

2 Business Environment Improvement Efforts

Society 5.0 is an expression describing a Human-centered Society which achieves both economic development and solutions to social problems by close integration of cyberspace (virtual space) and reality space. It is the form of society advocated by the government, which Japan should aim to realize following hunting society (Society 1.0), agrarian society (Society 2.0), industrial society (Society 3.0), and information society (4.0) while the fourth industrial revolution makes progress within the country.

Toward realization of Society 5.0, the Council for Promotion of Foreign Direct Investment in Japan¹ adopted "Program to Intensively Attract Foreign Direct Investment in Regional Japan" on April 16, 2019. "Follow-up on the Growth Strategy (2019 Growth Strategy)," which was decided by the Cabinet in June 2019, regards "capturing overseas growing markets" as one of the priority measures and puts up "promotion of direct investment in Japan" (Chart 2-1).

This chapter introduces various kinds of efforts with 2019 Growth Strategy as the core, which contribute to Japanese business environment improvement and attracting overseas companies.

Chart 2-1 Specific measures (excerpts) of "Promotion of direct investment in Japan"

- Reinforcement of the support to promotion activities of municipalities who have clarified their foreign companies promotion strategy based on "Program to Intensively Attract Foreign Direct Investment in Regional Japan" (Adopted by the Council for Promotion of Foreign Direct Investment in Japan on April 16, 2019), strengthened the support system of JETRO, and strengthened collaboration between capture of inbound tourist demand and export promotion of agricultural, forestry, and fishery products will be carried out.
- Major overseas bases of JETRO will form close networks with overseas innovation ecosystems, and through that, process active invitation activities toward foreign companies who will contribute to innovation will be carried out.
- Regional Business Conference (RBC, refer to p.29) started in FY2018, will be held in the regions where active promotion is practiced for foreign companies also in FY2019.

[Source] Created from "2019 Growth Strategy"

1. Construction of innovation ecosystem toward realization of Society 5.0

"2019 Growth Strategy" describes that working on open innovation mobilizing all force of "Industry," "Government" and "University" is required in order to create innovation while social change associated

with Society 5.0 is making rapid progress. Aiming at "creation and raising of startups who will play an active role internationally" is placed as the objective for "Industry."

It is aiming at "formation of base cities of startup ecosystems which can rank among cities in the world." Analyzing the ecosystem (funds, enterprise networks, human resources, etc.) of an individual city in the country, providing concentrated assistance to selected base cities, and inviting foreign entrepreneurs to the base cities, the related government offices, local governments, JETRO, etc. will collaborate and promote the base formation (2019 Integrated Innovation Strategy). In collaboration with major accelerators in the world, the acceleration function within Japan will also be strengthened.

Also, toward the formation of ecosystems, a conference attended by startups with high evaluation in the world and domestic startups-related events will be held (2019 Growth Strategy).

In order to promote overseas business expansion of mid-ranking companies and SMEs by exploring their potentials, as well as by utilizing the excellent business resources which foreign companies have, including know-how for practical applications and overseas networks, "Promotion of Global Alliances for Japanese Mid-ranking Companies and SMEs" started under the leadership of the Ministry of Economy, Trade and Industry (METI) in 2015. JETRO will serve as a coordinator to convey foreign companies' requests etc. to relevant organizations including the Organization for Small & Medium Enterprises and Regional Innovation, JAPAN, The Shoko Chukin Bank, Ltd, and the Small and Medium Business Investment & Consultation Co., LTD., and thereby support investment alliances with foreign companies.

