JETRO Invest Japan Report

2020

JETRO

Message from the Chairman

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The COVID-19 outbreak is rampant worldwide, affecting all aspects of the economy and society. The unprecedented infectious disease has significantly impacted corporate business activities, as evidenced by the record-breaking forecast slump in foreign direct investment worldwide arising from the economic downturn and restrictions on people's international movement. Many companies in Japan have reported their impacts on business, whether they are foreign-affiliated or Japanese companies.

Japan has been regarded among successful countries in the fight against infections, as the number of COVID-19 infections and fatalities is lower than in other countries and regions. To cope with the impact on the economy, the Japanese government has formulated and executed a supplementary budget twice to implement the most comprehensive economic policy ever to protect the lives of domestic businesses and the people. Since late May, the government has gradually relaxed economic activity restrictions and aimed for economic recovery while coexisting with the virus. Various changes have been observed in the Japanese market among businesses and consumers.

The world is changing dramatically due to the impact of the COVID-19 crisis and the acceleration of digitalization. Within this context, Japan must aim to establish its position as a place that brings together promising companies and talented human resources from around the world to create new value for the international community. The creation of new value in Japan will not only enhance the competitiveness of domestic society and economy, but also contribute to the resolution of domestic and overseas social issues. Even before the COVID-19 crisis, many of the companies supported by JETRO already had advanced technologies and business models to drive the digital society, or established operations in Japan by focusing on community-specific resources such as tourism resources and universities in the community. More active operations of these companies are expected in Japan, which contribute to innovation and the revitalization of local economies.

Many companies in Japan have introduced telework to allow working from home to reduce close contact among people, which will likely continue. Consumer behavior has shifted to online shopping and cashless payments. Adapting to the "New Normal" including these changes is seeding new businesses, opening the door to business opportunities for foreign companies.

JETRO has been strengthening support for foreign and foreign-affiliated companies in the wake of COVID-19. As part of efforts to enhance information dissemination functions, we have established a new information portal that summarizes government measures related to COVID-19 and held online seminars on the changing Japanese market. In addition, we have appointed "personal advisors" to provide support to foreign-affiliated companies in an effort to resolve the issues faced by each company affected by the crisis. JETRO also continues to provide various types of online support to local governments that are proactive in attracting foreign companies.

This report aims to provide an overview of the recent trends of foreign direct investment in Japan, policy measures of the Japanese government to improve the business environment and combat COVID-19, changes in the Japanese market, and JETRO's efforts. We hope that this report will serve as a resource for foreign and foreign-affiliated companies to develop or implement business strategies in Japan as well as for everyone supporting them expanding into the Japanese market, which is entering a new era.

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Reference period：Unless otherwise specified, the statistics data are accessed at the end of October, 2020

1 Macroeconomic and Inward Foreign Direct Investment Trends in the World and Japan

(1) Macroeconomic Trends in the World and Japan

■ Global economy expected to decline due to COVID-19

The International Monetary Fund (IMF) released its World Economic Outlook in October 2020 (Chart 1-1). Global real GDP grew 2.8% in 2019, the lowest since 2010. Global economic and social uncertainties, including US-China trade conflicts and the UK's withdrawal from the EU, have slowed economic growth.

The economic growth rate in 2020 is forecasted to be -4.4% due to the impact of the novel coronavirus disease (hereafter, COVID-19). It would be the first negative growth of the world economy since 2009 (-0.1%). The forecast economic growth rate of the advanced economies is -5.8%, while that of the emerging economies is -3.3%. Negative growth in developed economies would be for the first time since 2009 (-3.3%), and negative growth in developing economies would be the first time since 1980, for which IMF data are available. The economic growth forecast for 2020, announced in October 2020, were revised upward in many regions from those announced in June of the same year. In its forecast, the IMF stresses that there is still a great deal of uncertainty in the global economic outlook. Factors contributing to the upward change in the outlook include the early containment of the virus and the spread of the vaccine, the possibility of higher-than-expected economic activity and the introduction of further economic support measures by national and regional governments. On the other hand, the main downside risk is a prolonged stagnation of economic activity due to further spread of the virus and delay in the spread of the vaccine. Even the spread of the virus in a particular region could have a widespread impact due to weak external demand. In addition, a number of other risks, such as uncertainty in global trade due to trade conflicts between the US and China as well as trade relations between the UK and the EU after 2021, are considered as factors that could have a negative impact on the global economy.

In light of the impact of uncertainty caused by COVID-19 on the economy, the IMF has prepared two alternative scenarios in the World Economic Outlook released in October 2020 apart from the base scenario described above (Chart 1-2). Under the base scenario, current social distance and other infection prevention measures will continue in 2021, but by the end of 2022, vaccine dissemination and improvements in treatment will have progressed, and the level of infection will decrease in many parts of the world. The downside scenario, on the other hand, assumes that progress in curbing the spread of COVID-19 in the second half of 2020 will not be curtailed, which will have a stronger negative impact on the economy, and that progress in vaccine development and treatment will be slower than in the base scenario. Under the downside scenario, the IMF estimates that economic growth in 2020 will be 0.8% points lower than under the base scenario, and 2.9% points lower than under the 2021 economic growth rate.

The second scenario is the upside scenario, which assumes that the containment of COVID-19 will proceed more smoothly than in the base scenario. The second scenario assumes that the fear of infectious diseases will be reduced as a result of progress in treatment, and that vaccines will be available earlier and more widely than in the base scenario as a result of investment in vaccine development and cooperation. In addition, the early recovery of economic activity is expected to reduce the number of corporate bankruptcies and unemployment more quickly than in the base scenario. Under the upside scenario, economic growth is expected to be 0.5% points higher in 2021 and 1.1% points higher in 2023 than in the base scenario.

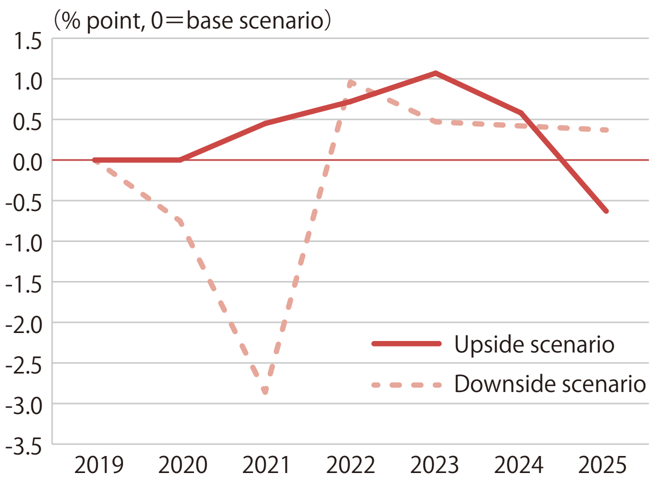
Chart 1-1: World Economic Outlook

(%)

Country/Region	2018	2019	2020	2021
World	3.5	2.8	*-4.4*	*5.2*
Advanced Economies	2.2	1.7	*-5.8*	*3.9*
US	3.0	2.2	*-4.3*	*3.1*
Japan	0.3	0.7	*-5.3*	*2.3*
UK	1.3	1.5	*-9.8*	*5.9*
Euro	1.8	1.3	*-8.3*	*5.2*
Germany	1.3	0.6	*-6.0*	*4.2*
Developing Economies	4.5	3.7	*-3.3*	*6.0*
Asia	6.3	5.5	*-1.7*	*8.0*
China	6.8	6.1	*1.9*	*8.2*
India	6.1	4.2	*-10.3*	*8.8*
ASEAN5	5.3	4.9	*-3.4*	*6.2*
Latin America	1.1	0.0	*-8.1*	*3.6*
Middle East and Central Asia	2.1	1.4	*-4.1*	*3.0*
Sub-Saharan Africa	3.3	3.2	*-3.0*	*3.1*

Note: 1) Categories of regions follows the rules of the source. 2) Data in Italic indicates outlook.
Source: "World Economic Outlook, Oct. 2020" (IMF)

Chart 1-2: Scenarios of the World Economic Outlook



Source: "World Economic Outlook, Oct. 2020" (IMF)

The Organisation for Economic Co-operation and Development (OECD) and the World Bank, each of which separately release their own economic outlook, also assume various scenarios in anticipation of uncertainties associated with the expansion of COVID-19 (Column: Economic Outlook of International Organizations). In their projections, the global economy is expected to experience negative growth in 2020, followed by a recovery from 2021. The containment of COVID-19 in each country and region holds the key to minimizing its impact on the economy and future economic recovery.

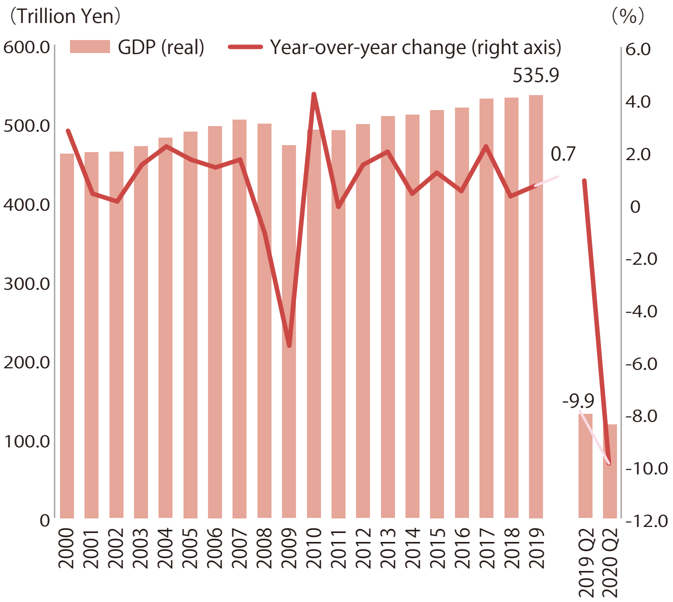
Unlike the financial crisis of 2008-2009, the current economic slump is triggered by the epidemic, which is a factor external to the economics. As the external factor will continue to have a significant impact on the economy, it will be essential to take coordinated measures against the virus globally, including the development of vaccines and the production of necessary medical devices.

■ The Japanese economy expanded for the eighth consecutive year but negative growth expected in 2020

According to the Cabinet Office, Japan's real GDP grew 0.7% to 535.9 trillion yen in 2019, marking growth for eighth consecutive year after 2011, when it recorded negative growth of 0.1% (Chart 1-3).

Private consumption expenditure accounts for the largest proportion at 55.8%, followed by government consumption expenditure at 20.4% (Chart 1-4). In 2019, the growth rate of private consumption remained almost unchanged at 0.1%, while that of government consumption was 1.9%. Growth in government consumption contributed to more than half of the overall GDP growth (0.7%), which made it the biggest driver of the growth in 2019.

Chart 1-3: GDP of Japan

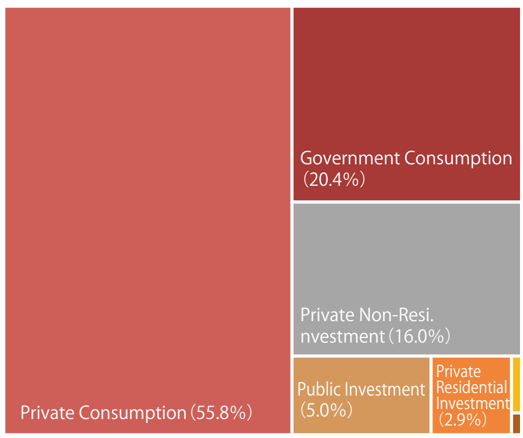


Source: Cabinet Office (As of Sep. 16th, 2020)

As for the current economic trends, the growth rate in the first quarter of 2020 was -0.6% from the previous quarter (the fourth quarter of 2019) and contracted further to -7.9% in the second quarter (Chart 1-5). The expansion of the COVID-19 infection in Japan, the government's declaration of a state of emergency and restrictions on entry to Japan affected significantly (see Chapter 3 (1) "Impact of COVID-19 on the World and Japan" for details on the impact of COVID-19 on the Japanese economy and market). In terms of the growth rate by GDP's components, private consumption, which is the largest, was -0.7% in the first quarter of 2020 and -7.9% in the second quarter from the previous quarter, respectively, lowering the overall growth rate.

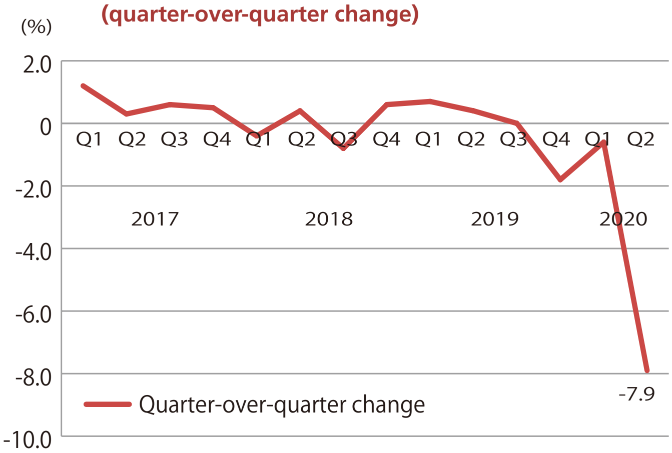
Compared to the same period in 2019, GDP growth rate was -9.9% in the second quarter of 2020. According to the IMF's World Economic Outlook mentioned above, Japan's GDP growth rate in 2020 is forecast at -5.3%. The trend of sustained economic expansion since 2011 is expected to come to a halt in 2020 due to the COVID-19 infections and associated impacts.

Chart 1-4: Breakdown of GDP of Japan



Source: Cabinet Office (As of Sep. 16th, 2020)

Chart 1-5: Trends in Japan's GDP over the Past Few Years (quarter-over-quarter change)



Source: Cabinet Office (As of Sep. 16th, 2020)

Economic Outlook of International Organizations

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In addition to the IMF, the OECD and the World Bank independently publish their global economic outlooks. Because of the economic uncertainties associated with the COVID-19 infection, each institution uses assumptions in line with various scenarios. The OECD released its Interim Economic Outlook in September 2020, which forecasts the global economic growth in 2020 to be -4.5% and that in 2021 to be 5.0%. The Outlook predicts that while regional outbreaks of COVID-19 are expected to continue to occur, the transmission of the disease will be confined to a limited area and no nationwide urban blockades will be imposed. It is also assumed that the vaccine will not be widely available until the second half of 2021.

In addition to the above scenarios, the OECD has drawn up both upside and downside scenarios, which state that the state of infection of each country and region and their policies will determine their future economic growth. The upside scenario assumes that the spread of COVID-19 in each region will be controlled and consumer and business consumption and investment increase more than expected under the base scenario, which will result in faster economic recovery. Under the upside scenario, GDP growth is expected to increase from 5.0% under the base scenario to 7.1% by the end of 2021. Under the downside scenario, the spread of the disease and its prolonged duration will increase economic uncertainty and have a negative impact on the global economy; under the downside scenario, GDP growth is projected to be 2.2% by the end of 2021.

The World Bank considers three scenarios: the baseline scenario, the downside scenario, and the upside scenario. Like the OECD, these scenarios assume the COVID-19 infection's impact on financial and goods markets, and the effectiveness of policy measures to differ depending on the timing of curtailing the expansion of the virus.

The baseline scenario assumed the epidemic in developed economies to calm down by the second quarter of 2020, but measures to prevent the spread of infectious diseases adopted in each country and region to continue until the third quarter. Besides, it expected infections in developing countries and regions to peak after developed economies. Fluctuations in the financial markets and the decline in oil prices were expected to bottom out in the second quarter and recover as social and economic activities resume. The baseline scenario projected the world GDP growth rate to be -5.2% in 2020 and 4.2% in 2021.

The downside scenario assumed the continuation and reintroduction of lockdowns to prevent the spread of infections until the third quarter. As a result, international trade, production, and consumption in each country and region were likely to be affected more severely than in the baseline scenario. The World Bank projected global GDP growth in 2020 to plunge by 2.6% points below the baseline scenario, to -7.8%.

The upside scenario assumed the spread of infections and most preventive measures to cease by the second quarter of 2020. It projected rapid economic recovery because of the removal of restrictions on trade and people movement, and successful policy measures in each country and region. However, even in this scenario, global economic growth was expected to fall to -3.7% in 2020.

Although the negative growth of the global economy in 2020 is unavoidable, the degree of the impact heavily depends on the extent of the COVID-19 infections. In making medium-to-long-term investment plans, it is vital to building strategies with an eye to the future global economy and society, taking into account the risks assumed in each scenario.

(2) FDI Trends in the World and Japan

① Global Trends in Inward FDI

■ Global inward FDI increased for the first time in four years in 2019

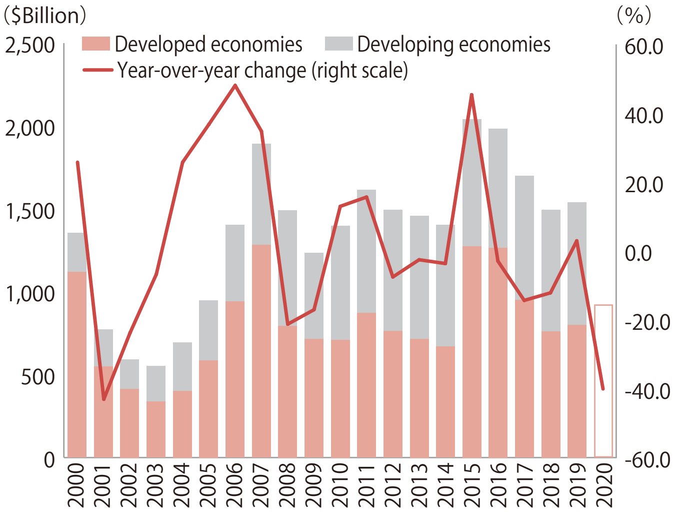
According to United Nations Conference on Trade and Development (UNCTAD), the inward foreign direct investment (net, flow. Hereafter, inward FDI) in 2019 increased by 3.0% from the previous year to $1.5 trillion (Chart 1-6). Global FDI increased for the first time in four years since 2015 but remained at only about three-quarters of the 2015 peak value at $2 trillion.

Breaking down the amount of inward FDI received by developed and developing economies, investment in developed economies accounted for 52.0% of the total in 2019, while investment in developing economies accounted for 48.0%. In 2019, the proportion of developing economies declined from 49.1% in 2018 due to increased investment in developed economies, but it continued to account for around half of global inward FDI.

The increase in inward FDI in developed economies in 2019 is attributable to a weakening trend among US firms that repatriated their capital from developed economies in the previous year. By region, Europe, a large investment recipient from the US, rose 18.0% to $430 billion (Chart 1-7). Inward FDI in Asia, a significant recipient among developing economies, fell 4.9% to $470 billion. Hong Kong, the region's leading investment destination, experienced a 34.4% decline from the previous year, and was a primary factor behind the reduction among developing economies.

