

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

From May to June 2017, 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 collected and analyzed data on the perception of the business environment in Japan among foreign-affiliated companies (e.g., attractiveness and challenges of doing business in Japan, obstacles to entering the market).

The questionnaire was sent to about 1,600 companies with focus on foreign-affiliated companies supported by JETRO in their entry into the Japanese market, and 260 companies responded.

The result of the survey shows that foreign-affiliated companies generally have a positive view about their business condition as well

as the prospects of the Japanese economy. The business environment in Japan is evaluated as improving as a whole. Reflecting this view, about 70% of the companies answered they will expand their business and will increase the number of employees in Japan within the next 5 years.

On the other hand, many companies still have stated that “Difficulty in finding human resources” and “Rigid and complicated administrative procedures and regulations” as obstacles for foreign-affiliated companies to develop their business in Japan. As a demand for Japanese government and industries, many requests have been made asking for “Fostering globally competitive human resources (Japanese),” which is indeed one of the most important issues for the future.

[Survey on Japan’s Investment Climate: Overview]

Objective of the survey and summary of operation

The survey is designed for present data analysis to develop a more attractive investment environment for foreign/foreign-affiliated companies and make policy recommendations for this purpose. Companies were asked about attractiveness of the investment environment in Japan, obstacles for doing business in Japan and other questions in the form of questionnaire. This was the third time to conduct the survey that was initiated in 2015.

Survey period: from May 24 to June 21, 2017

Target companies

About 1,600 foreign-affiliated companies supported by JETRO in their entry into the Japanese market and member companies of foreign chambers of commerce in Japan.

Response: valid response from 260 companies

Profile of the responding company

Chart 4-1 Country/region of the parent companies

Country/region	No. of Companies	Country/region	No. of Companies
US	58	UAE	1
Germany	47	Azerbaijan	1
China	28	Israel	1
Korea	25	Qatar	1
France	18	Colombia	1
UK	16	Thailand	1
Taiwan	11	Denmark	1
Australia	8	Norway	1
Netherlands	5	Bermuda	1
Canada	5	Philippines	1
Hong Kong	5	Vietnam	1
India	3	Belgium	1
Austria	3	Mexico	1
Singapore	3	Latvia	1
Sweden	3	Total (Valid response)	260
Italy	2		
Switzerland	2		
Finland	2		
Malaysia	2		

1. Foreign-affiliated companies are generally performing well and positive about the economic prospects

In this survey, questions about the current business conditions (compared with the last year) of the company in Japan and the outlook over the next one to two years are newly included in order to comprehend the management status of foreign-affiliated companies. Over 40% of the companies answered that their business conditions were “Good (upturning),” and nearly 60% answered the outlook over the next one or two years was “Good (upturning).” Meanwhile, foreign-affiliated companies answering the current conditions/future outlook are “Bad (worsening)” were only 8.9% and 10.2% respectively (Chart 4-4, 4-5). Similarly nearly 40% think that Japanese economy “has improved” and “is likely to improve” over the next one or two years (Charts 4-6, 4-7). The positive outlook greatly surpassed “has worsened” and “is likely to worsen” that are around 10%. Foreign-affiliated companies have a positive view on the current performance and outlook of both their business in Japan and the Japanese economy.

Chart 4-2 Country/region of the parent companies (by region)

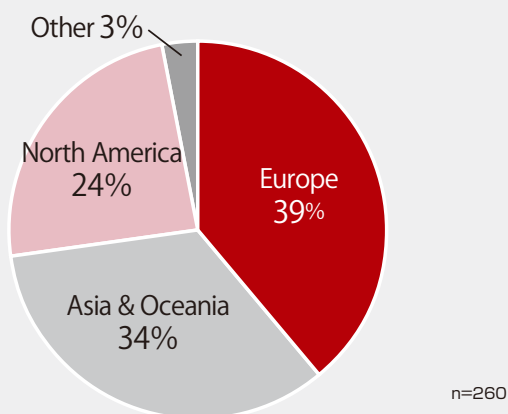


Chart 4-3 Number of years since establishment in Japan

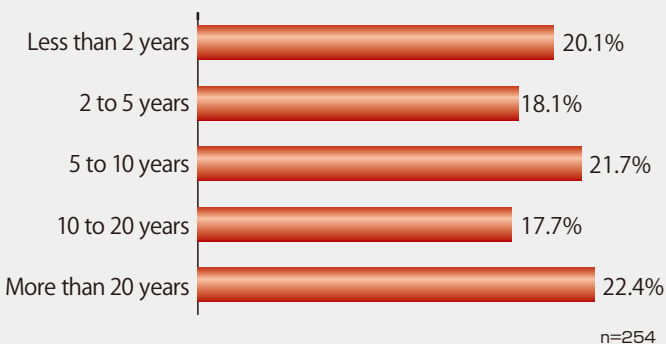


Chart 4-4 Current business conditions compared with the previous year

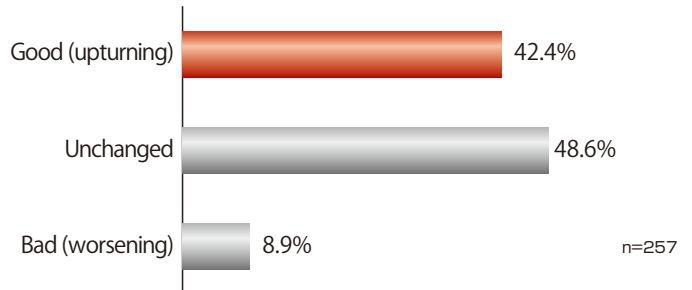


Chart 4-5 Outlook of the business conditions in Japan (over the next one or two years)

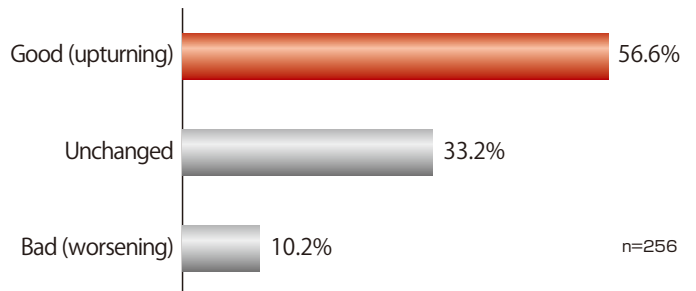


Chart 4-6 View on the current Japanese economy compared with the previous year

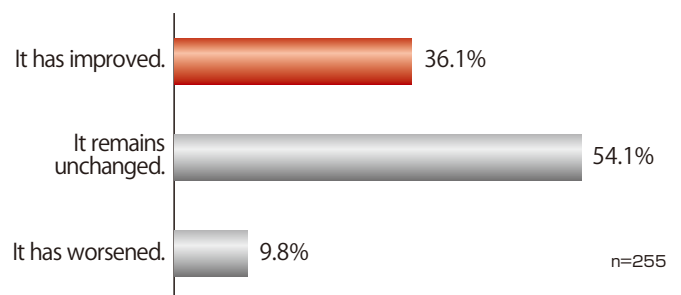
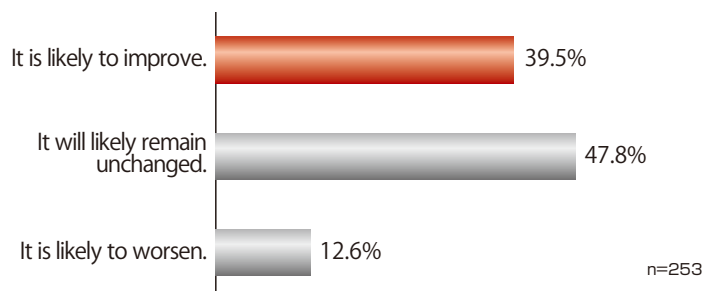