2. Utilization of project-based "Regulatory Sandbox" system

Based on the Act on Special Measures for Productivity Improvement, the demonstration system of new technologies, etc., "project-based "Regulatory Sandbox" system" was introduced in June 2018. It creates an environment where innovative technologies and business models can be demonstrated without restrictions being imposed by existing regulations while making sure the participants and periods are limited, to enable data collection that will lead to swift validation and regulatory reform. After completion of the demonstration period, the minister with regulatory jurisdiction will review the regulations based on the data obtained via demonstration. The Government of Japan's Regulatory Sandbox Team was organized at the Japan Economic Revitalization Bureau of the Cabinet Secretariat, and is widely accepting applications from both domestic and overseas corporations. "2019 Growth Strategy" states that efforts will be continued for dissemination of the system to the inside and outside of the country through the introduction of approved case examples, etc.

As the point of initial contact for foreign companies and foreign-affiliated companies, JETRO works to introduce this system domestically and internationally, as well as liaise and coordinate with the Government of Japan's Regulatory Sandbox Team.

¹ Started from 2014. Through "Working Group for Revising Regulations and Administrative Procedures" etc., it is trying to improve business environment.

3. Initiatives toward expanding Japan's inward FDI into regional areas

The Council for Promotion of Foreign Direct Investment in Japan adopted "Program to Intensively Attract Foreign Direct Investment in Regional Japan (Intensive Strengthening/Promotion Program)" on April 16, 2019. It is aimed that the sustainable vitalization of regional economy will be realized through expansion of inward FDI into regional areas, which to date have been concentrated into a few big cities such as Tokyo.

The Council for Promotion of Foreign Direct Investment in Japan decided "Support Program for Regional Foreign Direct Investment in Japan (Support Program)" in May 2018, and the related government offices and JETRO have collaborated and supported municipalities in promotion activities toward foreign companies/foreign-affiliated companies, including formulation of promotion strategy (see p.29).

"Intensive Strengthening/Promotion Program" strengthens "Support Program" and provides intensive support to municipalities through holding overseas seminars on inward FDI in Japan and foreign company invitation programs.

4. Smart public service – movement toward realizing of the easiest country in the world for companies to do business

"The Act of Digital Procedure" was enacted in May 2019, in order to achieve convenience enhancement on administrative procedures and simplification/optimization of administrative operation through utilization of information and communications technologies. Fundamental principles are [1] Each procedure/service will be consistently and electronically completed (digital first), [2] information submitted once will not be required to be submitted again (once only), and [3] plural procedures/services including private services will be completed at a unified contact point (connected one-stop).

Chart 2-2 Main measures toward business environment Improvement

Measures	Contents
Introduction of online one-stop service of incorporation procedure	The service will be started sequentially so that procedures from certification of articles of incorporation to the procedure after the registration will be completed by a one-time operation in a single system in order to expedite incorporation procedure (within 24 hours).
Promotion of computerized court procedure, etc.	Various efforts will be implemented in phases aiming to realize full-scale computerization of the court procedure related to reform promotion of the civil affairs judicial system while respecting autonomous judgment by the judicial branch.
Improvement of foreign trade procedure/port distribution	Constructing "Collaboration platform of port-related data" by 2020 in order to digitize all port-related information such as data concerning procedures between administrative organizations and private businesses and data concerning circumstances of port facilities, and aim to make port distribution more efficient utilizing electronic information.

[Source] Created from "2019 Growth Strategy"

Toward further improvement of business environment, "2019 Growth Strategy" puts up "more than 20% reduction of administrative procedure cost in priority areas by March 2020" as a key performance indicator related to "Smart public service." Main related measures are as mentioned above (Chart 2-2).

In the Office of INVEST JAPAN ("Hotline"), JETRO has the role of liaison hearing requests from foreign and foreign-affiliated companies for regulatory reforms and administrative improvement and presenting recommendations to the government and related ministries and agencies. With regard to the "Investment Adviser Assignment System," which assigns vice-ministers to be in charge of foreign companies fulfilling specific conditions, launched in 2016, JETRO participates in meetings and follows up on the consultation of companies together with the related ministries.