In 2019, the US remained the largest recipient country with inward FDI of $250 billion (Chart 1-8). However, the amount was a 2.9% decrease from the previous year, marking the third consecutive year-over-year decline since 2017. The amount invested was about half of the peak amount of $470 billion in 2016. China ($140 billion, up 2.1% from the previous year) and Singapore ($92 billion, up 15.5%) followed the US as the largest recipients. Investment in China marked a record high. The country has been deregulating to accept foreign capital, and has successfully increased investment in the targeted services industry. Also, there were investments from companies in the manufacturing industry, notably from those in Japan, Europe, and the US.

Chart 1-6: Trends in Global Inward FDI



Note: 1) The year-over-year change in 2020 is estimated to be negative 30-40%. The graph shows an assumption where FDI declines by 40% in 2020.
2) "Developed economies" is as defined by UNCTAD. The amount of inflow to developing economies is computed by subtracting that of developed economies from that of the world.
Source: "World Investment Report 2020"(UNCTAD)

Chart 1-7: Global Inward FDI and Growth Rate

($Billion, %)

Region	2017		2018		2019	
	Flow	YoY	Flow	YoY	Flow	YoY
World	1,700	-14.3	1,495	-12.1	1,540	3.0
Developed Economies	950	-24.9	761	-19.9	800	5.1
Europe	570	-15.6	364	-36.2	429	18.0
North America	304	-40.2	297	-2.2	297	-0.2
Developing Economies	750	4.5	734	-2.2	740	0.8
Africa	42	-9.8	51	21.8	45	-10.3
Asia	502	7.2	499	-0.7	474	-4.9
Latin America	156	14.3	149	-4.7	164	10.3

Note: "Developed economies" is as defined by UNCTAD. The amount of inflow to developing economies is computed by subtracting that of developed economies from that of the world.
Source: "World Investment Report 2020" (UNCTAD)

Chart 1-8: Inward FDI in 2019:Top 10 Recipient Countries and regions

($Billion, %)

2019 Ranking	Change in Ranking	Recipient Country / Region	2017	2018	2019	YoY	Share
1	→	US	277	254	246	-2.9	16.0
2	→	China	136	138	141	2.1	9.2
3	↗	Singapore	84	80	92	15.5	6.0
4	↘	Netherlands	60	114	84	-26.3	5.5
5	↗	Ireland	53	-28	78	-	5.1
6	↗	Brazil	67	60	72	20.4	4.7
7	↘	Hong Kong	111	104	68	-34.4	4.4
8	→	UK	101	65	59	-9.4	3.8
9	↗	India	40	42	51	19.9	3.3
10	↗	Canada	27	43	50	15.8	3.3
22	↗	Japan	11	10	15	47.6	0.9
-	-	World	1,700	1,495	1,540	3.0	100.0

Note: "World" and the ranking exclude financial centers in the Caribbean.
Source: "World Investment Report 2020" (UNCTAD)

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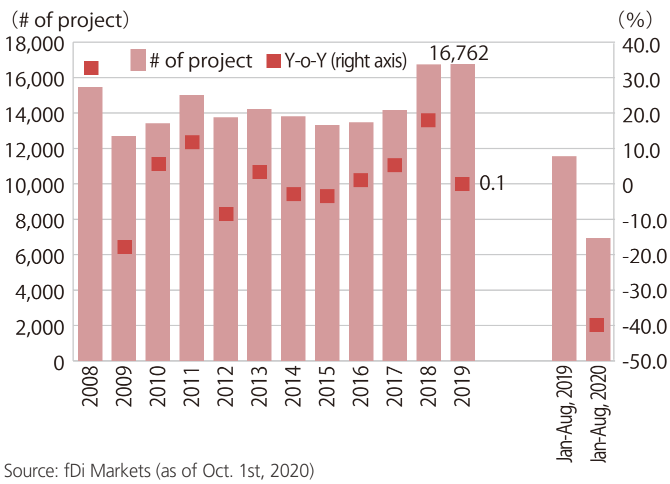
■ **The number of greenfield investment projects remained high in 2019 but decline expected in 2020**

In 2019, the number of greenfield investments worldwide increased by 0.1% from the previous year to 16,762 (Chart 1-9). Up to August, the number of projects announced is 6,911, 40.2% decline from the same period of the previous year.

In 2019, the US was the largest greenfield investor with 3,645 investments, followed by the UK (1,583) and Germany (1,460). The top five investor countries accounted for more than half, or 50.5%, of the total. As for the investment destinations, the US received 1,912 investments, while the UK and Germany received 1,330 and 1,150, respectively. The top five recipient countries accounted for 35.2% of the total, while the top ten countries accounted for 50.9%.

Chart 1-9: Trends in Global Greenfield Investment

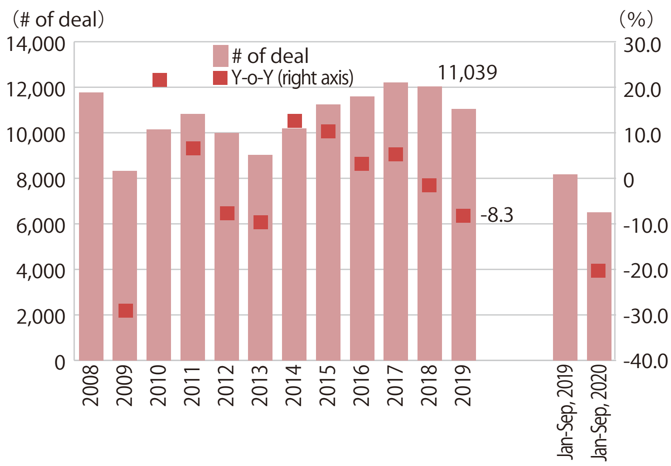


Source: fDi Markets (as of Oct. 1st, 2020)

■ **The number of M&As exceeded 10,000 for the sixth consecutive year**

The number of M&A deals in the world in 2019 decreased by 8.3% year-over-year to 11,039 (Chart 1-10). Although the number of deals fell for the second year in a row, this is the sixth consecutive year since 2014 that the number of deals has exceeded 10,000. The US had the highest number of investments in 2019 by final acquisition country/region, with 2,275, accounting for 20.6% of the total. The UK followed with 1,125 deals (10.2% of the total) and Japan with 708 deals (6.4% of the total).

Chart 1-10: Trends in Global M&A Deals

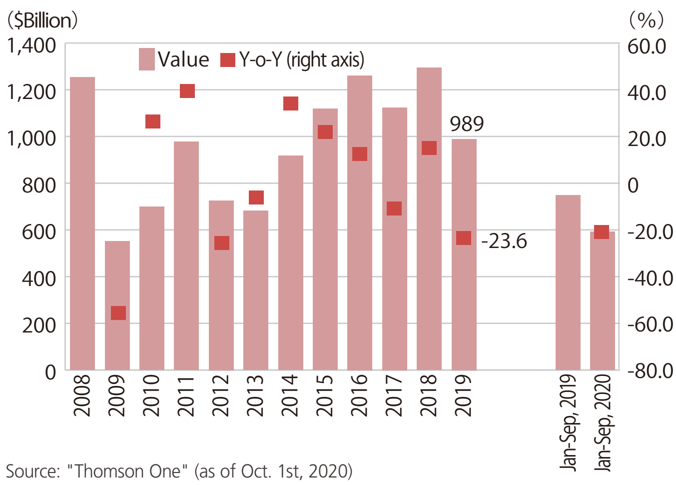


Source: "Thomson One" (as of Oct. 1st, 2020)

The total value of M&A investments in 2019, for which a value is available, was $990 billion, down 23.6% from the previous year (Chart 1-11).The value of investment by M&A had been over $1 trillion since 2015, but has fallen below that level for the first time in five years. In terms of investment by country/region, the US recorded the largest value at $190 billion (19.6% of the total), followed by Japan at $130 billion (13.2% of the total).

Looking at M&A activity through September 2020, there were 6,493 M&A deals, down 20.5%, and $580 billion in value, down 22.5%, with both number and value down more than 20% from the same period last year.

Chart 1-11: Trends in Global M&A Values

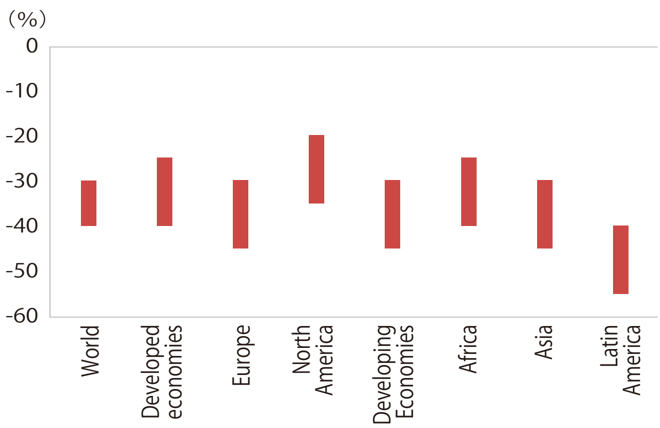


Source: "Thomson One" (as of Oct. 1st, 2020)

■ **Global inward FDI in 2020 is expected to fall 40% from 2019**

UNCTAD forecasts global inward FDI to decline 30 to 40% year-over-year in 2020 and further 5 to 10% in 2021, due to the economic impact of the COVID-19 epidemic (Chart 1-12). A 40% year-over-year decrease in global inward FDI in 2020 would be the second-largest decline after a 43.0% year-over-year decrease in 2001 since 1970, from which comparable data is available.

Chart 1-12: FDI Growth (forecast)



Note: Classification of each region is as defined by UNCTAD.
Source: "World Investment Report 2020" (UNCTAD)

The FDI statistics consists of three forms of capital – equity capital, reinvestment of earnings, and debt instruments (see P.10 for the definition of each form). Of these, declines are expected in 2020 in equity capital and reinvestment of earnings. Equity capital includes investment such as M&As and greenfield investments by companies. Growth in the number of these investments has been slowing due to COVID-19, resulting in an expected decline.

Also, reinvestment of earnings, which reflects foreign companies' retained earnings, are expected to shrink due to the decrease in multinational corporations' sales. The 5000 multinational corporations tracked by UNCTAD have revised their sales forecasts downward by an average of 36% between February and May 2020. In particular, sales forecasts have been revised downward by more than 50% in the accommodation and food service activities (down 94%), transportation and storage industries (down 63%), and motor vehicles and other transport equipment (down 50%). Reinvestment of earnings are forecasted to decline mainly in these industries.

UNCTAD expects global inward FDI to decline by an additional 5-10% year-on-year in 2021, and only start to recover in 2022. UNCTAD forecasts that the growth in inward FDI will likely slow due to the rising number of revisions of the screening process of foreign investments in the short run and the modifications of the overseas business development plans by companies in light of the COVID-19 infections.

② Global Trends in Outward FDI

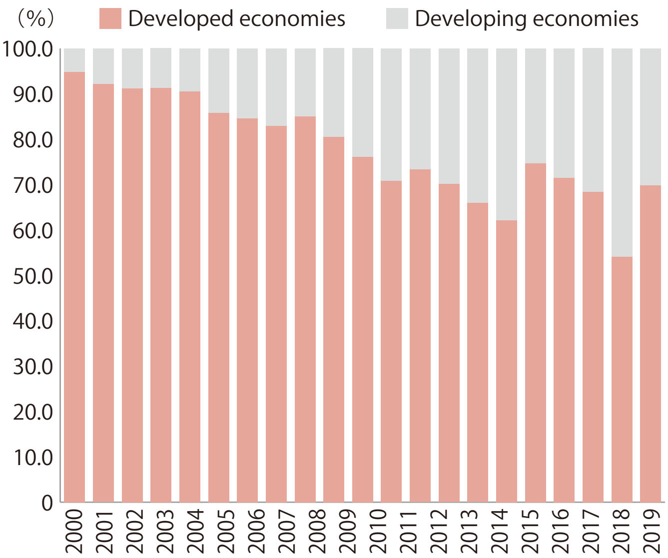
■ Japan became the largest investor for the second consecutive year

In 2019, the global outward FDI (net, flow) by region was 69.8% from developed economies and 30.2% from developing economies (Chart 1-13). The proportion of investment by developing economies rose to 45.9% in 2018, but fell sharply in 2019.

In 2019, Japan's FDI reached $230 billion (up 58.3% from the previous year), making it the largest investor for the second consecutive year (Chart 1-14). Investment from Japan grew significantly, reflecting increased M&A activities in the US and Europe, such as Takeda Pharmaceutical's acquisition of Shire. The US, which had a negative outflow in the previous year, became the second largest investor after Japan, with an investment of $125 billion in 2019.

China, which had been driving the increase in investment from developing economies, fell to fourth place at $117 billion, moving down from second place in the previous year. The 18.1% year-over-year decrease was a decline for the third consecutive year. The amount remained at about 60% of the peak value of $200 billion in 2016. The decline in M&A was particularly notable due to the introduction of investment screening systems by countries and regions. Among developing economies, Hong Kong, the second largest FDI investor after China, recorded an investment of $60 billion in 2019, a substantial decrease of 27.9% from the previous year.

Chart 1-13 Share of Outward FDI by Region



Note: "Developed economies" is as defined by UNCTAD. The amount of inflow to developing economies is computed by subtracting that of developed economies from that of the world.
Source: "World Investment Report 2020" (UNCTAD)

Chart 1-14: Outward FDI in 2019: Top Ten Investor Countries and Regions

($Billion, %)

2019 Ranking	Change in Ranking	Investor Country/Region	2017	2018	2019		
						YoY	Share
1	→	Japan	165	143	227	58.3	17.3
2	↗	US	300	-91	125	-	9.5
3	↗	Netherlands	47	-19	125	-	9.5
4	↘	China	158	143	117	-18.1	8.9
5	→	Germany	104	79	99	25.2	7.5
6	↗	Canada	78	50	77	53.6	5.8
7	↘	Hong Kong	87	82	59	-27.9	4.5
8	↘	France	36	106	39	-63.4	2.9
9	→	South Korea	34	38	36	-7.0	2.7
10	↗	Singapore	49	30	33	11.8	2.5
-	-	World	1,601	986	1,314	33.2	100.0

Note: "World" and the ranking exclude financial centers in the Caribbean.
Source: "World Investment Report 2020" (UNCTAD)

③ Trends in Inward FDI to Japan

1) FDI Flow to Japan

■ FDI Flow to Japan in 2019 was the second largest

In 2019, inward foreign direct investment flow (net, flow. Hereafter, FDI flow) to Japan increased 37.3% from the previous year to 4.0 trillion yen, the second largest since 2014, for which comparable data is available (Chart 1-15).

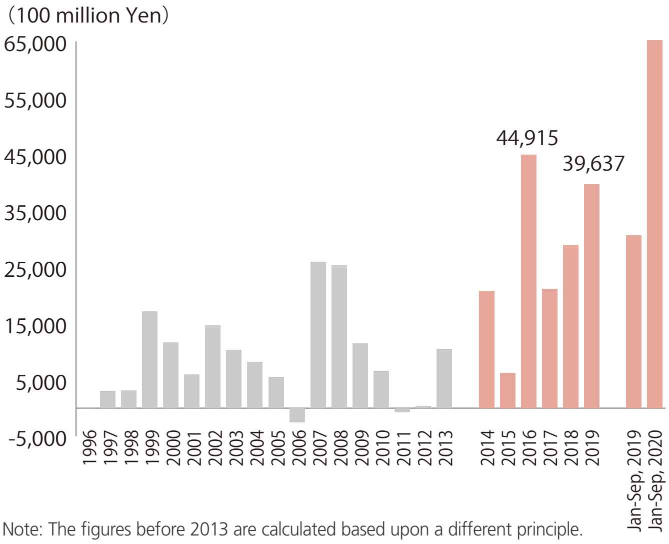
By type of capital in 2019, reinvestment of earnings was the largest for the third consecutive year since 2017, but the amount was 1.5 trillion yen, down 16.9% from the previous year[1] (Chart 1-16). Debt instrument was 1.3 trillion yen, the second largest, and more than doubled from 500 billion yen in 2018[2]. Equity capital marked a significant 76.1% increase to 1.2 trillion yen, the highest level since 2014, exceeding 1 trillion yen for the first time[3].

Equity capital is considered to indicate the trend of new investment and capital increase in Japan. Breaking down investment deals worth 10 billion yen or more in 2019 by investment purposes, M&A-type investments totaled 820 billion yen, a slight decrease from 940 billion yen in the previous year[4]. On the other hand, "capital increase for business expansion" rose significantly from 91 billion yen in 2018 to 860 billion yen, exceeding the record high of 510 billion yen in 2016.