Chart 4-7 Outlook for the Japanese economy (over the next one or two years)



2. Business environment is getting better in Japan

In order to make clear their view on “changes” in the business environment in Japan compared with the past one to two years, seven questions were asked about the improvement: Living conditions for foreigners; Tendency of Japanese companies and society to be closed toward foreign-affiliated companies; Ease of communicating in non-Japanese languages (in business); Particularities of Japanese business climate; Ease of finding business partners; Ease of recruiting good employees; and Business costs. Respondents answering “It has been improved” or “It has been slightly improved” generally outweighed those answering “It has got worse” or “It has got worse slightly.” Foreign-affiliated companies appreciate the business environment in Japan as improving as a whole (Chart 4-8). On the other hand, a relatively large number of respondents answered “It has got worse” or “It has got worse slightly” to the questions “Ease of recruiting good employees” and “Business costs.” Many of the companies that responded that business costs have got “worse” or “worse slightly” have produced and manufactured in Japan. It is speculated that these companies take a view that depreciation of yen has made exacerbated business costs due to the rising of purchasing price of raw materials and parts.

To the question whether the business environment is getting better in the past one to two years due to the efforts of the Japanese government, the sum of the answers, “It’s becoming significantly better” and “It’s becoming somewhat better” is about 20%.

Many companies feeling the improvement appreciate “Easing

of living conditions for foreigners” (35.4%) and “Immigration regulation reform and improvement of operation” (27.1%) as effect of the government efforts.

3. 70% of foreign-affiliated companies plan to expand their business and employment

Regarding the investment plan within the next five years, more than 70% of the companies answered they will expand their business, while 3.5% answered they will scale down their business and only 0.8% answered they will exit Japan (Chart 4-9). Although answers choosing “We will expand our business” decreased 5 points compared with the past two years, still over 70% of the companies chose the answer, and it proves their positive business condition and strong motivation to investment.

Chart 4-9 Investment plans within the next five years

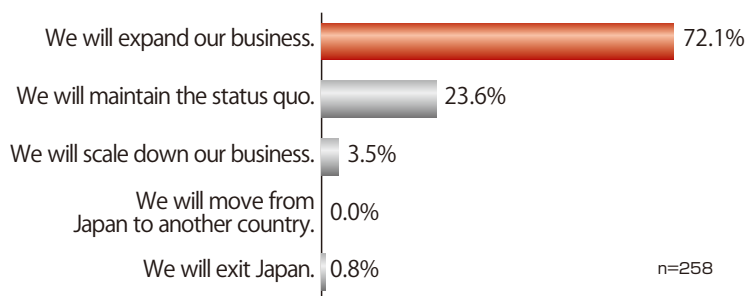
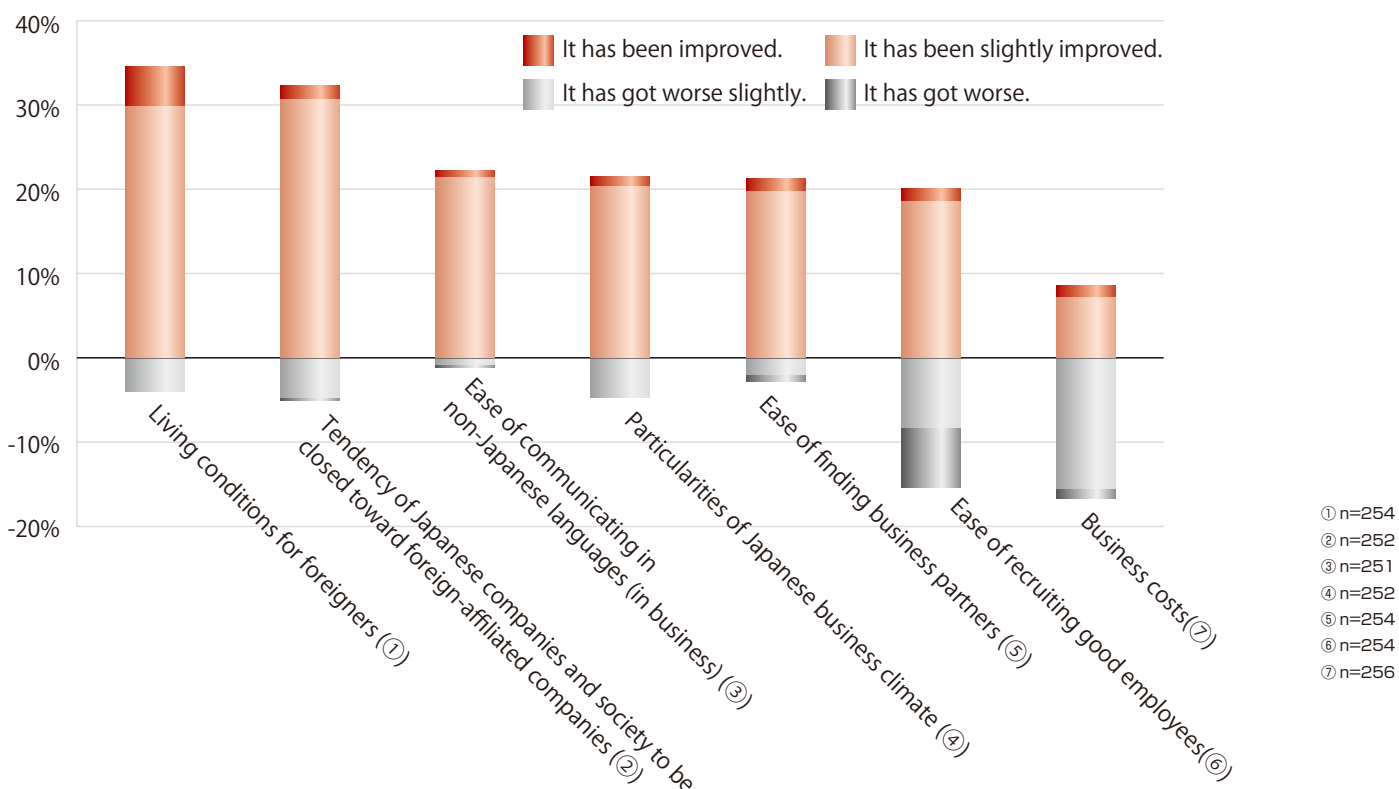


Chart 4-8 Business environment in Japan – changes in comparison with past one to two years



[Note] Ratio of companies answering “It has been improved” or “It has been slightly improved” is shown as positive, while that of answering “It has got worse” or “It has got worse slightly” is shown as negative. Ratio of answers “It remains unchanged” is not shown in the chart.