5. Promotion of active participation of foreign professionals

According to an announcement of the Ministry of Internal Affairs and Communications (July 2019), the total Japanese population was 127,443,563. While the number of Japanese residents was 124,776,364 with a decrease of 433,239 from the previous year, foreigners were 2,667,199, with an increase of 169,543. 85% of all foreigners belong to working-age population (15 to 64 years old). While worldwide competition for human resources is intensifying under the fourth industrial revolution, "2019 Growth Strategy" puts up measures toward the promotion of active participation of foreign professionals.

Concerning "the improvement of entry/residence management system toward smooth intake of highly skilled foreign professionals," publicity activities to municipalities will be strengthened toward the widespread use of the Notice Related to Promotion Program of Foreigners' Entrepreneurial Activity (Project for Encouraging Foreign Entrepreneurs to Start Business²) enacted in December 2018. The government has been working also to review the system/operation related to entry/residence management for the purpose of promoting entrepreneurial activity in Japan by foreign students.

Also, from November 2018, even when using coworking spaces or shared offices, foreign companies/foreign-affiliated companies who are receiving JETRO support for inward FDI and meet fixed conditions such as "application was made within three years from the time when the business was started in Japan" are regarded as conforming to the requirements of "facilities in Japan" for "Business Manager" status of residence, and foreign managers of those companies are able to obtain said status of residence.

Since December 2018, JETRO has been operating "the portal site of promotion of active participation of foreign professionals <Open for Professionals>" (<https://www.jetro.go.jp/hrportal/>), gathering information related to the intake of highly skilled foreign professionals, such as measures and events of related government offices.

Also, in April 2019, a new status of residence "Specified Skilled Worker" was created toward the intake expansion of foreign professionals. It is the status of residence for the foreign nationals who engage in work requiring "skills that need considerable degree of knowledge or experience" or "expert skills" in the specified industrial fields (14 fields³). Online receipt of residence application started in July 2019, for the purpose of facilitating/expediting the procedure for status of residence.

² According to the program, the permission to entry/residence up to one year will be granted to foreign entrepreneurs supported by qualified municipalities (Fukuoka City, Aichi Prefecture, Gifu Prefecture, Kobe City, Osaka City, and Mie Prefecture) for the startup.