■ Investment from North America was the largest

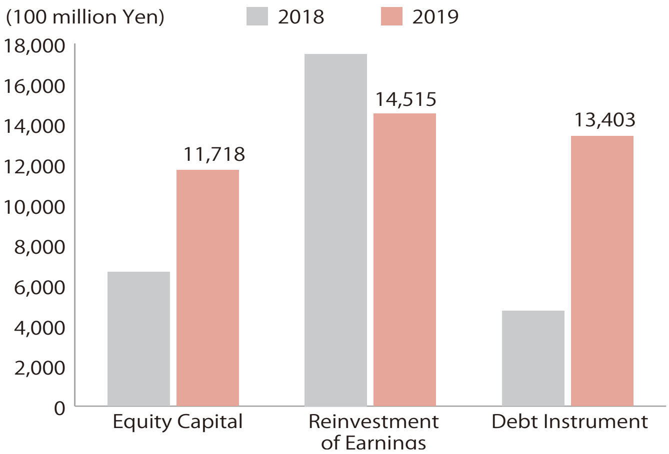
By region, investment from North America rose 140.4% in 2019 from the previous year to 1.9 trillion yen, accounting for the largest proportion at 48.6% of the total (Chart 1-17). In 2019, investment from the US was 1.9 trillion yen, up 141.5% from the previous year, continuing to be the largest investor by country (Chart 1-18). The country alone accounted for 48.3% of the total FDI flow to Japan in

Chart 1-15 FDI Flow to Japan



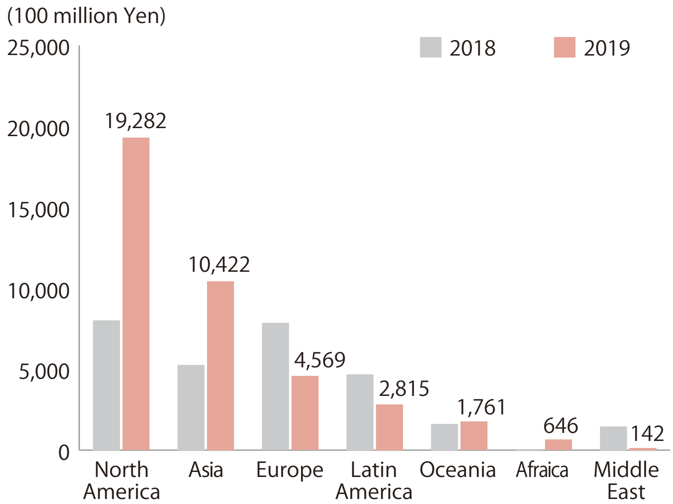
Note: The figures before 2013 are calculated based upon a different principle.
Source: "Balance of Payments" (Ministry of Finance, Bank of Japan)

Chart 1-16 FDI Flow to Japan by Form of Capital



Source: "Balance of Payments" (MoF, BoJ)

Chart 1-17 FDI Flow to Japan by Region



Source: "Balance of Payments" (MoF, BoJ)

Chart 1-18 FDI Flow to Japan: Top 10 Countries and Regions

(100 million Yen, %)

2019 Ranking	Change in Ranking	Investor Country/ Region	2019			2020 Jan-Sep (P)
				Share	YoY	
1	→	US	19,140	48.3	141.5	22,204
2	→	UK	3,122	7.9	-35.6	31,577
3	↗	Hong Kong	2,519	6.4	192.9	1,327
4	↗	Singapore	2,141	5.4	-	3,410
5	↗	China	2,090	5.3	135.9	170
6	↘	Cayman	1,445	3.6	-65.1	-1,214
7	↗	Luxemburg	1,387	3.5	-	-318
8	↘	France	1,370	3.5	-48.0	1,357
9	↘	Thailand	1,135	2.9	-13.9	1,216
10	↗	Taiwan	1,114	2.8	170.4	763
-	-	World	39,637	100.0	37.3	65,210

Source: "Balance of Payments" (MoF, BoJ)

[1] Reinvestment of earnings: proportion of undistributed earnings from a Japanese business or local subsidiary with foreign ownership corresponding to the level of foreign investment are recorded.
[2] Debt instrument: cash loans exchanged between parent and subsidiary and acquisition/disposal of bonds are recorded.
[3] Equity capital: share purchase or capital expenditure with a value of at least 10% of voting rights, equity interest on investment to a branch, and other capital expenditures by a foreign company are recorded.
[4] The Bank of Japan only includes investments worth ¥10 billion or more in these statistics. Therefore, the figures may not represent the entire picture of inward direct investment, and should be used as a reference.

2019, leaving the UK, the next largest country (7.9%), far behind. The country continues to have the largest number of M&A deals and greenfield investments in Japan (detailed below) and plays a significant role as an investor.

Asia made the second-largest flow by region (Chart 1-19). FDI from the region in 2019 increased by 98.1% over the previous year to 1.0 trillion yen, accounting for 26.3% of the total. It was the first increase after two years of decline. Investment increased from major countries and regions. In particular, the three East Asian countries and regions - Hong Kong (¥250 billion, up 192.9%), China (¥210 billion, up 135.9%), and Taiwan (¥110 billion, up 170.4%) all recorded remarkable increases. The aggregated amount of investment from East Asian countries and regions, including the above three countries plus Korea, was 660 billion yen, accounting for 16.6% of the total.

Similarly to East Asia, the FDI flow from ASEAN in 2019 rose 287.3% from the previous year to 380 billion yen, well above 2018 levels. The increase in the region is attributable to a recovery in investment from Singapore to 210 billion yen, which saw a net withdrawal in 2018.

In 2019, investment from Europe was 460 billion yen, a decrease of 41.7% over the previous year. Investment from major countries declined, as seen in the case of the UK, the largest investor of the region in 2019, whose investment declined by 35.6% from the previous year to 310 billion yen.

■ FDI flow to Japan in the statistics by industry increased for the first time in three years

According to the statistics for FDI by industry, FDI flow to Japan rose 55.2% year on year to 1.6 trillion yen in 2019[5]. The manufacturing sector accounted for 1.0 trillion yen, or 64.0% of the total, while the non-manufacturing sector accounted for 600 billion yen, or 36.0% (Chart 1-20).

By industry in more detail, investment in the financial and insurance industry rose 41.8% from the previous year to 890 billion yen, making up 55.9% of the total (Chart 1-21). By country, the FDI flow from the US in the industry overwhelmed others at 790 billion yen.

Electrical machinery and equipment fell 29.3% from the previous year to 390 billion yen, becoming the second-highest industry. By region, Europe commanded a large share of 310 billion yen, with substantial investment from France and the UK.

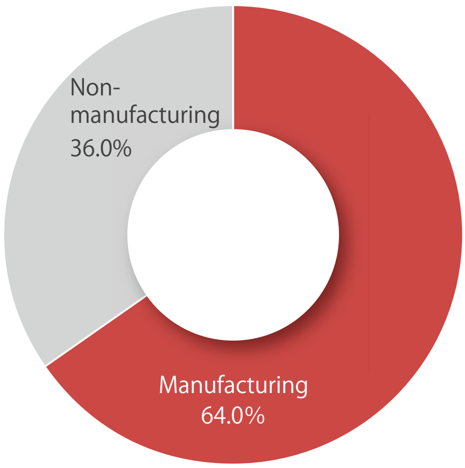
Chart 1-19 FDI Flow to Japan from Asia

(100 million Yen, %)

Country/ Region	2019	Share	YoY	2020 Jan-Sep (P)
Hong Kong	2,519	6.4	192.9	1,327
Singapore	2,141	5.4	-	3,410
China	2,090	5.3	135.9	170
Thailand	1,135	2.9	-13.9	1,216
Taiwan	1,114	2.8	170.4	763
Asia	10,422	26.3	98.1	7,214
ASEAN	3,830	9.7	287.3	4,453

Source: "Balance of Payments" (MoF, BoJ)

Chart 1-20 FDI Flow to Japan by Industry



Source: "Balance of Payments" (MoF, BoJ)

Chart 1-21: FDI Flow to Japan: Top 10 Industries

(100 million Yen, %)

2019 Ranking	Change in Ranking	Sector	2019	YoY	2020 Q1-Q2(P)
1	→	Finance&insurance	8,875	41.8	3,955
2	→	Electric machinery	3,877	-29.3	1,968
3	↗	Transportation Equipment	3,813	76.6	2,144
4	↘	Chemicals&pharmaceuticals	3,359	28.5	90
5	↗	Services	1,289	3827.9	976
6	↗	Food	610	556.8	4
7	↘	Real estate	349	-57.3	619
8	↗	Construction	267	-	-14
9	↘	Transportation	170	38.3	-37
10	↘	Iron, non-ferrous&metals	109	52.5	-4

Note: 1) Based upon different principles from statistics for FDI by region. 2) Negative amount indicates withdrawal exceeds inflow.
Source: "Balance of Payments" (MoF, BoJ)

[5] The statistics for FDI by industry is based upon different principles from statistics for FDI by region.

■ **The number of greenfield investments remained at a high level, although it decreased from the previous year.**

In 2019, the number of greenfield investments in Japan fell 13.6% from the previous year to 229 (Chart 1-22). Although the number of investment projects decreased from the previous year, which was the highest since 2003, it exceeded 200 for the third consecutive year.

By source country, the US marked the largest number at 87 (Chart 1-23). Although the number of cases decreased by 17.9% from the previous year, it accounted for about 40% of the total, at 38.0%. France (25 projects, up 92.3%), the UK (19 projects, up 35.7%), and Germany (17 projects, up 30.8%) followed. The number of investment projects by the top five countries, the above four countries plus China, accounted for about 70% of the total.

By industrial sector, software accounted for the largest number at 71 (Chart 1-24). Although the number of projects decreased by 6.6% from the previous year, it accounted for more than 30% of the total. Business services (23 projects, up 15.0%) and real estate (18 projects, down 37.9%) followed. The number of investment projects from the top five sectors was 140, accounting for more than 60%.

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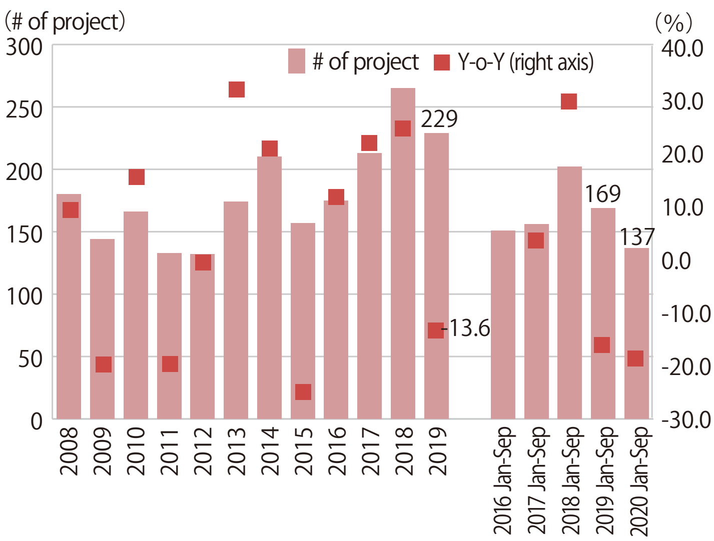
Chart 1-22: Trends in Number of Greenfield Investments in Japan



Source: fDi Markets (as of Nov. 4th, 2020)

Chart 1-23: Number of Greenfield Investments in Japan by Country and Region

(# of project, %)

Ranking	Change in Ranking	Country	2019	Share	YoY
1	→	US	87	38.0	-17.9
2	↗	France	25	10.9	92.3
3	→	UK	19	8.3	35.7
4	→	Germany	17	7.4	30.8
5	↗	China	10	4.4	-16.7
-	-	Total	229	100.0	-13.6

Source: fDi Markets (as of Nov. 4th, 2020)

Chart 1-24: Number of Greenfield Investments in Japan by Industry

(# of project, %)

Ranking	Change in Ranking	Sector	2019	Share	YoY
1	→	Software & IT services	71	31.0	-6.6
2	↗	Business services	23	10.0	15.0
3	↘	Real estate	18	7.9	-37.9
4	↗	Industrial equipment	14	6.1	16.7
5	↗	Renewable energy	14	6.1	7.7
-	-	Total	229	100.0	-13.6

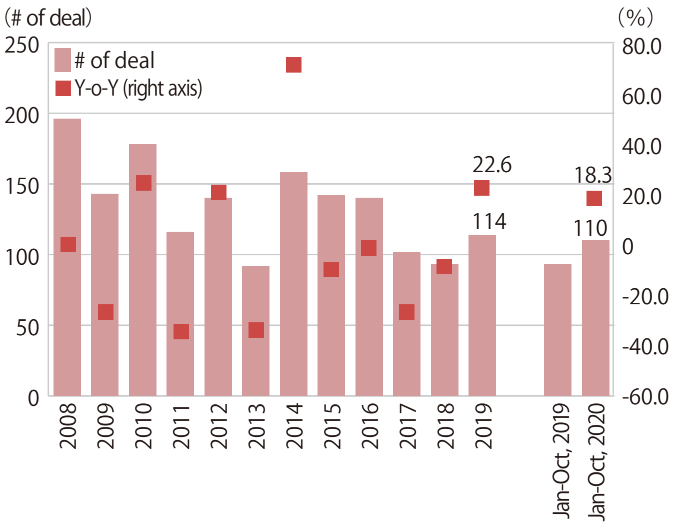
Note: Industrial categories are as defined by the database.
Source: fDi markets (as of Nov. 4th, 2020)

■ More than 100 M&A deals to Japan recorded in 2019

In 2019, the number of M&A deals to Japan increased 22.6% from the previous year to 114, exceeding 100 for the first time in two years (Chart 1-25). The number of deals increased from the previous year for the first time in five years since 2014, but when compared to the number of deals in the same year (158 deals), the number in 2019 is only about two-thirds. By investor country, the US accounted for the largest number at 31, followed by Hong Kong (19) and China (10).

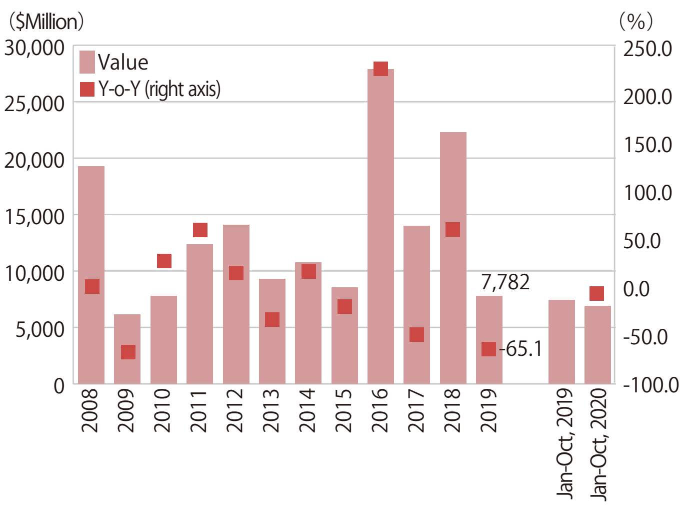
In 2019, the total value of M&A deals for which the transaction values are disclosed fell 65.1% from the previous year to $7.8 billion (Chart 1-26). In 2018, the value increased due to large-scale deals such as the acquisition of Toshiba Memory.

Chart 1-25: Number of M&A Deals in Japan



Source: "Thomson One" (as of Nov. 4th, 2020)

Chart 1-26: Values of M&A Deals in Japan



Source: "Thomson One" (as of Nov. 4th, 2020)

■ Close monitoring required for FDI flow after 2020

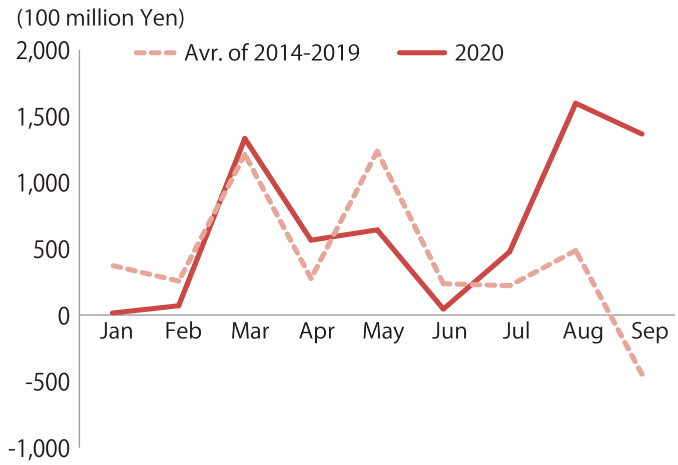
As mentioned earlier, UNCTAD expects global inward FDI in 2020 to be 30-40% lower than the previous year. In view of the impact of COVID-19 on the global economy as a whole, the outlook of equity capital, which is strongly linked to new foreign investment in Japan, and that of reinvestment of earnings retained by foreign companies, is uncertain and needs to be monitored closely.

In terms of FDI in Japan up to September 2020, equity capital is 610 billion yen, up 13.6% year-on-year, and has been steady, compared to the average for the same period between 2014 and 2019 (380 billion yen) (Chart 1-27). The number of greenfield investment projects up to September 2020, however, is 137, at the low level in the past few years. In terms of the number of M&A deals in Japan, 110 deals have been made, an increase from the same period last year, but the value of the deals is $6.9 billion, a decrease of 7.3% from the previous year.

In addition, 1,066 listed companies in Japan have revised their sales downward (as of 31 August 2020), and according to a survey of foreign companies in Japan conducted by JETRO, 79.8% responded that their sales were down in July 2020 compared to the same period last year. Depending on the future performance of foreign companies in Japan, the reinvestment of earnings could be affected.

On the other hand, the above JETRO survey found that many companies continue to have high expectations of the size of the Japanese market and its growth potential. As the spread of COVID-19 is contained and socio-economic activities around the world increase, it is expected that investment of foreign companies to Japan will further increase.

Chart 1-27: FDI Flow to Japan: Equity Capital



Source: "Balance of Payments" (MoF, BoJ)

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2) FDI Stock in Japan

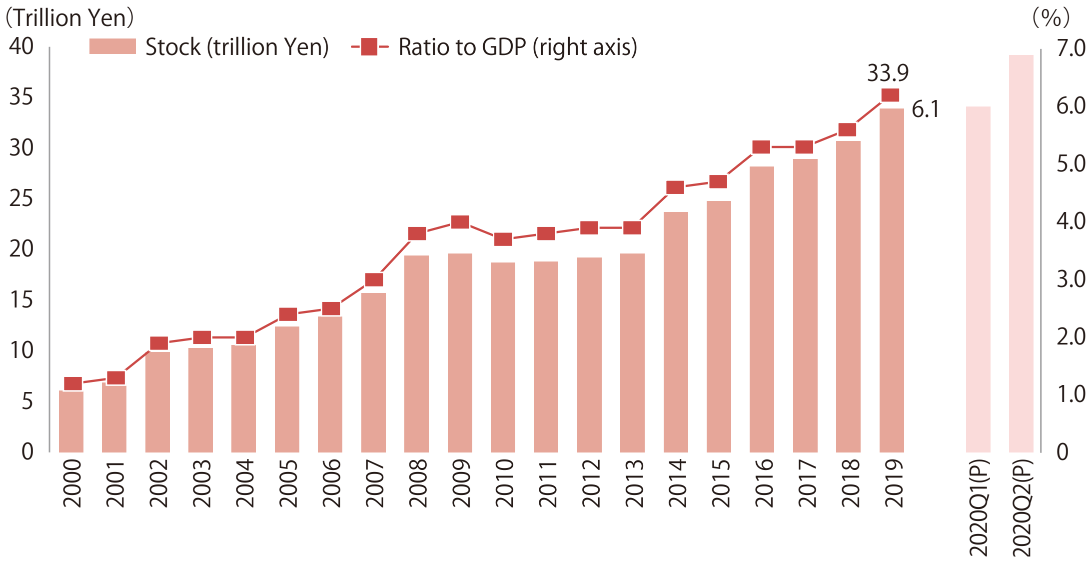
■ **FDI stock in Japan increased to 33.9 trillion yen at the end of 2019**

The FDI stock in Japan at the end of 2019 reached a new high of 33.9 trillion yen, up 10.4% from the previous year (Chart 1-28). The ratio of the balance to GDP increased from 5.6% in the previous year to 6.1%, exceeding 6% for the first time. Looking at the balance at the end of 2019 by type of capital, equity capital is the largest at 54.7%, followed by reinvestment of earnings at 23.0% and debt instrument at 22.3%.

By region, Europe accounts for 43.4% of the total stock and is the largest, followed by North America (24.1%) and Asia (22.1%) (Chart 1-29). Europe continues to be the largest, but the proportion declined from the previous year (50.2%). On the other hand, the proportion increased in North America (21.4% of the total at the end of 2018) and Asia (19.0%), where the flow in 2019 was strong. The stock of Asia exceeded 20% of the overall for the first time.