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Regarding the types of businesses they are planning to expand, about 80% answered “Sales,” and about 40% answered “Customer service,” but nearly 30% answered “R&D,” an increase of more than 6 points from the previous survey (Chart 4-10). Japan is receiving increased recognition as a location of product development and an R&D base in recent years, thanks to its technology development capabilities and reliable intellectual property protection, which may be related to this result.

Companies answering that they are planning business expansion in Japan were asked a question on concrete plans and reasons. There were a lot of ambitious comments leaning toward investment expansion. 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.

Generally the factors which the companies consider important when deciding on the location of secondary investment are “proximity to customers,” “infrastructure,” “market size (marketability),” “costs (land, personnel, etc.),” and “access or distance from other offices or places in Japan.” The prefectures where additional investment is planned and the business function intended for the locations were also asked about in this survey. As locations for the secondary investment, Tokyo, Osaka, Kanagawa and Aichi and other large cities with a large market are ranked high. In respect to business function, “Sales” and “Customer service” are common to most prefectures, while Kanagawa and Hyogo were chosen for “R&D,” Aichi and Okinawa for “Manufacturing” and Fukuoka for “Logistics,” which reveals the regional characteristics. The result suggests the possibility of attracting business bases by taking advantage of the strength of each region (Chart 4-11, 4-12).

Chart 4-10 What type of business are you planning to expand? (multiple answers)

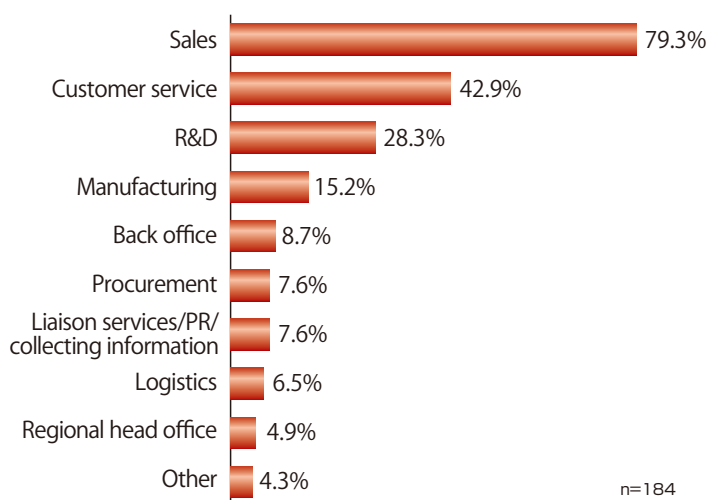


Chart 4-11 Locations of secondary investment (top two prefectures)

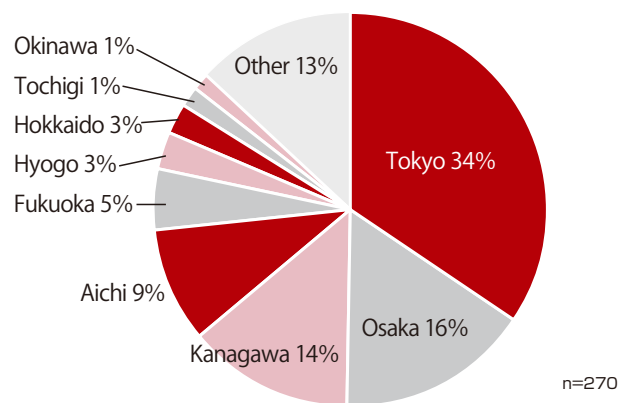


Chart 4-12 Locations of secondary investment (top two prefectures) and types of business to expand

Rank	Prefecture	No. of projects	Most selected	Second most selected	Third most selected
1	Tokyo	93	Sales	Customer service	Manufacturing, R&D
2	Osaka	43	Sales	Customer service	Manufacturing, R&D
3	Kanagawa	37	Sales	Customer service	R&D
4	Aichi	25	Sales	Customer service	Manufacturing
5	Fukuoka	14	Sales	Customer service	Logistics
6	Hyogo	8	Sales	R&D	Manufacturing
7	Hokkaido	7	Sales	Customer service	Other
8	Tochigi	4	Manufacturing, R&D	–	–
8	Okinawa	4	Manufacturing	Sales, Customer service	–
	Other	35			

To the question about the projected number of employees in Japan within the next 5 years, about 70% of the companies answered “the number of employees will increase,” whereas only 3.5% answered “the number of employees will decrease” (Chart 4-13). The largest number of respondents chose increase by “1-10 people” (Chart 4-14).

Chart 4-13 Projected number of employees in Japan (within the next five years)

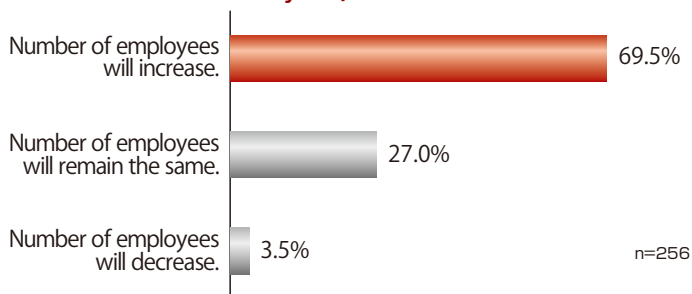
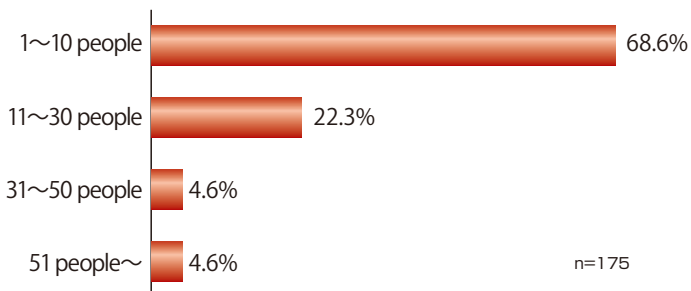


Chart 4-14 Number of the increase



“Difficulty in finding human resources” was the largest obstacle for foreign-affiliated companies in the previous survey, and raising the graduate employment rate of international students who wish to work in Japan is a policy issue. In light of the above, a question “Are you interested in employing international students?” was newly included in this survey. To this question, about 60% of the companies showed willingness to employ them by answering “Yes, we will employ international students”(Chart 4-15). As described above, with the increase of foreign-affiliated companies intending to expand their R&D functions, which is combined with a shortfall of engineers, they are highly interested in employing international students majoring in science (Chart 4-16).

