2 times and 1.9 times more than the average of OECD countries excluding Japan, respectively.

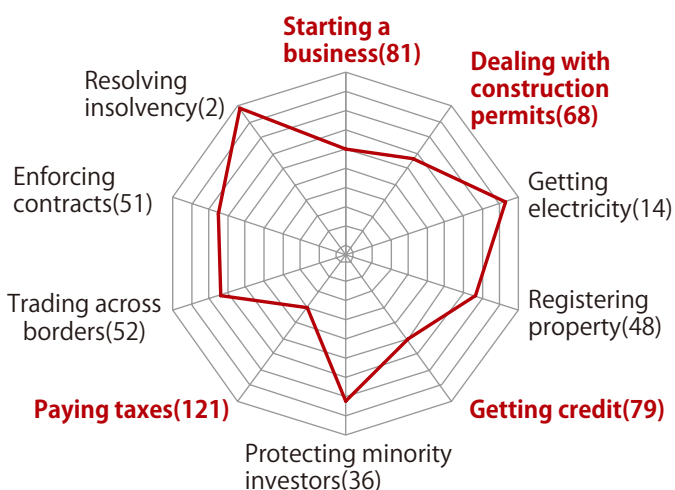
The government of Japan produced results in improving the business environment by reform of the bedrock regulations, lowering of the effective corporate tax rate, corporate governance reform and development of National Strategic Special Zones. In May 2016, the government put together the “Policy Package for Promoting Foreign Direct Investment into Japan to Make Japan a Global Hub” and established the Working Group for Revising Regulations and Administrative Procedures to address obstacles to entry by foreign companies (See P17 of Chapter 2).

According to a survey for foreign-affiliated companies conducted by JETRO in 2016, over 40% of the respondents are feeling the improvement of the business environment in Japan. Continued efforts for improvement of the business environment will remain important for “Japan as an investment destination” also in the future.

Japan’s rank in “Doing Business” from 2014 to 2016

2014		2015		2016	
1	Singapore	1	Singapore	1	Singapore
2	Hong Kong	2	New Zealand	2	New Zealand
3	New Zealand	3	Hong Kong	3	Denmark
4	USA	4	Denmark	4	Korea
5	Denmark	5	Korea	5	Hong Kong
6	Malaysia	6	Norway	6	UK
23	UAE	23	Latvia	23	Portugal
24	Latvia	24	Lithuania	24	Georgia
25	Macedonia	25	Portugal	25	Poland
26	Saudi Arabia	26	Thailand	26	Switzerland
27	Japan	27	Netherlands	27	France
28	Netherlands	28	Mauritius	28	Netherlands
29	Switzerland	29	Japan	29	Slovak Republic
30	Austria	30	Macedonia	30	Slovenia
31	Portugal	31	France	31	UAE
32	Rwanda	32	Poland	32	Mauritius
33	Slovenia	33	Spain	33	Spain
34	Chile	34	Colombia	34	Japan

Indicator sets in “Doing Business 2016”



*Numbers in () indicate the rankings out of 189 countries
[Source] World Bank’s “Doing Business 2016”