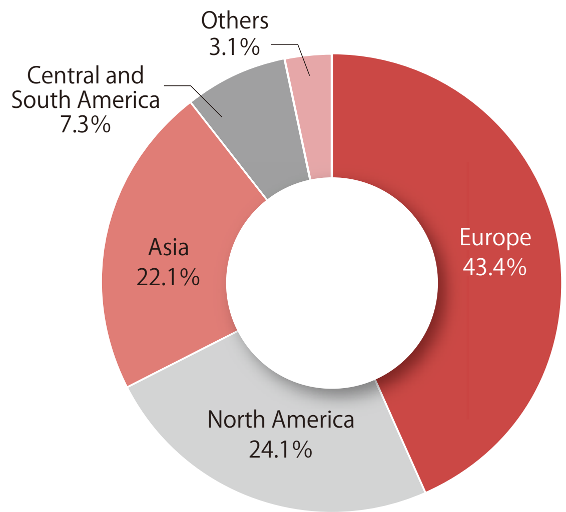
By country and region, the FDI stock of the US was 8.0 trillion yen, or 23.6% of the total, more than twice larger than France (4.0 trillion yen), which is the second largest (Chart 1-30). Among the top 10 countries and regions, six were European countries. The top 10 countries and regions account for 84.0% of the total.

Chart 1-28 Trends in FDI Stock in Japan



Source: "International Investment Position of Japan" (Ministry of Finance, Bank of Japan), "National Accounts of Japan" (Cabinet Office)

Chart 1-29 FDI Stock in Japan by Region



Source: "International Investment Position of Japan" (MoF, BoJ)

Chart 1-30 FDI Stock in Japan by Country and Region

(100 million Yen, %)

Rank	Country/Region	Stock	Share
1	US	79,801	23.6
2	France	39,284	11.6
3	Netherlands	39,067	11.5
4	Singapore	35,618	10.5
5	UK	24,960	7.4
6	Cayman Isl.	19,485	5.8
7	Switzerland	14,725	4.3
8	Hong Kong	12,365	3.7
9	Luxembourg	9,727	2.9
10	Germany	9,576	2.8
-	Others	54,103	16.0
-	Total	338,711	100.0

Source: "International Investment Position of Japan" (MoF, BoJ)

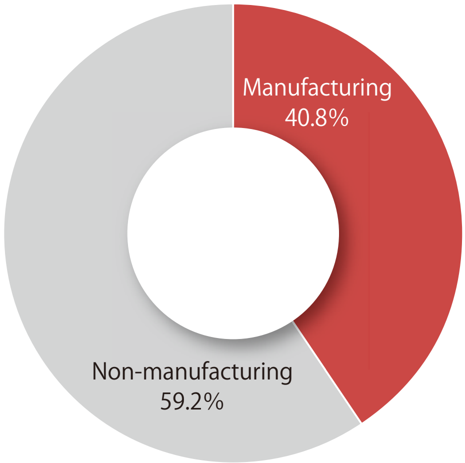
■ FDI stock in the statistics by industry increased for the first time in three years

The FDI stock in Japan in the statistics by industry at the end of 2019 rose 6.3% from the previous year to 24.1 trillion yen, the first increase in three years. Looking at the breakdown, the manufacturing industry accounted for 40.8%, while the non-manufacturing industry accounted for 59.2% (Chart 1-31).

Looking at detailed industries, the stock of finance and insurance, which had a strong flow in 2019, was 9.5 trillion yen, accounting for 39.4% of the total (Chart 1-32). This was followed by manufacturing, including transportation equipment (¥3.6 trillion, 14.9% of the total), electrical machinery and equipment (¥2.7 trillion, 11.1%), and chemicals and pharmaceuticals (¥2.0 trillion, 8.4%). The top 10 industries accounted for the majority (92.9%) of the total.

The Japanese government has set a goal of raising the FDI stock in Japan to 35 trillion yen by the end of 2020. The estimated balance at the end of the second quarter of 2020 increased to 39.2 trillion yen at the end of the same period, reflecting an inflow of debt instrument in June of the same year. As there are concerns about the impact of COVID-19 on investment in the future, fluctuations in FDI stock in Japan will be closely watched.

Chart 1-31 FDI Stock in Japan by Industry



Source: "International Investment Position of Japan" (MoF, BoJ)

Chart 1-32 FDI Stock in Japan: Top 10 Industries

(100 million Yen, %)

Rank	Industry	Stock	Share
1	Finance&insurance	94,995	39.4
2	Transportation equipment	35,990	14.9
3	Electric machinery	26,638	11.1
4	Chemicals&pharmaceuticals	20,161	8.4
5	Communications	15,550	6.5
6	Services	12,712	5.3
7	General machinery	5,247	2.2
8	Real estate	5,121	2.1
9	Transportation	4,079	1.7
10	Glass&ceramics	3,371	1.4
-	Others	17,056	7.1
-	Total	240,920	100.0

Source: "International Investment Position of Japan" (MoF, BoJ)

2 Japan's Business Environment and Foreign-Affiliated Companies

(1)Assessment of Japan's Business Environment

■ Japan's business environment ranks eighth in the G20

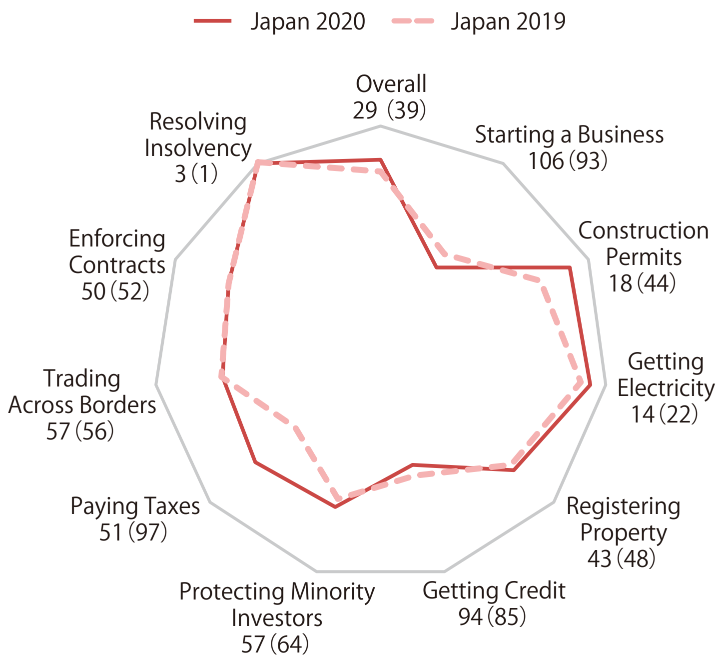
The government plays a vital role in improving the business environment to promote inward foreign direct investment. In the "Follow-up on the Growth Strategy" announced in July 2020, the government set a policy goal for Japan to become No. 1 among the G20 in the World Bank's Doing Business rankings by 2030.

Doing Business covers 190 countries and regions around the world. It evaluates 10 areas related to the regulation and institutional aspects of business activities on a scale of 100 points. The World Bank publishes rankings every year (Chart 2-1).

The evaluation of regulation in each business area assumes that domestic SMEs conduct business activities in cities with the largest economies (i.e., Tokyo and Osaka in the case of Japan). Each of the 10 areas is evaluated based on the number of required procedures, days spent, costs, the degree of protection of rights, and transparency to complete the process.

According to the "Doing Business 2020" released in October 2019, Japan ranked 29th overall, up from 39th in the previous year (Chart 2-2). By topics, the ranks rose for "construction permits" (44th place in 2019 → 18th in 2020) and "paying taxes" (97th in 2019 → 51st in 2020). The improved ranking of "paying taxes" was due to a reduction in the effective corporate tax rate. The rise in the ranking of "construction permits" is due to the relaxation of some requirements. On the other hand, "starting a business" ranked 106th (93rd in 2019) and "getting credit" 94th (85th), relatively low rankings in particularly essential areas when starting a business.

Chart 2-2: Japan's Ranking in the 10 Topics in Doing Business



Note: Numbers indicate ranking of each category in 2020 and (2019).
Source: "Doing Business 2020" (World Bank)

Chart 2-1: Ten Topics and Main Indicators Measured in Doing Business

Topics	Indicators			
Starting a Business	Procedures	Time	Cost	Paid-in min. capital
Dealing with Construction Permits	Procedures	Time	Cost	Building quality control
Getting Electricity	Procedures	Time	Cost	Transparency of tariff
Registering Property	Procedures	Time	Cost	Quality of the land administration
Getting Credit	Strength of legal rights	Access to credit information	Credit registry coverage	Credit bureau coverage
Protecting Minority Investors	Extent of disclosure	Director liability	Ease of shareholder suits	Corporate transparency
Paying Taxes	Payments	Time	Total tax and contribution rate	Postfiling
Trading across Borders	Time	Cost		
Enforcing Contracts	Time	Cost	Quality of judicial processes	
Resolving Insolvency	Recovery rate	Time	Cost	Insolvency framework

Note: This list shows the key indicators of each topic and does not cover all.
Source: "Doing Business 2020" (World Bank)

During the last five years in which Doing Business rankings using the same method are available, there have been little changes in Japan’s rankings in its overall score (77.5 in 2016 → 78.0 in 2020) (Chart 2-3).

The COVID-19 impact has reaffirmed the necessity for reviewing systems and practices based on the principle of paper, stamping, and face-to-face more than ever. The Japanese government enacted the Digital Procedures Act in May 2019 to promote the business environment’s improvement. The “Follow-up on the Growth Strategy” announced in July 2020 promotes online and one-stop corporate establishment procedures. It also plans to conduct necessary reviews during 2020 of administrative functions, such as those that require writing, seal, or face-to-face.

Chart 2-3: Doing Business Rankings of G20 Countries

Rank	2020		2016	
1	South Korea	84.0	US	83.6
2	US	84.0	UK	83.3
3	UK	83.5	South Korea	83.1
4	Australia	81.2	Australia	80.4
5	Germany	79.7	Canada	79.8
6	Canada	79.6	Germany	79.5
7	Russia	78.2	Japan	77.5
8	Japan	78.0	France	76.1
9	China	77.9	Russia	74.1
10	France	76.8	Italy	71.7
11	Turkey	76.8	Mexico	71.6
12	Italy	72.9	Turkey	69.1
13	Mexico	72.4	South Africa	66.2
14	Saudi Arabia	71.6	China	63.1
15	India	71.0	Indonesia	62.1
16	Indonesia	69.6	Saudi Arabia	59.2
17	South Africa	67.0	Argentina	56.7
18	Brazil	59.1	Brazil	55.6
19	Argentina	59.0	India	54.5

Note: EU is not included
Source: "Doing Business 2020" (World Bank)

■ Tokyo ranks 15th easiest city to start a business

The government's "Action Plan of the Growth Strategy" announced in July 2020 aims to promote investment in startups, which are deemed to play a leading role in innovation, and to advance open innovation through collaboration between startups and large corporations, universities, and research institutes.

Chart 2-4: Six Evaluation Factors and Key Metrics of GSER

Factors	Key metrics
Performance	Startups valuations, number of exits
Funding	Access, Quality and Activity
Connectedness	Count of Meetup Groups, etc.
Market Reach	Access to scale and “Go-Global”
Knowledge	Research, Patents
Experience & Talent	Access to talent, Startup experience

Source: "GSER2020" (Startup Genome)

In May 2020, a US research firm, Startup Genome, published the "Global Startup Ecosystem Report (GSER) 2020", the worldwide research on startup ecosystems. GSER defines a "startup" as a technology-enabled business that is less than 10 years old, and a "startup ecosystem" as a shared pool of resources, generally located within a 100-kilometer radius around a center point in a given region. GSER evaluates each major city in six factors (each scored on a scale of 10) and ranks the top 40 cities according to its own calculation methods (Chart 2-4).

GSER expands the coverage every year, and the 2020 edition announced the rankings of the top 40 cities among about 300 cities. Tokyo was ranked for the first time, becoming 15th. Among the top 20 cities, eight cities were in the US and two in China (Chart 2-5).

Chart 2-5: Top 20 Cities in GSER

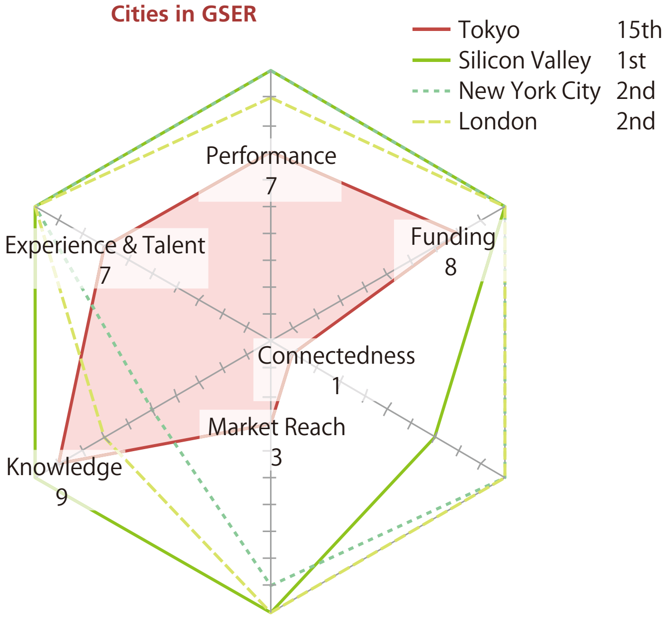
Rank	Country	City
1	US	Silicon Valley
2	US	New York City
2	UK	London
4	China	Beijing
5	US	Boston
6	Israel	Tel Aviv - Jerusalem
6	US	Los Angeles
8	China	Shanghai
9	US	Seattle
10	Sweden	Stockholm
11	US	Washington DC
12	Netherlands	Amsterdam
13	France	Paris
14	US	Chicago
15	Japan	Tokyo
16	Germany	Berlin
17	Singapore	Singapore
18	Canada	Toronto-Waterloo
19	US	Austin
20	South Korea	Seoul

Source: "GSER2020" (Startup Genome)

Looking at Tokyo by evaluation factors, "Knowledge" has the highest score of nine points, followed by eight for "Funding" and seven for both "Performance" and "Experience & Talent". On the other hand, "Connectedness" regarding cooperation between people and technologies in the region scores a mere one point (Chart 2-6). The top three cities of Silicon Valley, New York, and London, earn 10 points in almost all factors.

In January 2020, the Tokyo Metropolitan Government established the Startup Ecosystem Tokyo Consortium and applied to the Cabinet Office's "Beyond Limits. Unlock Our Potential: Strategies for creation of startup ecosystem to compete with the world top ecosystems" and was selected as a Global Base City (details described later). In its long-term strategy announced in 2019, Tokyo has set the goal of ranking within five by 2030 and No. 1 by 2040 to develop the regional ecosystem further.

Chart 2-6: Comparison of Tokyo and the Top Three Cities in GSER



Note: Numbers indicate the scores of Tokyo
Source: "GSER2020" (Startup Genome)

■ Japan's Attractiveness as an R&D Base Leads in Asia

In March 2020, Ministry of Economy, Trade and Industry released the latest version of the "Survey on Attitude of Western and Asian Companies toward Investment in Japan," published once every two years. According to the survey, which asked Western and Asian companies about attractive investment destinations in Asia, Japan was considered the most attractive R&D base among the 19 Asian countries and regions surveyed (Chart 2-7). Japan became the top investment destination for R&D centers for the fourth consecutive time since fiscal 2013 survey. Comments from companies choosing Japan as an attractive R&D base acclaimed the government and domestic companies' commitment to R&D, such as "the highest government's R&D expenditure among other developed countries" and "the number of R&D-oriented companies and R&D bases for technology and infrastructure."

Regarding other functions, the rankings of attractiveness as a regional headquarters and sales base improved from the previous survey to third. Comments on Japan as a regional headquarters cited the high number of the headquarters of multinational corporations as attractiveness. Regarding the attractiveness of Japan as a sales base, which has also risen in ranking in this survey, some commented that "the Japanese market is well-developed in financial, legal, and regulatory stability, which is extremely important," valuing the social infrastructure's stability.

Chart 2-7: Attractiveness of Japan as an Investment Destination in Asia

Function (# of reponse)	Japan		Top Country / Region	
	Ranking	Response (%)	Country	Response (%)
R&D (91)	1	38	-	-
Regional HQ (94)	3	10	Singapore	49
Sales (85)	3	15	China	42
Manufacturing (84)	3	8	China	55
Logistics (77)	3	8	China	36
Finance (76)	4	8	Singapore	46
Back Office (77)	4	4	India	56

Note: The rankings are among 19 countries and regions in Asia
Source: "Fiscal 2019 Survey on Attitude of Western and Asian Companies toward Investment in Japan" (METI)

(2) Toward Improving the Business Environment

① Strengthening City Functions

■ Super City initiative launched

In May 2020, a bill to amend the National Strategy Special Zones Act was enacted (see Appendix: "Recently Enacted Major Bills" for major bills enacted in the 200th Diet session in 2019 and the 201st in 2020). The revision's major purpose is to realize the "Super City" initiative, aiming to achieve cities' smartization covering a wide range of aspects of citizens' lives.

As the advancement and introduction of digital technologies and services continue, smart cities worldwide make greater use of them to provide more convenient and efficient civil lives. The Cabinet Office points out that approaches to smart cities around the world are limited in specific functional areas. In Japan, despite a wide range of available technologies, there are few places to implement them. In light of these developments, the "Super City" initiative aims to accelerate the realization of a future society for 2030 by implementing urban planning while encouraging citizens' participation in areas that span all civil lifestyles, such as mobility, payment, and administration (Chart 2-8).

The revision includes provisions for the bundled and prompt implementation of multiple special measures to encourage the introduction of new services spanning a wide range of fields. To strengthen cooperation by the relevant ministries, the government has established regulations for assistance and formulated inter-ministerial cooperation procedures. Also, to improve the linkage of data infrastructure systems between cities, the disclosure of APIs (Application Programming Interface), specifications of systems used in cities, has become mandatory. The Cabinet Office will compile and publish these APIs.

Following the enactment and promulgation of the revision bill, the law went into effect in September 2020. According to the Cabinet Office, the zoning and designation of super cities would start after the Act's enforcement. The Cabinet Office will designate areas through public selections based on target fields introducing new services and service providers, etc. According to relevant documents from the Cabinet Office, public selections for the proposed area will begin around December 2020. The zone designations will be completed by spring of the following year.

In August 2019, the Cabinet Office established the Super City Open Laboratory in order to promote cooperation between local governments and businesses concerning the Super City initiative. The platform aims at introducing information on registered businesses' technologies and services and facilitate matching with local governments. As of October 2020, it had approximately 200 registered businesses and organizations, including consulting firms that design the overall urban planning, real estate, and digital technology and services providers.