Chart 4-15 Are you interested in employing international students?

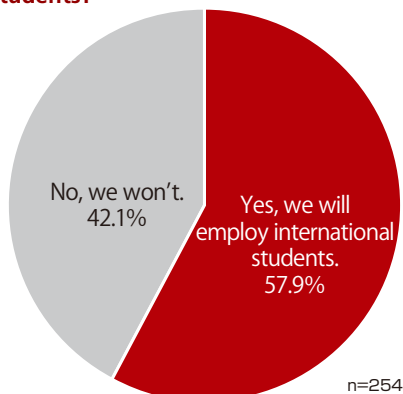
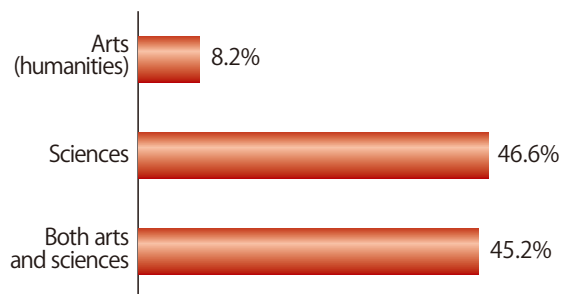


Chart 4-16 Which type of students do you plan to employ?



4. Strength of foreign-affiliated companies and their efforts to enhance productivity

As described above, the business conditions of many foreign-affiliated companies are robust in Japan. In order to clarify some of the reasons, questions on “your company’s strength in doing business in Japan” and “productivity enhancement” were asked in this survey. As their strength in doing business in Japan, over 60% of the companies chose “Performance and quality of products and services,” which was followed by “Novelty of products and services” (34.6%) and “R&D and technology” (32.3%) (Chart 4-17). Answers closely linked to qualitative superiority of the products/services ranked high, while those related to the business approach including the business model are chosen by only a limited number of companies. Foreign-affiliated companies seem to have entered the sophisticated and huge market of Japan armed with “performance/quality” and “novelty” of their products/services and are developing strong businesses.

Regarding productivity enhancement, over 40% of the companies, especially European and US companies answered that their productivity has improved compared with one or two years ago (Chart 4-18). Asked about measures they have implemented in order to enhance productivity, 50.5% of the companies above answered “Training, human resource development,” and nearly 30% answered “Introducing more variety of ways of working (telecommuting, flex time, shorter working hours).” The result also shows that a considerable number of the companies have enhanced productivity by efforts, such as “Promoting diversity in workforce or advancement of women” (22.9%) and “Shortening of working hours (“no overtime” days, morning shifts, prohibition of late-night overtime)” (12.8%) (Chart 4-19).

Many studies have pointed out that productivity of foreign-affiliated companies is higher than that of Japanese companies. Efforts by foreign-affiliated companies to enhance productivity may indicate solutions for Japanese companies to pursue “work-style reform” and “promotion of the role of women.”

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Chart 4-17 Company's strength in doing business in Japan (multiple answers)