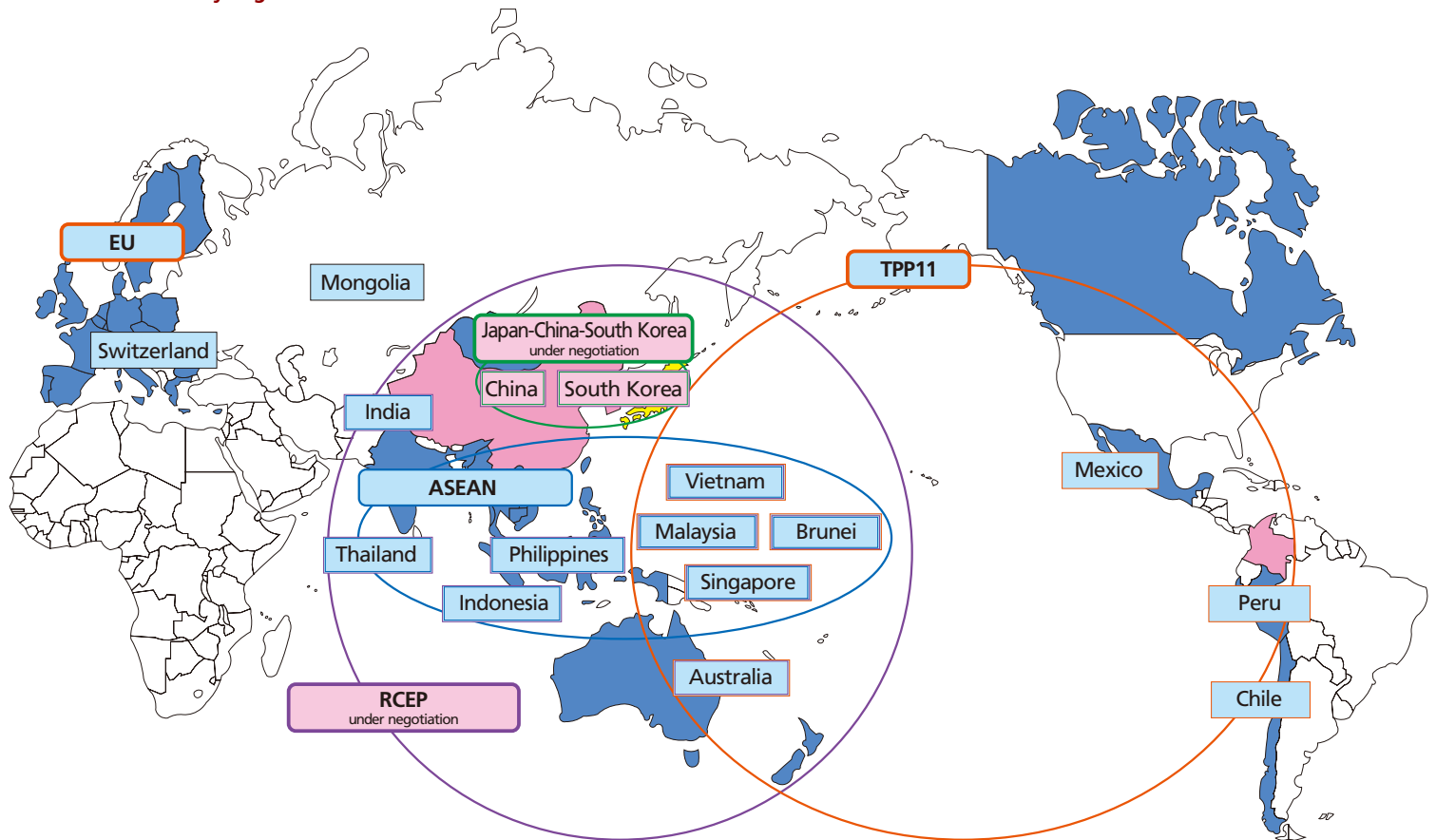
³ Nursing care, building cleaning, material processing industry, industrial machinery manufacturing industry, electric and electronic information related industry, construction, shipbuilding and ship-related industry, automobile maintenance, aviation, lodging, agriculture, fisheries, food and beverages manufacturing industry, and food service industry.

6. Progress of “Mega FTAs” in which Japan joins

Japan aims to strengthen its economic relations through economic partnership agreements (EPAs) and free trade agreements (FTAs), and promotes liberalization and facilitation of trade and investment. The number of enacted EPAs/FTAs of Japan reaches 17, making progress in not only reductions/abolition of tariff but also liberalization and rule formation in a wide range of fields such as services, government procurement, intellectual property, and investment between Japan and those countries/regions (Chart 2-3). Among them, the progress of “Mega

FTAs,” enormous FTAs among many countries/regions, is attracting the most attention. Concerning “Mega FTAs” in which Japan joins, TPP11 (Comprehensive and Progressive Agreement for Trans-Pacific Partnership) took effect in December 2018 and Japan-EU EPA took effect in February 2019. In September 2019, final agreement concerning the Japan-US Trade Agreement and Japan-US Digital Trade Agreement was confirmed and was signed in October 2019. Among foreign-affiliated companies in Japan, business development utilizing those Mega FTAs is being examined.

Chart 2-3 EPAs/FTAs between Japan and individual country/region



[Source] Created from Home Page of the Ministry of Economy, Trade and Industry
 [Note] Countries/regions in blue indicate effective FTAs of Japan.
 Those in pink indicate agreements under negotiation Japan participates in.