■ Selection of Startup Ecosystem Base Cities

The Japanese government focuses on startups as a driver of innovation in Japan. To help create and grow startups in the domestic market, the Cabinet Office is improving the domestic business environment under "Beyond Limits. Unlock Our Potential: Strategies for creation of startup ecosystem to compete with the world top ecosystems."

Chart 2-8: Outline of the Super City Initiative

Characteristics	Outline
1) Cover all aspects of citizen life	The provision of new services in a wide range of fields, such as covering more than half of the 10 areas. 10 areas include ①mobility, ②logistics, ③payment, ④administration, ⑤medical and nursing care, ⑥education, ⑦energy and water, ⑧environment and waste, ⑨crime prevention, and ⑩disaster prevention and safety.
2) Implement at a society level rather than temporary demonstration	The selection of areas designated as super cities is based on critical factors for achieving the plan in the area, such as the strength of commitments by public and private parties and the ability of business operators in each area comprising the proposed smart city.
3) Accelerate the realization of a future society from residents' perspectives	Local governments are required to make efforts to understand residents' opinions prior to submitting applications for the super city designation. Upon proposing the basic concept after designation, the local government is required to obtain the consent of the residents in certain ways, such as by referendum if there are existing residents.

Source: Documents from Cabinet Office

The initiative comprises seven strategies to strengthen the ecosystem comprehensively (Chart 2-9). In particular, Strategy 1 aims to create base cities that compare with cities with advanced ecosystems in the world by selecting domestic cities that form consortiums among industry, government, and academia in the region as "Global Startup Cities" or "Startup Cities." The Cabinet Office made public invitations and selected four Global Startup Cities and four Startup Cities in July 2020 (Chart 2-10).

To provide intensive support to selected cities, the Japanese government has established the "Startup Ecosystem Support Package" and expanded support for the creation, development, and overseas expansion of startups in target cities. Support for startups includes improving the environment for all willing students to receive "entrepreneurship education" at relevant universities in base cities and to learn about perspectives and ideas to create new value, such as entrepreneurship and starting new businesses, and strengthening fundraising support for startups. Regarding the nurturing of businesses, the government supports startups through collaboration between ministries and agencies from the initial stages of R&D and encourages participation in public procurement. Besides, to promote startups to expand overseas, the government will launch regional startup support programs and provide support through JETRO.

Chart 2-9: Strategies for Establishing Bases for Startup Ecosystem

Strategy	Overview
1	Creation of the startup city
2	Empowerment of university
3	Cutting-edge acceleration programs
4	Gap funding for tech startups
5	Public procurement for startups
6	Enhancement of networks
7	Increasing mobility of human resources

Source: Documents from Cabinet Office

Chart 2-10: Selected Cities for Startup Ecosystem Bases

Base cities	Outline
Global Startup Cities	
Startup Ecosystem Tokyo Consortium	Members (as of January 2020) include 113 organizations, mainly companies and organizations, universities, and local governments in Tokyo. Kawasaki City, Ibaraki Prefecture, and Tsukuba City participate as wider-area collaborating organizations. Consolidation of R&D bases in the region and the commercialization of R&D results by collaboration with leading universities.
Central Japan Startup Ecosystem Consortium	A consortium comprising two organizations: "Aichi-Nagoya Startup Ecosystem Consortium" formed around the Central Japan Economic Federation, Nagoya University, Aichi Prefecture, Nagoya City, etc., and "Hamamatsu City Startup Strategy Promotion Council." Promote collaborative business projects in priority areas such as mobility and healthcare.
Osaka, Kyoto, Hyogo Kobe Consortium	It is a joint consortium formed by the consortia of Osaka, Kyoto, and Hyogo Kobe. On top of each consortium's independent efforts, the three organizations will collaborate to strengthen the regional ecosystem in preparation for the Osaka Expo.
Fukuoka Startup Consortium	A consortium (as of July 2020) consisting of 61 organizations, the primary player of which is Fukuoka City, with participants including local industry associations, businesses, including those supporting startups, and universities. Strengthen support for entrepreneurship and startups, and create innovation through demonstration projects and public procurement.
Starup Cities	
Sapporo and Hokkaido Startups Ecosystem Promotion Council	A consortium of 31 organizations, including the Chair-City of Sapporo (as of February 2020). It targets primary industries, biotechnology/healthcare, space industries, etc.
Sendai Startup Ecosystem Promotion Council	Chaired by the Mayor of Sendai. In the future, it plans to hold pitch events in Sendai City and implement startup support programs.
Hiroshima Regional Innovation Strategic Meetings	Meeting members include key persons from businesses, universities, financial, and governments in the Hiroshima region. Developing bases to attract diverse human resources in the area.
Kitakyushu City SDGs Startup Ecosystem Consortium	This consortium, chaired by the Mayor of Kitakyushu, supports startups in the digital transformation, environment, and robotics areas, which are the city's strengths, and provides fields for demonstration tests of small unmanned aerial devices and IoT.

Source: Documents from Cabinet Office and each consortium

② Efforts to Stimulate Domestic Innovation

■ Introduction of a tax system to promote innovation

The Ministry of Finance submitted a bill to the Diet's ordinary session in 2020 to partially amend the Income Tax Act and others. The bill, which was enacted at the end of March of the same year and subsequently promulgated and enforced, has created a tax system to promote open innovation.

The Open Innovation Promotion Tax System was newly established to promote open innovation among startups and domestic companies. The tax system allows corporations and organizations domiciled in Japan or CVCs to get income tax deductions equal to 25% of their investment in startups if they invest more than a certain amount to conduct open innovation (Chart 2-11). Under this tax system, investments in domestic and overseas startups are eligible as long as they meet the requirements for startups stipulated by this system. The utilization of this tax system will further the open innovation of Japanese companies and startups, including foreign companies, and to promote investment in startups.

While the Japanese government recognizes the importance of collaboration between large corporations and startups, the business collaboration between the two also entails challenges. The Japan Fair Trade Commission conducted a fact-finding survey on the collaboration of startups (unlisted companies less than 10 years old) with other companies. The survey found that there were cases where fundamental collaboration-related contracts, such as non-disclosure agreements, technology verification agreements, joint research agreements, and license agreements, were favorable to large corporations. In response, the government prepared and published a standard model contract to encourage appropriate actions to problems that may arise during business collaboration. In the future, after conducting further fact-finding surveys, the government plans to prepare guidelines that summarize case studies of problems and their solutions, and interpretations of the anti-monopoly law.

■ Creation of creative human capital

Regarding the formation of human capital, the government aims to develop human resources capable of adapting to Society 5.0, the image of the future society. The government has set goals for each educational level to develop human resources who are creative and capable of identifying issues and solving problems. At the elementary and secondary educational levels, the government aims at improving infrastructure for the digitalization of education. It plans to provide ICT equipment to children in mandatory education and develop schools' network environments under the GIGA (Global and Innovation Gateway for All) school project. Also, to promote the utilization of ICT infrastructures, the government plans to: disseminate the development and utilization of digital textbooks and EdTech, study appropriate ways of managing collected learning data, and conduct surveys to improve teachers' skills. Regarding the development of problem-solving abilities, the government will collect information about successful industry-academia or cross-regional collaboration cases and share with schools nationwide in preparation for promoting cross-curricular STEAM training[1].

For higher educational institutions such as universities and in the industrial world, the government aims to develop human resources capable of supporting the digital transformation of the society. The government seeks to develop essential skills to apply mathematics, data science, and AI regardless of specialization in higher education, and plans to develop model curriculum and industry-academia collaboration programs. In the industrial sector, the government endeavors to create new mechanisms for developing highly-skilled human resources responsible for innovations in information processing technologies such as AI, to grow increasingly demanded human resources in the cybersecurity field, and to match these human resources with companies. It also encourages innovation efforts by identifying and supporting people working on disruptive innovations.

Chart 2-11: Major Requirements for Application of the Tax System to Promote Open Innovation

Requirements	Outline of requirements
1) Eligible Corporates	The investor businesses eligible for tax rate deductions include joint-stock companies and mutual companies submitting blue returns or investment limited partnerships or partnerships under the Civil Code with a majority of interest held by companies mentioned above subject to certain conditions.
2) Requirements for Target Startups	The investee company (under this tax program) must be an unlisted joint-stock company less than 10 years old. In terms of its share ownership, a single corporate group cannot have a majority while entities other than corporations (investment limited liability partnerships, partnerships under the Civil Code, individuals, etc.) must have at least one-third of the shares.
3) Requirements for investment	Major investment requirements are as follows. ① Investment size: If the investee company is a domestic startup, the investment must be ¥100 million or more. However, if the investor is an SME, investment of more than ¥10 million shall be eligible. Investment in an overseas startup must be at least ¥500 million per investment. ② Purpose of investment: The investee corporation has innovative technologies or services which the investor company needs to conduct highly productive business or develop new business. Upon collaboration, the investor company should provide necessary support to the startup and contribute to its growth. ③ Others: The investment must be paid in by cash and be to increase share capital of the startup. Also, the investor must hold the acquired shares for five years or more.

Source: Guidelines from METI

[1] The regeneration education execution meeting defines STEAM education as "cross-disciplinary education to utilize learning in various classes such as Science, Technology, Engineering, Arts, and Mathematic to solve problems in the real world" in "innovation of education adopting to technological progress and high school reform corresponding to the new age (11th proposal)" in May 2019.

③ Government's Measures to Furthering Digitalization

■ Promoting the introduction of 5G, the next-generation network

5G, a next-generation networking standard launched in Japan, is attracting attention as an advanced ICT infrastructure because it allows for the delivery and receiving of large volumes of data with minimal delays. The enactment of the law in the ordinary Diet session in 2020 to partially amend the Income Tax Act and other laws led to introducing a tax system to promote 5G investment. 5G investment promotion tax system will provide tax incentives for the introduction of local 5G and 5G base station facilities to support the 5G network expansion. Eligible capital expenditures for local 5G are for investments in transmission and receiving equipment and related major facilities by licensed operators of local 5G base stations. Of the investments in 5G base stations by mobile telecom carriers, investments to bring forward the plans for the opening of base stations are eligible. The tax system allows for a 15% tax credit or 30% special depreciation on corporate/income taxes on eligible 5G related investments. Major mobile telecommunications companies such as NTT DoCoMo, Softbank, and KDDI have already announced the acceleration of plans for the opening of 5G base stations. This tax system will accelerate the expansion of the domestic 5G network.

For the nationwide use of 5G network, more base stations will be necessary than for the conventional 4G network due to the radio wave's nature. On the other hand, the demand for advanced digital technologies and services is rising more than ever due to the voluntary restraint of going out, resulting from COVID-19. 5G communications, which enable massive data transfer with minimal delays, will likely continue to attract attentions.

■ Aiming for a trustworthy network society

For the advancement of the digital economy, creating an environment in which consumers and businesses can use digital technologies and services with peace of mind is essential. At the 201st ordinary session of the Diet in 2020, the government submitted bills to amend the Act on the Protection of Personal Information and improve transparency and fairness of specified digital platforms. Both were enacted.

The amendment in 2015 introduced a provision to review the Act on the Protection of Personal Information every three years. The provision provided the basis for the latest amendment. The main points of the revision were 1) the modality of individual rights, 2) responsibilities of businesses, 3) measures concerning the utilization of data, 4) penal provisions, and 5) cross-border transfer and extra-territorial applications (Chart 2-12). The modality of individual rights defines the rights of the individual who is the subject of personal data. For example, individuals can instruct the method of disclosing personal data held by businesses including via electronic media, in addition to paper documents. The revision also enables individuals to request disclosure of personal data records provided to a third party.

To promote innovation through data utilization, a provision for processing data called "pseudonymously processed information" has been newly established. Until now, there were regulations concerning "anonymously processed information" as processed personal information. However, its utilization has been limited due to strict processing methods and standards. This revision sets forth rules for pseudonymously processed information assuming businesses to analyze collected data within the company. The introduction of pseudonymously processed information will enable flexible use of data compared with the previous system and promote further data use.

Chart 2-12 Major Points of the Amendment of the Act on the Protection of Personal Information

Points of Amedmend	Overview
1) Modality of Individual Rights	Individuals can instruct the method of disclosing personal data held by businesses including via electronic media. The amendment also enables individuals to request disclosure of personal data records. The amendment removes an article that used to exclude given data from the definition of personal data if the data are to be deleted within six months since acquired. With the removal, all the data clarified as personal data will be treated as such.
2) Obligations of Business Operators	The amendment specifies business operators should not improperly use personal information against the spirit of the Act, even when the action itself is not necessarily illegal. The amendment also made it mandatory that operators report to the PPC and notify a principal in case where incidents such as a leakage of the personal data may cause the violation of individual rights and interests.
3) Policies for Data Utilization	When a provider can assume a recipient of given data is likely to use the data as personal information by associating the data with other information, the provider shall confirm a principal's consent about a transfer to the recipient. From the perspective of promoting innovation with the use of data primarily within a business operator, the amendment introduced "pseudonymously processed information" as a new category of data under the Act.
4) Penal Provisions	Penalties for violation of an order issued by the PPC and false submission of a report etc. will be reinforced. Fines for legal entities will be reinforced to be severer than those for individuals, which used to be the same.
5) Cross-border Transfer and Exterritorial Applications	The amendment makes foreign operators that handle personal information of an individual in Japan subject to collection of reports and orders, which are enforced with a penalty. Also,when transferring personal data to a third party in a foreign country, business operators will be required to enrich the information provided to the data subject on the handling of personal information at recipient business operators.

Source: Documents from Personal Information Protection Commission (PPC)

METI submitted a draft legislation on Improvement of Transparency and Fairness in Trading on Specified Digital Platforms with the aim of developing a fair trading environment in the digital economy. The emergence of online digital platforms (DPFs) plays an important role in expanding transaction opportunities for consumers, businesses, and the entire digital economy. On the other hand, there are concerns that the DPF, by its nature, may have monopolistic or abusive power. The Law on Improvement of Transparency and Fairness of Specified Digital Platforms was drafted and enacted to maintain a transparent domestic market.

The legislation requires DPFs above a specific size to disclose the use of data collected through the platform and the conditions of contracts and notify any changes to the conditions in advance. Also, measures to promote mutual understanding between DPFs and the vendors and develop a system and procedures to handle complaints and resolve disputes in accordance with future guidelines will become necessary. The DPF needs to fulfill information disclosure requirements and measures set forth by the law, conduct self-evaluation and submit the results to METI every fiscal year.

As for its administration, the Act has new penal provisions and entitles METI to request the Japan Fair Trade Commission to take appropriate measures in the event of a violation of the anti-monopoly law. The law applies to companies regardless of their locations, both domestic and overseas. Provisions for reviewing the law within three years to make necessary revisions in the future have been added as well.

The law was promulgated in June 2020 and will be enforced within one year after promulgating the related ministry ordinances. Digital platforms are vital for the future development of the domestic digital economy and society. As Japan aims to further digitalization, their importance will increase further in the future. This law could affect companies that provide DPFs as well as other domestic businesses in terms of maintaining and securing transparency and fairness in the domestic market. Future trends, including upcoming ministry ordinances are worth close monitoring.

For developing an environment related to the digital economy in general, the government stresses the necessity of establishing rules on digital advertising. In light of the fast-growing digital advertising, the government recognizes the importance of developing regulations for related businesses to improve service transparency and secure fairness.

■ Promoting digitalization in various sectors

Digital technologies and services can be widely used regardless of sectors. The Japanese government aims to promote digital technologies and services in areas such as finance, mobility, and administration (Chart 2-13).

In the financial sector, the goal is to promote the use of cashless payments using QR codes. To improve the convenience of QR code payments, which is expanding in emerging countries in Asia and Japan, the government promotes the use of the Japanese unified QR Code (JPQR) and its overseas deployment. Regarding payments using near-field communication (NFC) technology relatively common in the Western countries, the government aims to expand terminals compatible with different standards. Other initiatives include launching consortiums between FinTech businesses and financial institutions, holding hackathons, supporting the introduction of cashless payments by local governments, and demonstration experiments of digital currencies by the central bank.

There are great expectations for the digitalization of the movement of people and goods. The Japanese government aims to improve land, sea, and air travel efficiency by using self-driving and drones. Regarding land travel, the government will launch an unmanned autonomous travel service in multiple locations during 2020, to introduce this service at more than 100 locations nationwide by 2030. Also, it targets the realization of level 4 self-driving on the expressways of private vehicles (referring to fully autonomous driving under specific conditions, one step before unconditional fully autonomous driving) by 2025, and level 4 self-driving trucks on expressways from the same year onward.

Chart 2-13: Government Policies in Major Digital Sectors

Sectors	Outline
Finance	Aim to increase cashless payments, promote Japanese unified QR Code (JPQR), including overseas, and promote NFC payment as well. Upgrade financial services using FinTech.
Mobility	Aim to realize full self-driving on expressways and start and expand unmanned automated driving services on land travel. Regarding air travel, target the use of drones for off-sight flights over inhabited areas by fiscal 2022. For sea, continue to discuss the promotion of automated vessels and crewless submarines.
Administration	The government will promote its use of cloud services and expand one-stop services. For corporations, the government will introduce one-stop procedures, including the Articles of Incorporation certification and the registration of incorporation, by February 2021. Besides, developing a roadmap for digitalizing tax and social insurance certification procedures is scheduled for fiscal 2020.
Medical Care	The government plans to begin full-scale operation of the "online verification of health insurance coverage," which allows for the use of My Number Card as a health insurance certificate and enables individuals and family members to access necessary information via My Number Portal. Also, utilizing ICT, robots, AI, and other technologies and conducting reviews, the government aims to expand telemedicine, including safe and effective online medical treatment.

Source: Documents from Prime Minister's Office

For mobility in the air, the government targets the effective utilization of highly versatile drones for depopulated rural areas or disaster response. It plans to establish a fuselage certification system, licensing system, and operation control rules and conduct demonstrations and surveys to realize beyond-line-of-sight flights over inhabited areas by fiscal 2022. Concerning ocean transportation, the government plans to formulate guidelines for automated operation functions and review related laws to materialize autonomous vessels by 2025. It also intends to establish industry-academia-government councils to discuss the promotion of small crewless boats, autonomous unmanned submersibles, and remotely operated unmanned submersibles.

Along with the promotion of economic and social digitalization, the necessity for the introduction or review of appropriate regulations to improve the regulatory environment is also increasing. In the area of finance and mobility, the government recognizes the need to examine the modality of rules in line with future business models, intending to promoting the advancement of products and services through the use of AI and other means.

COVID-19 has highlighted the challenges in digitalizing the government. The necessity for digitalization in government administration has long been recognized. The government has been working to improve the situation by enacting the Digital Procedures Act in May 2019 and adopting the Digital Governance Plan in December of the same year. In April 2020, former Prime Minister Shinzo Abe delivered an instruction at the IT Strategic Headquarters to "urgently consider bringing digitalization of all administrative procedures forward" in response to issues that had once again come to light. Prime Minister Abe made similar remarks at the Council on Economic and Fiscal Policy held in the same month. The improvement of administrative procedures became one of the important issues in response to the COVID-19 crisis.