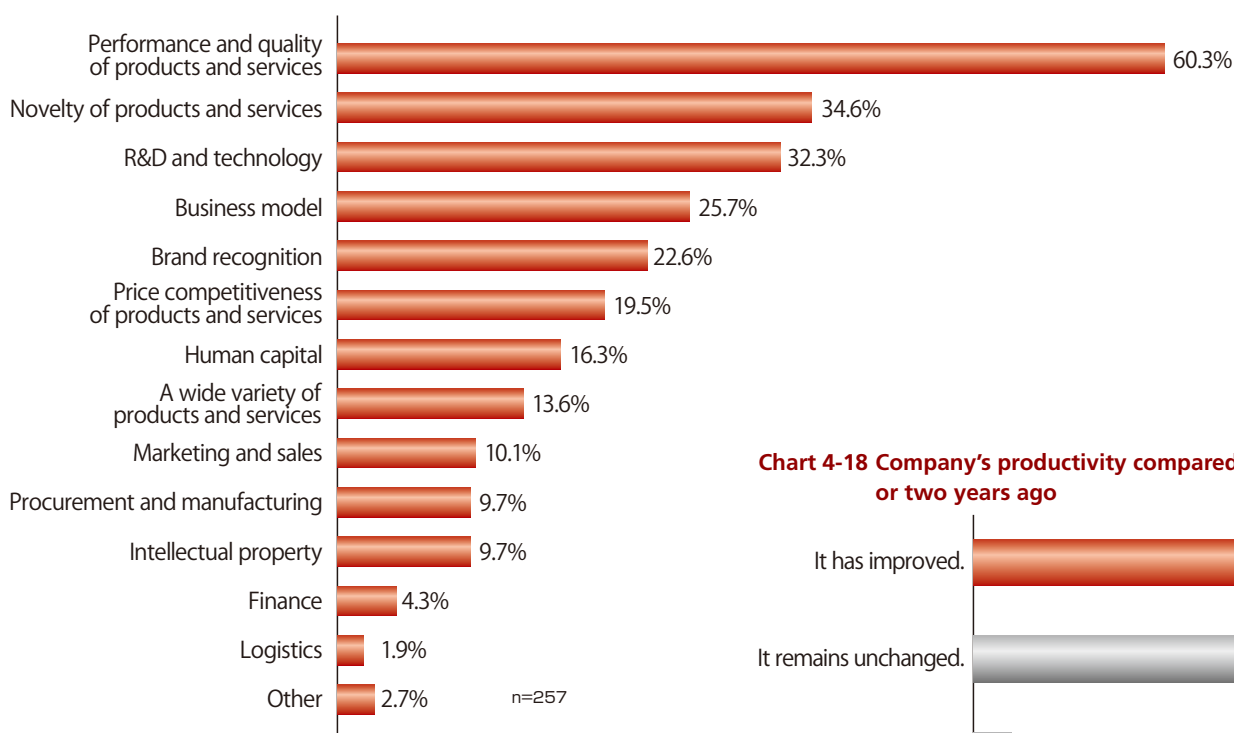


Chart 4-18 Company's productivity compared with one or two years ago

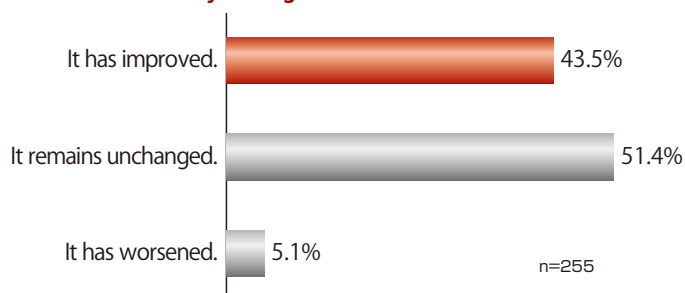
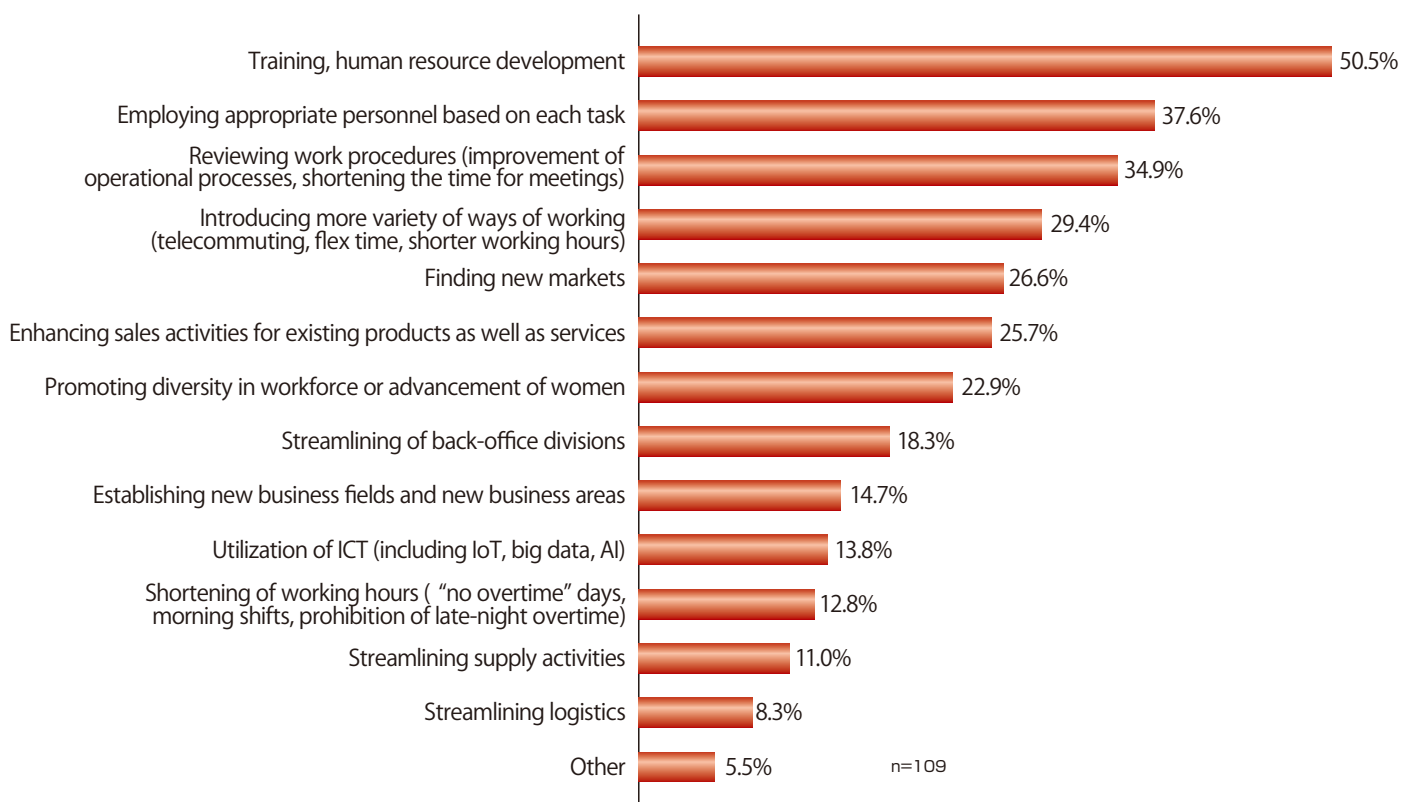


Chart 4-19 Measures implemented in order to enhance productivity (multiple answers)



5. The first-ranking appeal is “Japanese market” followed by “Stability of nation and society”

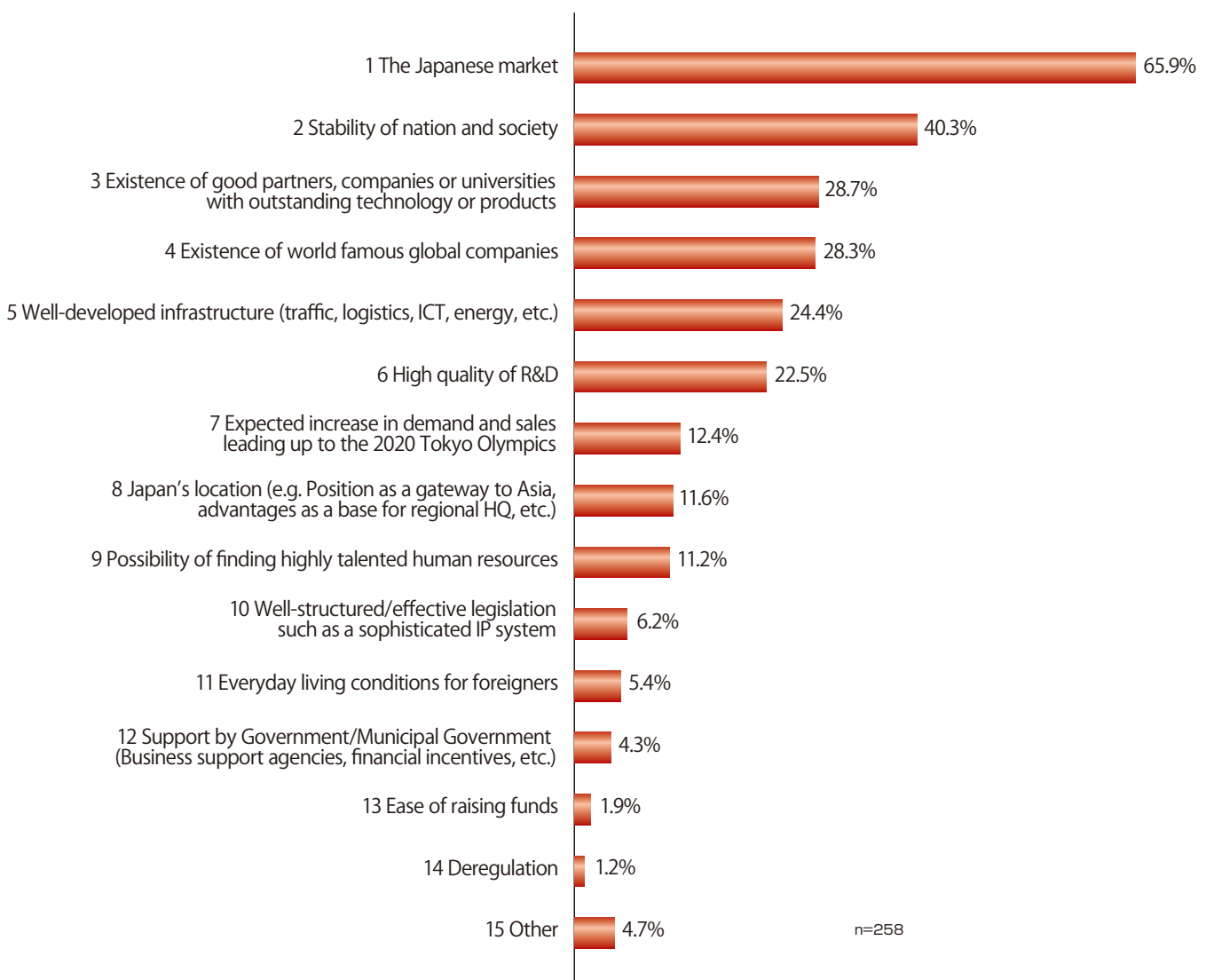
As the attractiveness of doing business in Japan, 65.9% of the companies answered “The Japanese market” followed by “Stability of nation and society” at 40.3%, “Existence of good partners, companies or universities with outstanding technology or products” at 28.7% and “Existence of world famous global companies” at 28.3% (Chart 4-20). “The Japanese market” maintained the overwhelming position of No.1 following the past two surveys. Foreign-affiliated companies seem to appreciate the market size of Japan and purchasing power of its consumers. “Stability of nation and society” that ranked second is newly adopted in this survey. The result may reflect reevaluation of Japan in contrast to the uncertainty of the political and economy situation in Western countries including movements involving the withdrawal of the UK from the European Union and the trends in the new US administration.