COLUMN Addition of industry type subject to prior notification for inward FDI in Japan

In recent years, there are movements to strengthen regulations on foreign investment in each country around the world considering the increasing importance of ensuring cyber security. For example, in the US, the “2018 Foreign Investment Risk Review Modernization Act (FIRRMA)” was enacted in August 2018. FIRRMA is an act that strengthens powers of the Committee on Foreign Investment in the US (CFIUS), which reviews foreign companies’ investment in the US.

In Japan, the integrated circuit manufacturing industry, etc. were added to industry types which are required to submit prior notification for inward FDI in Japan based on the Foreign Exchange and Foreign Trade Act (Chart 2-4). The amendment is effective since August 1, 2019. The Cabinet approved the Amendment Bill of the Foreign Exchange and Foreign Trade Act on October 18, 2019.

Chart 2-4 List of added industry types

Industry type of equipment/part manufacturing related to information processing	Integrated circuit manufacturing industry
	Semiconductor memory/media manufacturing industry
	Optical disk/magnetic disk/magnetic tape manufacturing industry
	Electronic circuit packaging board manufacturing industry
	Cable communication equipment manufacturing industry
	Portable telephone/PHS telephone manufacturing industry
	Wireless communication equipment manufacturing industry
	Computer manufacturing industry
	Personal computer manufacturing industry
	External storage device manufacturing industry
Industry type of software manufacturing related to information processing	Entrusted development of software industry
	Built-in software industry
	Package software industry
Industry type related to information communication service	Regional telecommunications business*
	Long-distance telecommunications business*
	Wired broadcast telephone business
	Other fixed-line telephone business*
	Mobile telecommunications business*
	Information processing service business
	Internet utilization support business*

*Existing coverage was expanded.

[Source] Created from press release of the Ministry of Economy, Trade and Industry (May 27, 2019)

COLUMN US state governments competing with incentives and assistance mutually

As mentioned in 3, municipalities in Japan are making progress in various measures toward the expansion of inward FDI in Japan; US state governments are also eager to attract foreign direct investment which contributes to the employment and economic growth of the state. In July 2017, Foxconn Technology Group in Taiwan, the largest EMS (electronics manufacturing service) in the world, announced their plan to establish an LCD panel manufacturing factory (MAX investment amount of 10 billion dollars) in the state of Wisconsin. The state government promised to provide incentives of 3 billion dollars with tax deduction at its core to invite the factory, which is expected to create jobs for up to 13 thousand people. (However, later Foxconn Technology Group uncovered their intention to downsize the investment plan, so the achievement of employment target is threatened.)

In addition to tax deduction, various kinds of incentives such as subsidies, improvement of infrastructure, and loans with low interest rate are provided by state governments. In most cases, individual negotiations take place, so it is difficult to compare with other states. Many states hold “Deal Closing Funds,” special funds which enable state governors to pay subsidies, etc. at their discretion in order to conclude invitation negotiations. As a typical example of those funds, since establishment of the “Texas Enterprise Fund” of the state of

Texas in 2004, as of the end of June 2019 more than 500 million dollars had been paid out, reportedly contributing to creation of more than 100 thousand people jobs.

Apart from those incentives, some states are actively improving inefficient procedures (red tape) on regulation and approval/authorization. For example, in the state of Kentucky the activity called “Red tape reduction initiative” has been making progress since 2016. Working on reviewing more than 4,700 regulations, 617 regulations were abolished and 661 regulations were revised as of April 2019. Also, in February 2017 the state legislature approved an act which stipulates that ordinary regulations will be automatically abolished upon elapse of seven years since commencement.

When making a choice of investment destination, it is also important that companies can acquire excellent human resources. Some state governments support the education of employees with custom-made contents responding to the requests of companies. As a typical example of this, “Georgia Quick Start” of the state of Georgia has trained more than one million employees through nearly 6,500 programs so far. Also, the “Fast Start Program” of the state of Louisiana, “Alabama Industrial Development Training” of the state of Alabama and “Ready South Carolina” of the state of South Carolina are providing similar support.