In May of the same year, the Administrative Reform Promotion Headquarters of the Cabinet Secretariat called on each ministry to collect examples of urgent measures to promote telecommuting, including those related to seals and paper-based transactions that are not required by any law or regulation. It released them as good examples in the following month. It is making other efforts to improve situations, such as requesting information on difficult procedures to revise or omit. Furthermore, the Council for the Promotion of Regulatory Reform of the Cabinet Office has announced to conduct necessary deliberations within 2020 and make necessary regulatory revisions to facilitate permanent institutional measures to all administrative procedures requiring a paper, seal, or face-to-face contact. Also, it requested to prepare guidelines and review relevant laws and regulations to support local governments' efforts. The Growth Strategy Follow-up approved by the Cabinet in July 2020 set the goal of "a fundamental review of regulations and practices requiring face-to-face, paper, and seals" as well as digital government or the digitalization of local governments. In September 2020, Prime Minister Suga advocated establishing a new digital agency for the digitalization of Japan, with the aim of establishing a system for improving the environment further.

Introduction of Prior Notification Exemption

A law to amend part of the Foreign Exchange and Foreign Trade Act (hereinafter referred to as the "Act"), one of the significant laws related to inward foreign direct investment in Japan, was submitted to the Diet in October 2019 and was enacted in November of the same year. As a result, the government revised rules and regulations related to this law, which took effect in May 2020 and came into force in June of the same year.[1]

The Ministry of Finance cites the following two critical points of this revision: 1) appropriate responses to investments that may impair national safety, etc., and 2) further promotion of investments with low security risks. The first point refers to the revision of investment projects subject to the prior notification. Before the amendment, foreign investor's investments to acquire 10% or more of the total number of shares outstanding or voting rights of listed companies in designated industries required prior notification of inward FDI. The revision expanded the prior notification requirement by lowering the threshold to 1% or more.

Second, to facilitate the screening of inward FDI projects, the revised Act has introduced the exemption system from the prior notification requirement, which now has expanded coverage. The exemption from prior notification is determined on three main factors: the type of foreign investor, the business sectors of business activities investee companies conducting, and the exemption conditions foreign investors required to comply (Chart 1).

In light of the use of exemption of prior notification, foreign investors are divided into three broad categories: "exemption non-applicable," "foreign financial institutions," and "general investors." First of all, exemption non-applicable foreign investors include those who have a record of sanctions due to violation of the Act and state-owned enterprises. The use of the exemption from prior notification by these foreign investors is not accepted. Secondly, foreign financial institutions refer to securities companies and banks that are licensed to operate in Japan or other countries. As these institutions are already under the supervision of their respective countries' and regions' regulations, they have been granted exemption standards that differ from those of general investors. Third, the general investor includes foreign companies and state-owned enterprises, such as sovereign wealth funds (SWFs) accredited by the Ministry of Finance. The conditions required to comply and exemptions from prior notification to be enjoyed by general investors depend on the business sectors the investee companies conducting in.

Chart 1 Three Major Factors of the Prior Notification Exemption System

Types of Investors	
1) Exemption non-applicable ・Investors with a record of sanction due to the Act ・State-owned enterprises（except those accredited by the Japanese authorities）	
2) Foreign financial institutions ・Securities/insurance companies, banks, etc.	
3) General investors ・Foreign companies and SWFs accredited by the Japanese authorities	
×	
Industrial Sectors Investees Conduct Business in	
Non-Designated Business Sectors	
Desingated Business Sectors：155 sectors	
・Non-Core Designated Business Sectors	
・Core Designated Business Sectors	
×	
Conditions to be Complied	
Exemption Conditions	Exemption Conditions on Core Sectors' Business Activities

Source: Documents from Ministry of Finance

[1] In this article, the "Foreign Exchange Act" refers to "Act for Partial Revision of the Foreign Exchange and Foreign Trade Act" approved by the Cabinet on October 18, 2019, the "Cabinet Order for Partial Revision of the Cabinet Order on Inward Direct Investment, etc." approved by the Cabinet on April 24, 2020, and the related amended Cabinet Orders and notices.

System under the Revised Foreign Exchange and Foreign Trade Act

COLUMN

The second factor of prior notification exemption is business sectors investee companies conduct their business activities in. According to MoF, among the Japan Standard Industrial Classification of approximately 1500 sectors, 155 sectors related to infrastructure, security, etc. were "designated business sectors" subject to the prior notification requirement. By identifying "core designated business sectors" within each designated business sector, this revision established different standards for exemptions from prior notification depending on whether or not the investee company conducts business activities in a core sector or not. This revision subdivided industry classifications under the Act, dividing each industry into core and non-core sectors. To help judge an adequate sector an investee company conducts business activities in, MoF divided listed companies into three categories based on their businesses and announced them in May 2020[2]. The latest update was released in July 2020. Based on the latest update, 1,663 enterprises were companies conducting business activities only in non-designated business sectors (subject to post-investment report only). 1,504 enterprises were companies conducting business activities only in designated business sectors other than core sectors, and 655 conducting business activities in core sectors.

Third, the Act established conditions to be complied by foreign investors for exemption from the prior notification. Depending on the types of foreign investors and the investee company's sectors, foreign investors are required to comply only with the "Exemption Conditions" or both the "Exemption Conditions" and the "Exemption Conditions on Core Sectors' Business Activities" (Chart 2).

The Act provides for the availability of prior notification exemptions for investment in listed companies through a combination of the above three factors. First, acquiring less than 1% of shares of a company or acquiring shares of a company conducting business activities other than in the designated business sectors is not subject to prior notification. When a foreign investor acquires 10% or more of the shares, it must submit a post-investment report as before.

Chart 3 summarizes exemptions from prior notification when a foreign investor invests in more than 1% of outstanding shares of a company conducting business activities in the designated business sectors. Exemption from prior notification is not permitted for foreign investors who have a record of sanction due to violation of the Act or state-owned enterprises (excluding SWFs accredited by the Ministry of Finance).

For a foreign financial institution, if the investor satisfies the "Exemption Conditions" of the Act, an exemption from prior notification is permitted without any limit on the share ownership. This exemption applies comprehensively to foreign financial institutions, whether or not the investee's company conducts business in a core sector of designated business sectors. For the acquisition of 10% or more shares, the investor must submit a post-investment report in lieu of prior notification within 45 days from the date of execution of the investment.

The criteria for exemption from prior notification by general investors differ according to sectors of business activities a given investee company conducts. When a general investor invests in a company that conducts business activities in non-core designated business sectors, it is exempt from prior notification without a limit on the number of shares to be acquired, as long as the foreign investor complies with the "Exemption Conditions." After executing the investment, it must submit a post-investment report.

When the general investor invests in a company that conducts business activities in the core designated business sectors, compliance with the "Exemption Conditions on Core Sectors' Business Activities" is required on top of the "Exemption Conditions" to waive the prior notification. Exemption from prior notification is permitted for stock acquisitions of less than 10% only if both standards are satisfied. If the general investor uses the exemption under these conditions, it must submit a post-investment report.

The recent revisions to the Act expanded the scope of prior notification to enable flexible responses to the changing threat to security while introducing a system of exemptions from prior notification to promote economic revitalization through foreign direct investment in Japan. In the future, implementation of the Act will attract attentions, as to whether both security and economic revitalization, the revision's objectives, will be realized.

Chart 2 Criteria to be Complied by Foreign Investors

Exemption Conditions
· Investors or their closely-related persons (defined in the Act) will not become board members of the investee company.
· Investors will not propose to the general shareholders' meeting transfer or disposition of investee company's business activities in the designated business sectors.
· Investors will not access non-public information (defined in the Act) about the investee company's technology in relation with business activities in the designated business sectors.
Exemption Conditions on Core Sectors' Business Activities
· Regarding business activities in core sectors, investors will not attend the investee companies' executive board or committees that make important decisions in these activities.
· Regarding business activities in core sectors, investors will not make proposals, in a written form, to the executive board of the investee companies or board members requiring their responses and/or actions by certain deadlines.

Source: Documents from Ministry of Finance

Chart 3 Use of Prior Notification Exemptions for Investment in Listed Companies by Foreign Investors

Foreign Investors	Sectors of Business Activities Investee Company Conducts	Exemption Conditions	Exemption of Prior Notification	Post-Investment Report
1) Exemption non-applicable	-	-	Non-applicable	Required: Post-investment report after regular processes
2) Foreign financial institutions	All sectors	Only Exemption Conditions	Applicable with no upper limit of the acquired share	· Required: PI Report under exemption (Acquried share: more than 10%) · Not required (Acquried share: less than 10%)
3) General investors	Non-Core Designated Business Sectors	Only Exemption Conditions	Apllicable with no upper limit of the acquired share	· Required: PI Report under exemption (when using exemption)
	Core Designated Business Sectors	Exemption Conditions + Exemption Conditions on Core Sectors' Business Activities	Applicable only when acqruired share is less than 10%	· Required: PI Report under exemption (when using exemption)

Note: 1) Assumption of acquiring more than 1% of the share of listed companies. 2) When not using exemption, submission of the post-investment report after submission of prior notification of stock purchases is required. Refer the website of Bank of Japan for details.
Source: Documents from Ministry of Finance

[2] This list is prepared for convenience based on references to listed companies and their articles of incorporation and annual reports, and is not a document with legal standing. Under certain circumstances, such as a change in a company's business, the classification of the company on this list may not match the classification of the invested company at the time of investment.

2

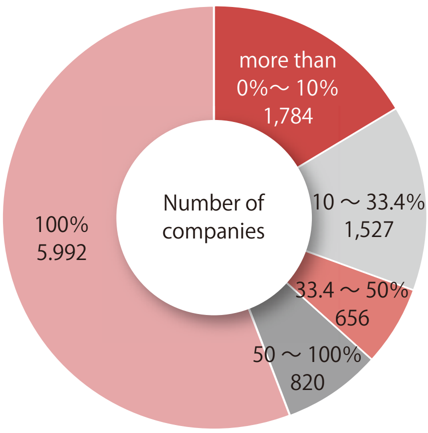
(3) Perception of the Business Environment in Japan among Foreign-affiliated Companies

① Foreign-affiliated Companies Located in Japan

■ The increasing number of foreign-affiliated companies in Japan

According to the "Economic Census-Activity Survey" conducted by the Ministry of Internal Affairs and Communications and the Ministry of Economy, Trade and Industry in 2016, the number of enterprises with foreign capital was 10,779. In terms of foreign capital ratio, the number of companies with 100% foreign capital was the largest at 5,992 companies (Chart 2-14).

Chart 2-14: Foreign-Affiliated Companies in Japan by Foreign Ownership Ratio

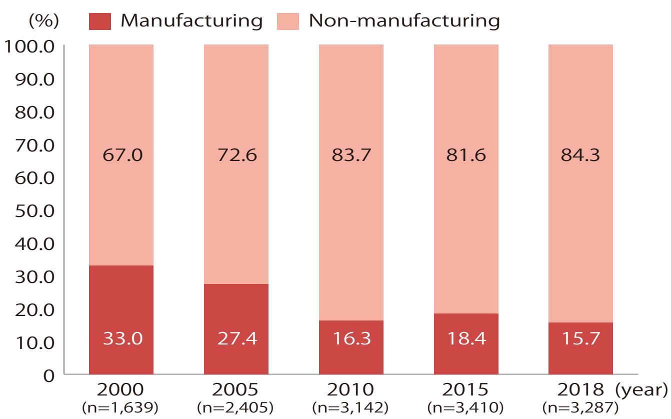


Source: "Economic Census-Activity Survey" (MIC, METI)

Since 1967, METI has conducted the annual "Survey of Trends in Business Activities of Foreign Affiliates," a questionnaire survey on foreign-affiliated companies meeting specific conditions such as the foreign ownership of one third or more. The survey provides a detailed picture of foreign affiliates. This chapter analyzes the results of this survey from the first half of 2000 to 2019 and outlines trends of foreign-affiliated companies in Japan[1].

Regarding the number of foreign-affiliated companies that responded to the questionnaire by industry, the non-manufacturing sector accounted for 84.3%, and the manufacturing sector accounted for 15.7% of the total in the survey on activities done in fiscal 2018, evidencing a dominant percentage of the non-manufacturing sector (Chart 2-15). The share of the non-manufacturing sector, which in 2000 accounted for about two-thirds of the total, has been gradually increasing. Of the non-manufacturing industries, the largest share was in wholesaling (38.6%), followed by services (16.3%) and information and communications (11.3%), each exceeding 10% of the total. A comparison of the first half of the 2010s and fiscal 2019 surveys, for which detailed industry comparisons are possible, reveals that the services industry, in particular, is on an increasing trend. Among the manufacturing sector, chemicals (2.2%), information and communications equipment (2.0%), and production machinery (1.6%) ranks highly, but the number of enterprises is small compared to non-manufacturing industries.

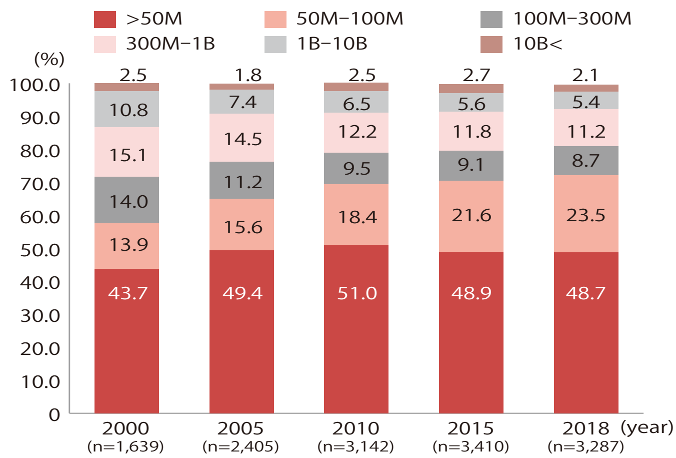
Chart 2-15: Foreign-affiliated Companies in Japan by Industry



Note: "Year" represents the fiscal year respondents based their answers on.
Source: "Survey of Trends in Business Activities of Foreign Affiliates" (METI)

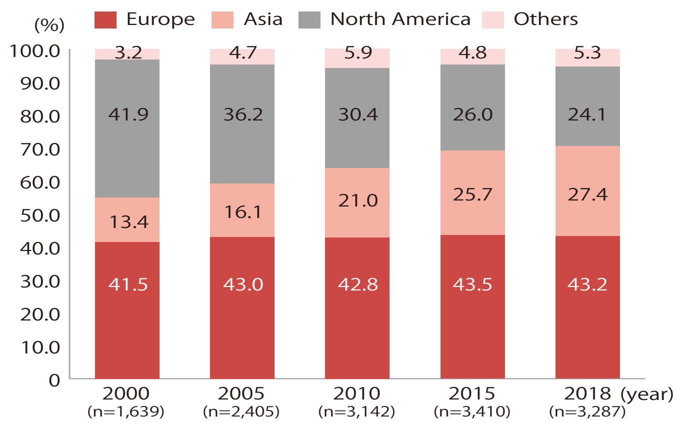
Looking at the questionnaire's respondents by the size of share capital, 48.7% of foreign companies had "¥50 million or less," followed by 23.5% with "¥50 million to ¥100 million," meaning over 70% of corporations had share capital of ¥100 million or less (Chart 2-16). Looking at the historical trend since 2000, companies with a

Chart 2-16: Foreign-affiliated Companies in Japan by the Size of Share Capital



Note: "Year" represents the fiscal year respondents based their answers on.
Source: "Survey of Trends in Business Activities of Foreign Affiliates" (METI)

Chart 2-17: Foreign-affiliated Companies in Japan by Parent Company's Locations



Note: "Year" represents the fiscal year respondents based their answers on.
Source: "Survey of Trends in Business Activities of Foreign Affiliates" (METI)

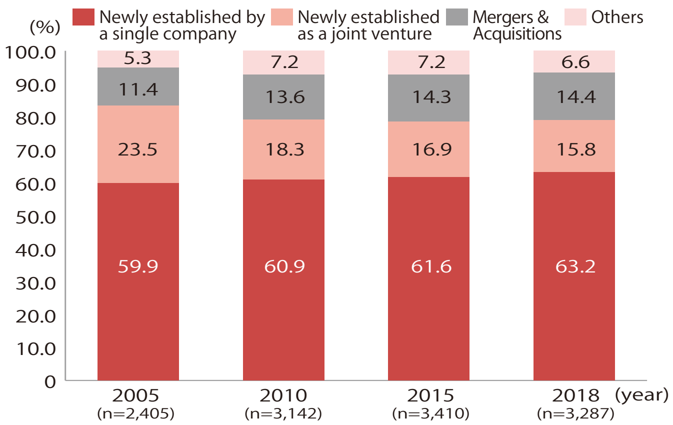
[1] The 53rd survey were 5701 Target Companies and 3449 Respondent Companies, and the response rate was 60.5% (the denominator for each question is based on valid responses to the question). Although the survey results do not cover all the foreign-affiliated companies in Japan, they serve as data to identify trends.

share capital of "¥50 million to ¥100 million" has been on the rise, while the proportion of enterprises with share capital of "¥100 million to ¥300 million," "¥300 million to ¥1 billion," and "¥1 billion to ¥10 billion" declines. In both manufacturing and non-manufacturing, the proportion of enterprises with a share capital of "¥50 million to ¥100 million" has increased. In contrast, the proportion of large enterprises has become relatively small. In the non-manufacturing industry, which is increasing, the proportion of enterprises with small capital is high compared with the manufacturing industry.

Regarding the breakdown of foreign affiliates by the parent company's location, 43.2% were in Europe, 27.4% in Asia, 24.1% in North America, and 5.3% in others (Chart 2-17). In terms of changes since 2000, 'Europe' and 'others' have been relatively stable at around 40% and several percent, respectively. There have been notable changes in Asia and North America. The proportion of Asia has increased from about 10% to nearly 30%, while North America has decreased from over 40% to around 20%. Looking at Asia by country, the number of foreign-affiliated companies with parent companies in China, South Korea, and Singapore is increasing. As the trend seen in the statistics of the FDI stock in Japan, the number of companies from Asia has been on the rise.

The survey covers enterprises with foreign ownership of at least one-third and asks how the foreign ownership exceeded that ratio. This question also serves to find out how foreign-affiliated companies are established in Japan. Looking at the fiscal 2018 results, 63.2% of the responding companies were "newly established by a single company," 15.8% were "newly established as a joint venture," 14.4% were "mergers & acquisitions," and 6.6% were "others" (Chart 2-18). A comparison of responses since 2005 reveals that while the number of new establishments with sole ownership has remained around 60%, the percentage of establishments as joint ventures has been on a downward trend, and the percentage of enterprises established through M&A has increased slightly.