There are also many foreign-affiliated companies partnering with Japanese companies to utilize resources of Japanese companies, such as the high R&D capability. Existence of partners such as excellent Japanese companies and universities seems to be a big point of attraction for foreign-affiliated companies.

6. Obstacles to doing business in Japan and request for improvement

There have been many voices pointing out “Difficulty in finding human resources” and “Rigid and complicated administrative procedures and regulations” as obstacles to develop business in Japan. This time the same trend was observed again. Given this situation, for example, a shortage of labor supply and demand has worsened and a sense of shortage of people is spreading among foreign-affiliated companies. In this survey, when asked about particularly troublesome issues in connection with “Difficulty in

Chart 4-20 Attractiveness of doing business in Japan (top three options)



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finding human resources," an overwhelming majority of 66.7% answered "Lack of human resources who can communicate in foreign languages" followed by "Difficulty in finding specialists" at 35.7% and "High hiring cost" at 25.5% (Chart 4-21). The category of job most difficult to fill is "Engineering (Staff)" at 49.4% followed by "Engineering (Manager)" at 33.2%, "Sales (Manager)" at 27.7% and "Sales (Staff)" at 27.7%. Foreign-affiliated companies feel difficulty in securing engineers regardless of position (Chart 4-22). From the above, it can be noted that foreign-affiliated companies are struggling to secure "engineers who can communicate in foreign

languages and function effectively as specialists." By industry, serious shortage of engineers is noticed in "vehicle parts" and "electronic device manufacturers" in the manufacturing industry and "information, software" in the non-manufacturing industry.

Regarding "Rigid and complicated administrative procedures and regulations," a question on "administrative procedures and regulations that you would like to see improved" was asked. "Tax matters" (37.5%) was chosen by the largest number of companies, which was followed by "Labor matters" at 25.4%, "Status of residence (visa)" at 22.9% and "Safety standards/regulations of

Chart 4-21 Issues particularly troublesome for securing human resources (top two options)

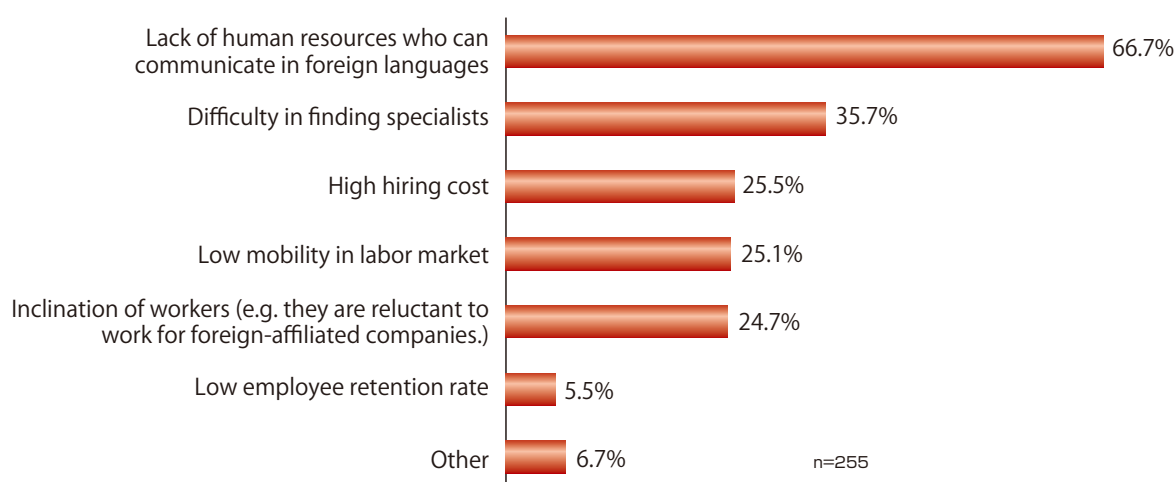
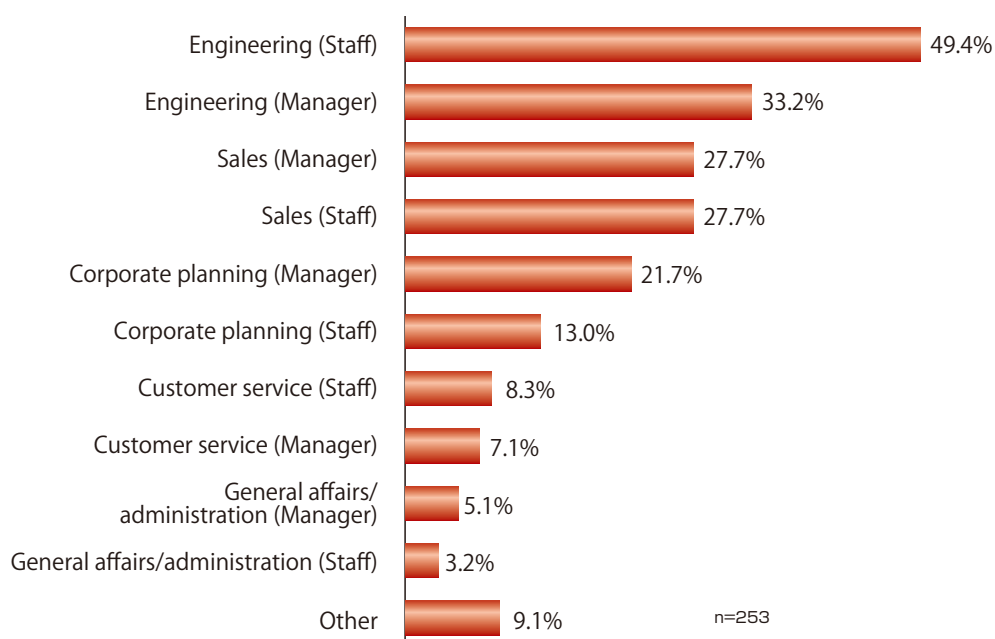


Chart 4-22 Category of jobs most difficult to fill (multiple answers)



products” at 22.9% (Chart 4-23). As issues specifically necessary to be improved, the largest 36.3% answered “Complicated administrative procedures (Too many procedures and points of contact)” followed by “Internationally unharmonized and incompatible business permits/licenses” (32.9%) (Chart 4-24). There were comments such as “deregulation is progressing but we feel taxes are still high compared with other countries,” “multi-lingualization of documents for procedures is insufficient,” and “we are sometimes turned away at the door without being investigated or examined by reason of ‘no precedent.’” For the contributing background to be pointed out that the rigid and complicated administrative procedures and regulations in Japan as obstacles, there could be an extensive comparison on the reduction of cost of administrative procedures and burden of paperwork in the countries of Europe and North America in 2000s.

Regarding “Difficulty in communicating in non-Japanese languages,” “Lack of personnel who speak multiple languages at your clients” (39.8%), “No English version available for business documents (e.g., contracts)” (38.6%) and “Lack of personnel who speak multiple languages at your company” (32.3%) are felt to be particularly difficult (Chart 4-25).

There were also comments on the business environments in Japan, such as “a large number of printed documents are required and on-line response is difficult,” “over-engineering quality awareness/management,” and “there are too many trading companies which makes it difficult to do direct business among manufacturers and generates waste of money and time due to use of resale business.”

Chart 4-23 Administrative procedures and regulations that need improvement (top two options)



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Chart 4-24 Specific issues needing improvement regarding administrative procedures/regulations (top two options)

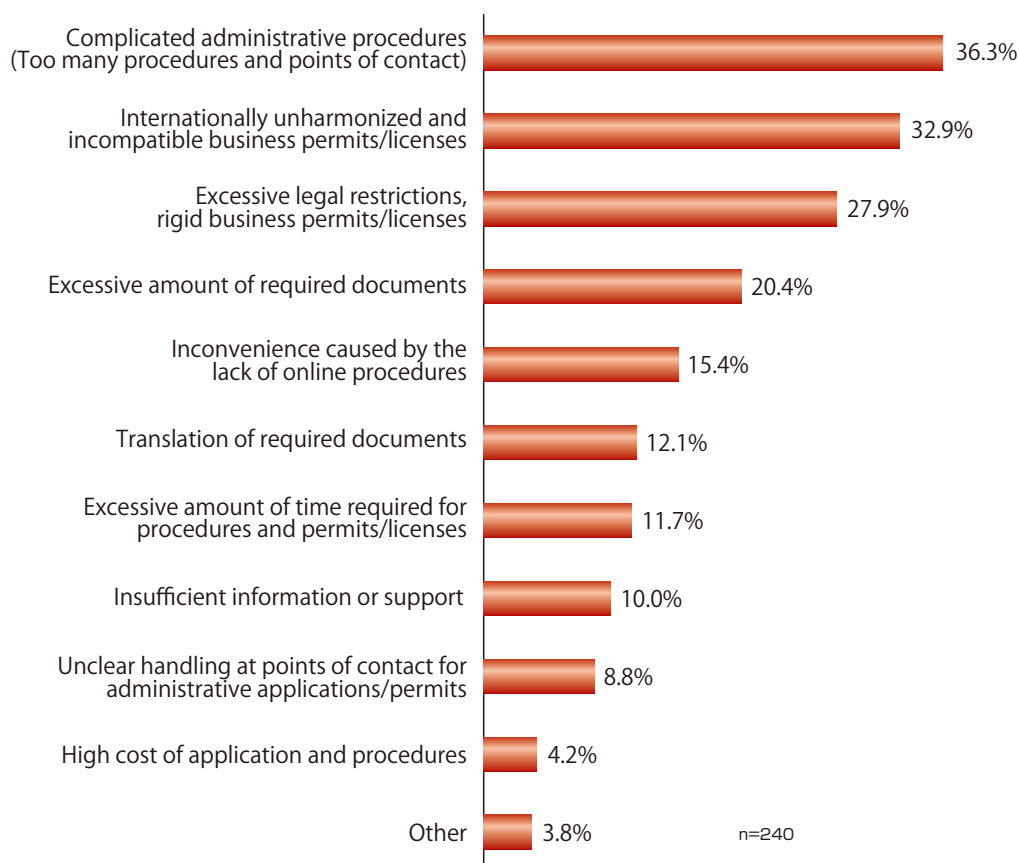
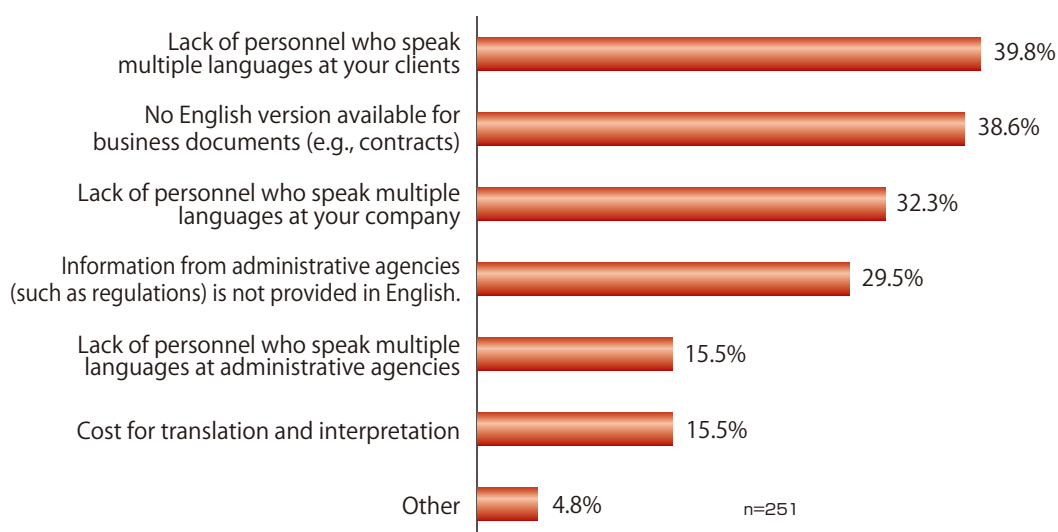


Chart 4-25 Regarding business communication in non-Japanese languages, what is particularly difficult? (top two options)