Chart 2-18: Method of Establishing Foreign-affiliated Companies in Japan



Note: "Year" represents the fiscal year respondents based their answers on.
Source: "Survey of Trends in Business Activities of Foreign Affiliates" (METI)

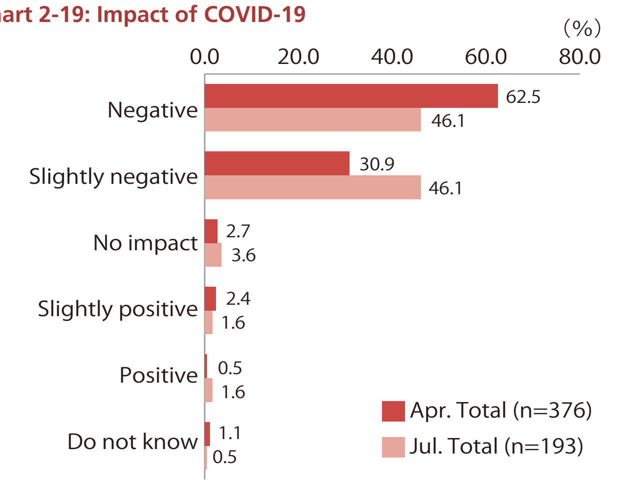
② Latest Trends of Foreign-affiliated Companies

■ Approximately 20% of enterprises increased sales despite the COVID-19 impact

JETRO carried out questionnaire surveys mainly on its client companies in April and July 2020, to find out the COVID-19 impact on foreign-affiliated companies. According to the surveys, 93.4% of the companies responded that COVID-19 had "negative impacts" or "slightly negative impacts" in the April and 92.2% in the July, both exceeding 90% (Chart 2-19). Comparing the results of the two surveys, more than 60% of responding enterprises experienced "negative impacts" in the April survey. However, the number of enterprises having "negative impacts" and those experiencing "slightly negative impacts" was the same in the July survey. While many enterprises continued to suffer from negative impacts, there was some improvement in the July survey. At the time of the April survey, the state of emergency was issued in the domestic metropolitan areas. The higher uncertainty is considered to be a factor behind the difference in the degree of impact.

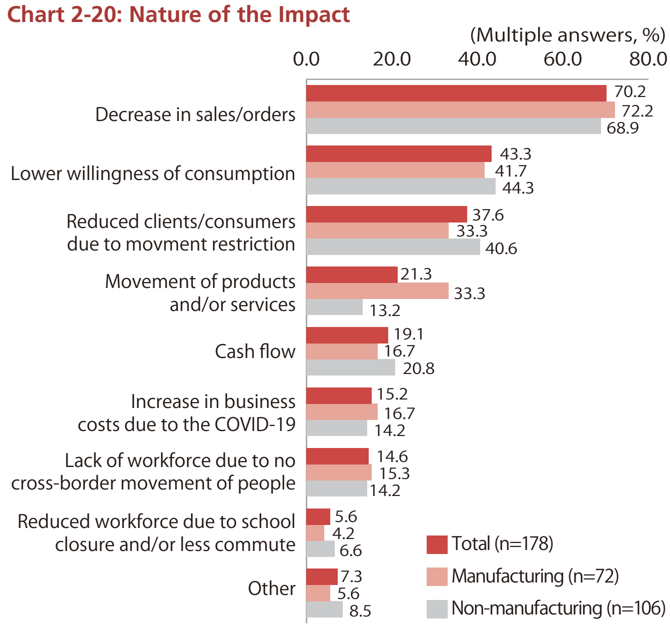
As for the nature of the impacts among those that answered they experienced the negative impacts, approximately 70% experienced "decrease in sales/orders," followed by "lower willingness of consumption" and "Reduced clients/consumers due to movement restriction" (Chart 2-20).

Chart 2-19: Impact of COVID-19



Source: "Survey on Operations of Foreign-affiliated Companies in Japan" (JETRO)

Chart 2-20: Nature of the Impact



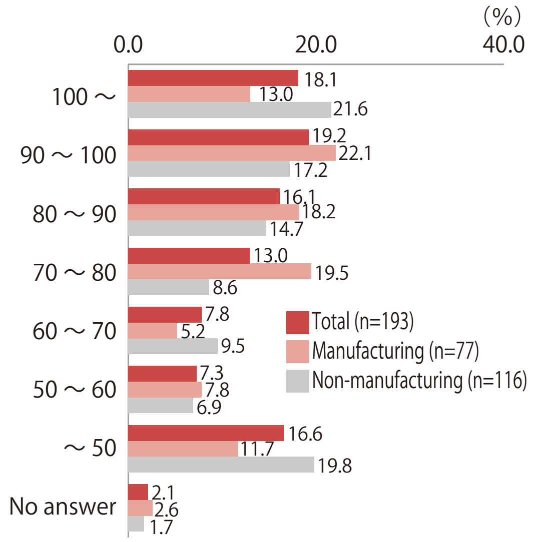
Note: n is companies that answered either "negative" or "slightly negative" impacts due to COVID-19. Respondents could choose up to three answers.
Source: "Survey on Operations of Foreign-affiliated Companies in Japan" (JETRO)

All of the top three impacts reflected the decline in demand. Economic and social activities in Japan were restricted to prevent the COVID-19 outbreak, negatively affecting consumption and foreign-affiliated companies' business development (see "Chapter 3: Changes and Business Opportunities Brought to the Japanese Market by COVID-19" for changes in domestic businesses and consumers in the Japanese market due to the COVID-19 outbreak). While 21.3% of the total experienced negative impacts on the "distribution of products, goods, and services," over 30% of the manufacturing companies suffered from this impact.

Regarding the sales in 2020 up to the time of the July survey (the same period of the previous year = 100 as reference period), 18.1% of the total experienced sales increase from the same period of the previous year, while 79.8% suffered from decreases. (Chart 2-21). In terms of industries of enterprises that gained sales increase from the prior year, there were many precision machinery companies and information and communications equipment companies among the manufacturing sector, and information and communications providers in the non-manufacturing sector. On the other hand, a large proportion of enterprises that recorded less than half of sales in the same period of the previous year were in transportation and tourism. The drastic sales decline in the travel and tourism industries was due to the self-restraint in travel across prefectural boundaries and unnecessary or nonurgent outings.

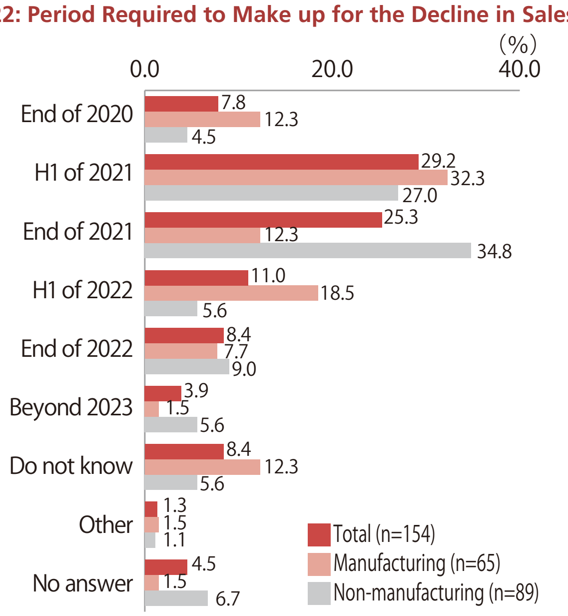
We asked the enterprises that experienced sales decline from the same period of the previous year how long it would take to compensate for the decline in sales. 29.2% of the enterprises said,"until the first half of 2021," followed by "until the end of 2021" (25.3% of the total) (Chart 2-22). By sector, the most frequent response from the manufacturing sector was "until the first half of 2021" (32.3% of the manufacturing enterprises), while the most frequent response from the non-manufacturing sector was "until the end of 2021" (34.8% of the non-manufacturing enterprises), indicating differences in the trend of expectations.

Chart 2-21: Sales in 2020 (year over year)



Source: "Survey on Operations of Foreign-affiliated Companies in Japan" (JETRO)

Chart 2-22: Period Required to Make up for the Decline in Sales



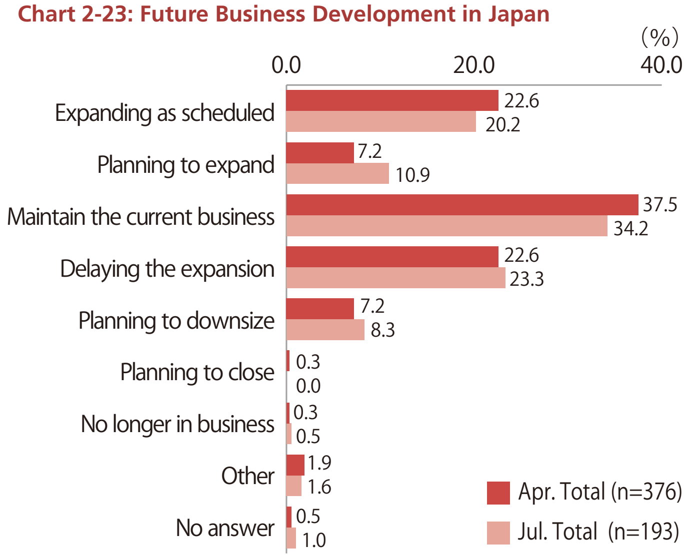
Note: n is companies that answered they were experiencing sales decline in 2020.
Source: "Survey on Operations of Foreign-affiliated Companies in Japan" (JETRO)

■ Most companies continue business in Japan

When asked about future business development and business expansion plans in Japan through the COVID-19 pandemic, the largest number of companies responded that they would "maintain the current business" in both the April and July surveys (Chart 2-23). In both surveys, more than 20% of enterprises responded to "expanding as scheduled" or "delaying the expansion." On the other hand, less than 1% of enterprises were "planning to close." While the motivation to expand business declined from the 2019 survey due to the negative impact of COVID-19, very few enterprises are considering withdrawing from the Japanese market.

Regarding the reasons for continuing business in Japan in the future despite the COVID-19 impact, "current market size" was the most popular reason (67.4% of the total respondents) and "potential growth of relevant industries" (64.7%) (Chart 2-24). The vast Japanese market size keeps attracting foreign companies doing business in Japan, regardless of the COVID-19 impact.

Chart 2-23: Future Business Development in Japan



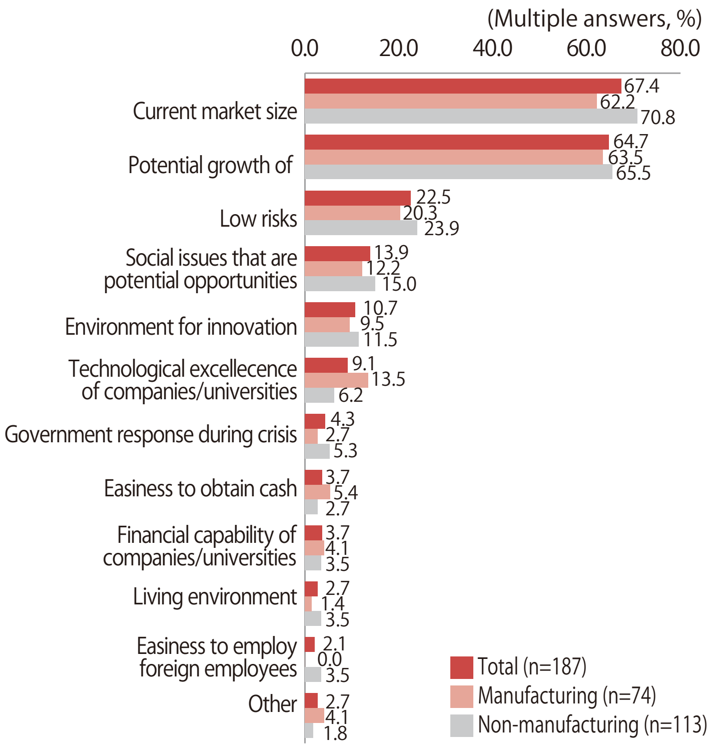
Source: "Survey on Operations of Foreign-affiliated Companies in Japan" (JETRO)

Regarding plans for future business operations, 29.5% of the total were "seeking new business areas" (Chart 2-25). Amid increasing uncertainty due to the impact of the unprecedented infectious disease, such as various changes in Japanese businesses' and consumers' behavior, many foreign-affiliated companies are searching for new business models.

Open innovation (OI) has recently been in the limelight as one of the means to bring about the creation of innovative businesses. Regarding OI-related activities in Japan by foreign affiliates, 26.9% of all companies "have implemented and will continue/expand"(Chart 2-26). In comparison, 49.7% of companies responded that they "have not implemented but interested." The percentage of companies that are positive about OI was 76.7%. Comparing the July 2020 survey results with 2018 and 2019 suevey results, the number of companies positive about OI remains high, indicating a high level of interest in OI in Japan regardless of the COVID-19 impacts. The survey also asked about the type of organizations interested in partnering. 58.1% of the companies that were positive with OI were interested in "small and medium-sized Japanese enterprises" and 56.8% in "large Japanese enterprises" (Chart 2-27).

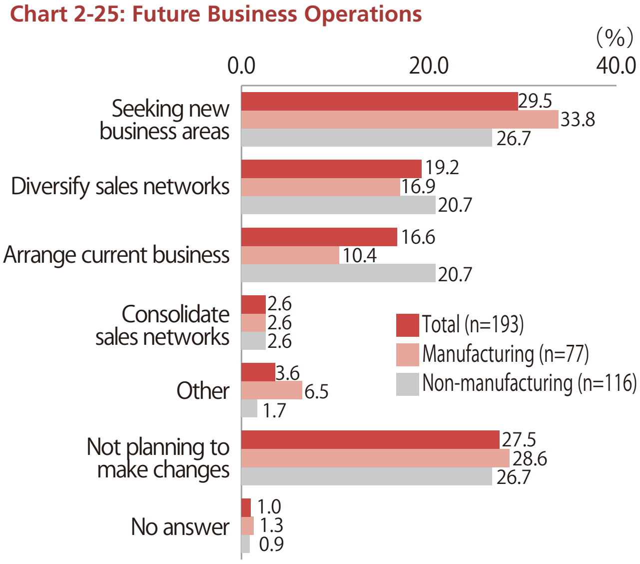
JETRO surveys on foreign-affiliated companies in Japan have found that many companies are continuing or positive about expanding their domestic business, despite the COVID-19 impacts. The Japanese market size will continue to attract companies and remain an essential factor in formulating business strategies for foreign companies seeking to expand overseas. Proper understanding of the transformation caused by COVID-19 in the Japanese market is essential in foreign companies' business expansions in Japan or attracting investment.

Chart 2-24: Attractiveness of the Japanese Market



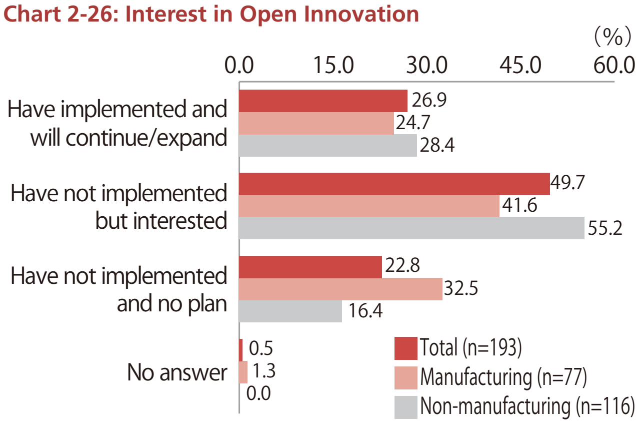
Note: n is companies that would continue business in Japan. Respondents could choose up to three answers.
Source: "Survey on Operations of Foreign-affiliated Companies in Japan" (JETRO)

Chart 2-25: Future Business Operations



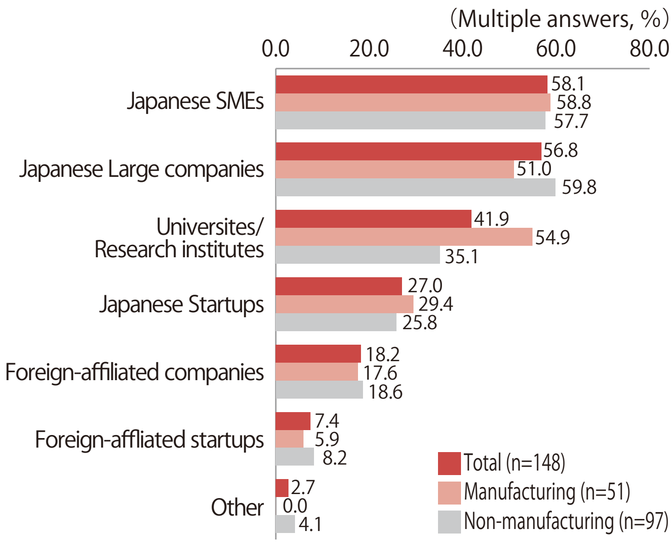
Source: "Survey on Operations of Foreign-affiliated Companies in Japan" (JETRO)

Chart 2-26: Interest in Open Innovation



Source: "Survey on Operations of Foreign-affiliated Companies in Japan" (JETRO)

Chart 2-27: Interesting Potential OI Partners



Note: n is companies that have engaged in or are interested in open innovation in Japan. Respondents could choose up to three answers.
Source: "Survey on Operations of Foreign-affiliated Companies in Japan" (JETRO)

3 Changes and Business Opportunities Brought to the Japanese Market by COVID-19

(1) Impact of COVID-19 on the World and Japan

① Impact of COVID-19 on the world

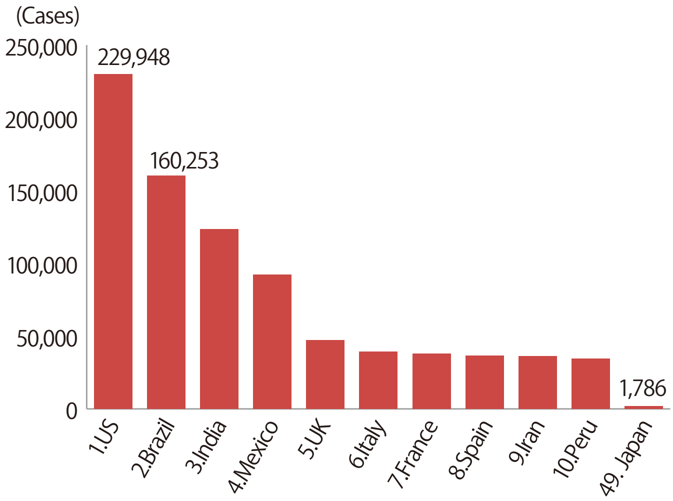
■ Health Damage and Economic Impact of Unprecedented Infectious Diseases

According to the World Health Organization (WHO), approximately 47 million infectious cases and more than 1.2 million deaths were reported in 219 countries and regions worldwide (as of November 5th, 2020) because of the novel coronavirus disease (hereafter, COVID-19) that was identified as the first "disease of unknown cause" in Wuhan, China, in December 2019. Countries with the large number of casualties show how widespread infections have been (Chart 3-1). The number of deaths in the top 10 countries is about 70% of the global total. Japan was the second country outside of China to have found infections, but the number of deaths is about 1800, which is relatively small, compared to the other countries and regions.