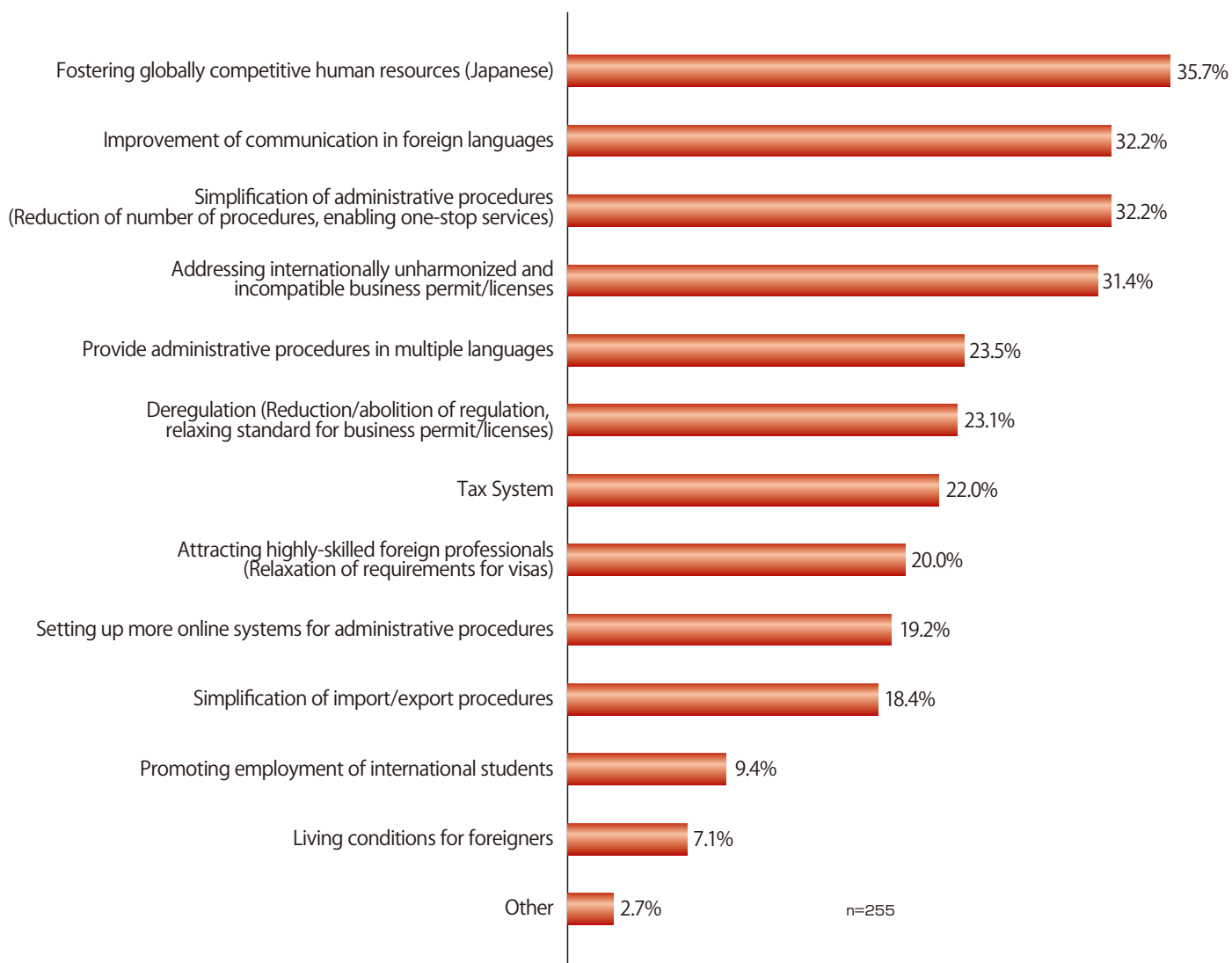


These comments are related to "request for improvement by the Japanese government or industries." The most frequent answer in this survey is "Fostering globally competitive human resources (Japanese)" at 35.7% followed by "Improvement of communication in foreign languages" at 32.2%, "Simplification of administrative procedures (Reduction of number of procedures, enabling one-stop services)" at 32.2% and "Addressing internationally unharmonized and incompatible business permit/licenses" (31.4%) (Chart 4-26). Free descriptive answers regarding "Fostering globally competitive human resources (Japanese)" include comments such as "increase in Japanese students (including high school students) who study abroad."

Aiming to make Japan "the most business-friendly country in the world," the government has been working on various measures

from the perspective of foreign companies, in order to address issues and respond to improvement request from foreign/foreign-affiliated companies (Chapter 2). "Five Promises for Attracting Foreign Businesses to Japan" (March 2015) and the "Policy Package for Promoting Foreign Direct Investment into Japan to Make Japan a Global Hub" (May 2016) are representative examples. To address "Rigid and complicated administrative procedures and regulations" for which improvement is requested by many companies, the Working Group for Revising Regulations and Administrative Procedures and others have worked on their simplification, aiming toward fundamental revision. It is imperative to foster human resources that can be active in the global business field while steadily continuing to advance these efforts in the future.

Chart 4-26 The items for which you would like to see improvement by the Japanese government or industries (multiple answers)



Striving to the improvement of Labor Productivity of Japan

column

In the ranking of labor productivity (GDP per hour worked) among 35 OECD countries published in May 2017, Japan came 20th in the data, for its labor productivity in 45.5 US dollars which is slightly less than the OECD average (51 US dollars).

In comparison, the labor productivity of European and US countries is generally high (Chart 4-27). In the survey that JETRO conducted to foreign-affiliated companies, the number of companies answering that their productivity has improved exceeded 40% which were mainly from Europe and US.

Currently, "productivity improvement" has been drawing attention as an important theme in Japan, and attempts to utilize

technologies such as AI and robots have started in addition to work-style reform. With the gradual increase in awareness toward improvement of labor productivity in Japan, such as correcting measures for long work hours, various initiatives by foreign-affiliated companies such as improvement of working-style and productivity could give some implications for Japanese companies. The promotion of FDI in Japan that will further invigorate the Japanese economy through the enhancement of productivity as well as the dissemination of advanced technologies, human resources, prowess and business models from overseas is expected.

Chart 4-27 Labor productivity of 35 OECD countries (2015)

(Unit: US dollars; purchasing power parity (PPP) conversion)

Rank	Country	GDP/hour worked	Rank	Country	GDP/hour worked
1	Luxembourg	96.4	19	Iceland	45.7
2	Ireland	91.8	20	Japan	45.5
3	Norway	82.3	21	New Zealand	42.2
4	Belgium	72.1	22	Slovenia	41.5
5	Denmark	69.7	23	Israel	41.1
6	US	68.3	24	Slovak Republic	40.8
7	Netherlands	67.6	25	Czech Republic	39.1
8	Germany	66.6	26	Turkey	38.6
9	France	66.3	27	Portugal	36.0
10	Switzerland	65.6	28	Greece	34.9
11	Austria	61.8	29	Hungary	34.6
12	Sweden	60.5	30	Estonia	33.0
13	Finland	56.5	31	Korea	31.9
14	Australia	54.5	32	Poland	31.2
15	Italy	53.6	33	Latvia	29.1
16	UK	52.5	34	Chile	26.2
17	Spain	51.3	35	Mexico	20.2
18	Canada	50.8			

[Source] OECD Productivity Statistics Database (OECD)