The trends of the new infections show that the number of new infections in the US, which has the largest number of infections, increased from mid-March, leveled off from April to late May, increased further from mid-June, and saw a decline from late July. However, the number of infections has increased again since mid-September (Chart 3-2). In major European countries, the number of new infections has been on the increase again since late July, especially in France and the UK, although the first wave infections have been curbed since mid-April (Germany and France) or early May (UK). Compared to these major countries, the number of infections per 100,000 population in Japan has remained at extremely low levels (detailed below).

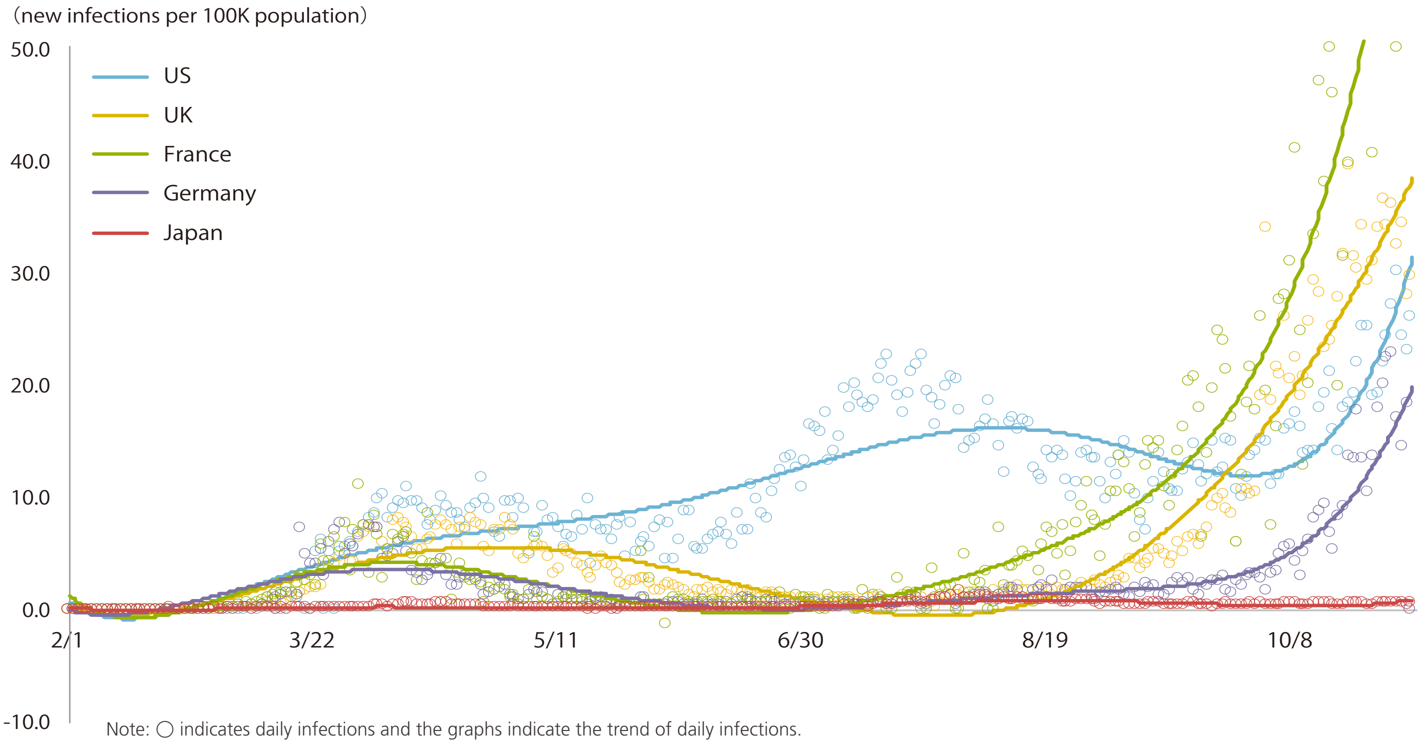
The impact of COVID-19 is already reflected in the GDP growth rates of major economies. The growth rate fell sharply in the first quarter of 2020 in China, where the spread and containment of infections

Chart 3-1: Number of Deaths Caused by COVID-19



Source: World Health Organization (as of Nov. 5th, 2020)

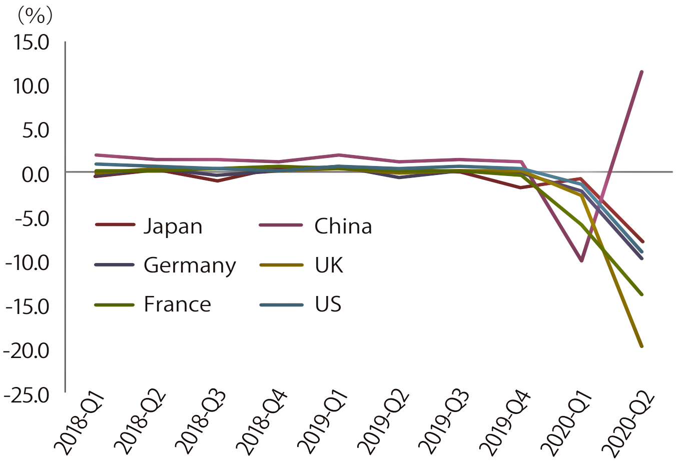
Chart 3-2: Number of New Infections of COVID-19



Note: ○ indicates daily infections and the graphs indicate the trend of daily infections.
Source: WHO (as of Nov. 5th, 2020), United Nations

were faster than in other countries, and in the second quarter of the year in other countries (Chart 3-3). Economic forecasts released by international organizations, including IMF and OECD, expect the global economy will experience a slowdown in 2020 (see Chapter 1 (1) "Macroeconomic Trends in the World and Japan" for details).

Chart 3-3: Quarterly GDP Growth Rate



Source: "OECD Data" (OECD) (as of Oct. 20th, 2020)

② Impact of COVID-19 on Japan

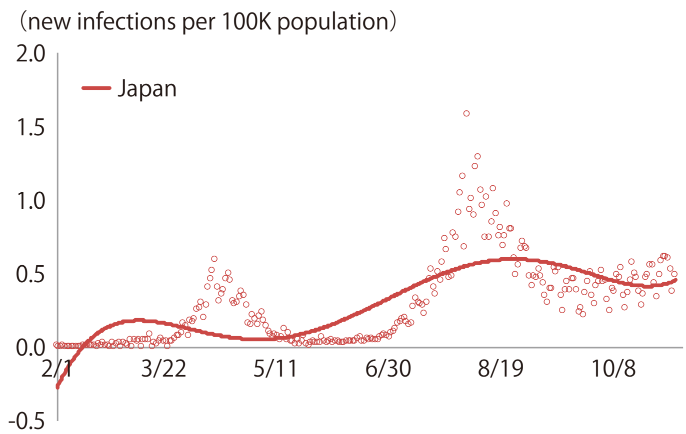
■ Spread of Infections within Japan and the Japanese Government's Responses

Trends in the number of new infections per 100,000 population in Japan shows that the spread of infections started after late March (Chart 3-4). Though the number of infections increased toward mid-April, it decreased toward mid-May and remained at an extremely low level until around the end of June. In July, the number of new infections increased again, and the number of infections per day continued to exceed the level seen in mid-April. Since mid-August, the number of people infected has leveled off, although it remains at a high level compared with April.

In view of the spread of COVID-19 in Japan, the Japanese government has taken measures such as containment of the virus and economic measures. In order to contain the outbreak of COVID-19 in Japan, the Japanese government issued a state of emergency on April 7th based on the Act on Special Measures for Pandemic Influenza and New Infectious Diseases Preparedness and Response (Chart 3-5). Domestically, based on the state of emergency, businesses were requested to suspend operations for certain industries, such as restaurants, and to cancel events that require gathering of people. In addition, citizens in the target prefectures ware requested to refrain from going out unnecessary or nonurgent and to avoid contact with others. The state of emergency originally issued to the seven prefectures in the Kanto, Kansai, and Kyushu metropolitan areas was expanded nationwide in mid-April in light of the state of domestic infections and other factors. The nationwide state of emergency was lifted on May 14th and it was lifted for all prefectures by May 25th.

As a measure to prevent the spread of the infectious disease, the government encouraged its citizens to be cautious about going outside Japan, and in February 2020 introduced a border measure to refuse visitors from a certain countries and regions to enter Japan. Travelers from designated countries and regions, except for those who are Japanese national or have special circumstances, became unable to enter Japan. The target areas increased based on the situation of the spread of COVID-19 in each country and region.

Chart 3-4: Number of New Cases of COVID-19 in Japan



Note: ○ indicates daily infections and the graph indicates the trend of daily infections.
Source: WHO (as of Nov. 5th, 2020), United Nations

Chart 3-5: Changes in State of Emergency Declaration

Date of Issue	Target Prefectures	Outline
04/07/20	7 prefectures	A state of emergeny was declared for seven prefectures in the Kanto, Kansai, and Kyushu, for a period from April 7 to May 6.
04/16/20	47 prefectures	To prevent the nationwide spread of infections during the consecutive holidays in May, a state of emergency was declared for all 47 prefectures until May 6.
05/04/20	47 prefectures	The state of emergency declaration for all prefectures, which had been until May 6, was extended until May 31. The government to review the period by May 14.
05/14/20	8 prefectures	Reviewing the status of infections and medical systems, the state of emergency declaration was lifted in 39 prefectures, excluding eight prefectures in Hokkaido, Kanto, and Kansai. The government to review the status of the remaining eight prefectures around May 21.
05/21/20	5 prefectures	The state of emergency declaration was lifted for the three prefectures in Kansai. The government to review the status of the remaining five prefectures in Hokkaido and Kanto, in the following week, around May 25.
05/25/20	Terminated nationwide	The state of emergency declaration was lifted for the remaining five prefectures in Hokkaido and Kanto.

Source: Documents from the Prime Minister's Office

The introduction of the border measure significantly restricted the re-entry of foreign nationals with permission to stay in Japan. In response, the foreign chambers of commerce and industry in Japan issued opinions to improve the situation, and JETRO, which supports foreign-affiliated companies, also communicated to the government concerns from the support companies.

As the Japanese government aims to balance its economic activities with containment of COVID-19, it has been strengthening the PCR testing capacity at major international airports and establishing certain requirements, such as inspections at airports and voluntary quarantine for 14 days from the day after entry, and gradually relaxing regulations on the entry into Japan for business persons. The government decided to let, in addition to business purposes, other statuses of residence, such as studying abroad and dependents, enter Japan from October, which, in principle, enables people with a visa status to be permitted for new entry from all countries and regions. In addition, trial measures to further ease restrictions on activities, namely, business tracks (mainly for short-term business travelers) and residence tracks (mainly for long-term residents by dispatch or rotation within business personnel), were introduced.

In response to the economic impact of COVID-19 and related measures, the government announced an urgent economic stimulus package in April and submitted to the Diet the first supplementary budget proposal, which was quickly approved (Chart 3-6). The breakdown of the supplementary budget added to the General Account shows that the largest was "Protect employment and sustain business continuity" for businesses whose sales declined significantly due to COVID-19 as well as for the continuation of employment. It also included strengthening the medical system, accelerating the development of vaccines for COVID-19, and supporting businesses in anticipation of economic recovery.

In addition, the government submitted to the Diet the second supplementary budget draft in June to expand its economic support (Chart 3-7). Among the breakdown of the supplementary budget, the budget for “Enhancing financial support” for SMEs and micro-businesses was the largest. Other forms of business support included establishing a rent support draft for SMEs and support for employment and business continuity. In addition, as with the first supplementary budget, it included the strengthening of the medical system, securing the vaccine production system, and budgets for business development of companies and support for ICT adoption.

During the period of the state of emergency between April and May, the number of new domestic infections declined significantly. At the same time, the Japanese economy was significantly affected within the same period by restrictions on social and economic activities (detailed below). Following the lifting of the state of emergency at the end of May, the government gradually lifted requests for self-restraint of gatherings of people and movement across prefectural boundaries and raised economic activities in order to achieve economic recovery while containing the virus. Industrial associations have prepared and published guidelines for the prevention of COVID-19 infections in line with their respective business categories so that businesses can resume and increase their activities while implementing countermeasures against COVID-19. In response to the increase in the number of new infections since July, some metropolitan areas shortened the operating hours of restaurants and slowed down easing some

Chart 3-6: Breakdown of the First Supplementary Budget

Item	Supplementary Budget Breakdown	Outline
Protect employment and sustain business continuity	19.5 trillion yen	Measures to support businesses for cashflow and maintenance of employment to compensate for COVID-19's impact, etc.
Develop preventive measures against the spread of infection and medical treatment structures as well as pharmaceuticals	1.8 trillion yen	Strengthening the testing and medical care systems for COVID-19, accelerating the development of therapeutic drugs and vaccines, strengthening the system for accepting returners to Japan, and providing emergency support to other countries.
Recover economic activities through public-private efforts as the next phase	1.8 trillion yen	Support for tourism, transportation, restaurant, and event-related businesses, which suffer from a slump in consumption, as well as measures to revitalize regional economies.
Develop a resilient economic structure	0.9 tillion yen	Reviewing the supply chain by Japanese companies, facilitating the business of companies conducting overseas expansion, supporting the enhancement of export of agriculture, forestry, fishery products, and accelerating digital transformation.
Prepare for the future	1.5 trillion yen	New contingency funds to implement necessary measures per the future situation of COVID-19. etc.
Expenses related to Emegency Economic Package against the COVID-19	25.6 trillion yen	Sum of the above items

Note: Breakdown of the amount for the supplementary budget of the general account only. Source: Documents from Ministry of Finance

Chart 3-7: Breakdown of the Second Supplementary Budget

Item	Supplementary Budget Breakdown	Outline
Enhancing financial support	11.6 trillion yen	Financing to support cash flow of businesses, particularly SMEs and micro-businesses.
Other supports	4.7 trillion yen	Grants to local governments implementing the COVID-19 countermeasures and related projects. The expansion of the "Subsidy Program for Sustaining Businesses" and support for business development by enterprises and ICT adoption.
Supporting medical treatment providers	3.0 trillion yen	Grants to prefectures enhancing medical and nursing care and welfare systems. Expenses for securing vaccines production systems, and financing medical institutions, etc.
Establishing a rent support grant for SMEs	2.0 trillion yen	Expenses for subsidizing rent, a large fixed-cost item, to help continue businesses of small, medium-sized enterprises, micro-enterprises, proprietors, etc.
Enhancing the Employment Adjustment Subsidy	0.5 tillion yen	Support for businesses and their employees who are forced to suspend activities, etc.
Contingency funds for the COVID-19	10.0 trillion yen	Reserve fund for necessary measures depending on the COVID-19 situation and economic trends.
Expenses related to cope with the COVID-19	31.9 trillion yen	Sum of the above items

Note: Breakdown of the amount for the supplementary budget of the general account only. Source: Documents from Ministry of Finance restrictions or requests. However, the central government did not declare another state of emergency. The government has stated that it would expand its medical care system and at the same time would strive to maintain economic activities.

■ Impact of COVID-19 on domestic economic activity

As mentioned above, domestic social and economic activities were severely restricted by COVID-19 and the state of emergency. Japan's real GDP growth rate was negative 7.9% in the second quarter of 2020. The decline of the growth rate for the same period was smaller than that for the major European countries, but the economy witnessed an extremely sharp fall.

By industry, business activities declined in a wide range of industries, especially from April to May. The Indices of Industrial Production, which indicate the activities of the manufacturing industry in Japan, show that the production index declined for the fourth consecutive month from 99.8 in January 2020 to 78.7 in May of the same year (100.0 in 2015) (Chart 3-8). The production indices fell below 80.0 for the first time since February to March 2009. By item, the production index of the transport equipment industry, one of the primary industries, fell sharply from April to May. The May index was 49.4, the lowest since 1978, which is comparable. The transport equipment industry has the largest weight by industry, and its decline had a major impact on the decline in the overall index for the manufacturing industry.

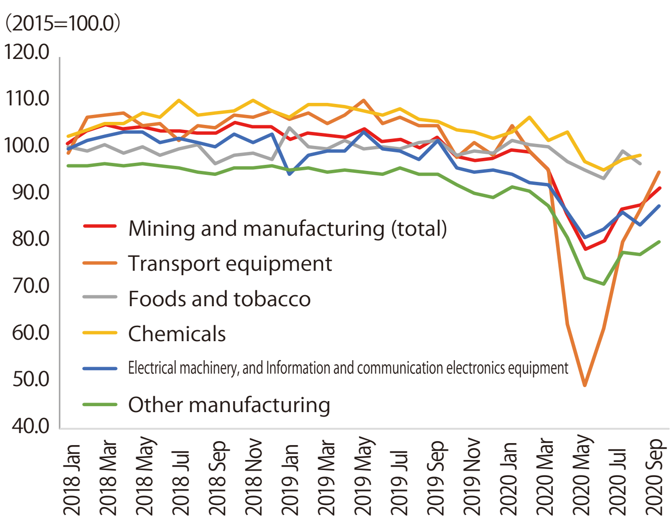
The food and tobacco industry and the chemical industry (including pharmaceuticals), which account for the next largest shares after the transport equipment industry, declined in the index, although the rate of decline was small compared with the other items. Comparing indices between January and May 2020, production indices for almost all items also declined. The indices since June, after the lifting of the state of emergency, show that the production indices have recovered for many items, including those in the transport equipment industry, which had experienced a large slump. However, the indices are still low compared to the level before COVID-19, and it is expected that the production activity will see further recovery along with the future increase in economic activity.

The Indices of Tertiary Industry Activity, which show the activities of the service industry in a broad sense, illustrate the service industry was also significantly affected by COVID-19. The overall index of the service industry, which was 101.9 in January 2020, dropped to 89.5 in April and 86.4 in May of the same year (100.0 in 2015) (Chart 3-9). The index in May 2020 was the lowest comparable since January 2008. Among the four industries whose weight account for more than 10% of the total (wholesale trade, medical, health care and welfare, retail trade, and living and amusement-related services), the indices fell by more than 10 points from January to May 2020. In particular, the index for living and amusement-related services, including restaurants and tourism, was less than half in April and May compared to January. Because of the slump in the domestic tourism industry due to self-restraint on unnecessary or nonurgent outings and the self-restraint on the operations of restaurants, the level of activities was the lowest for comparable statistics.

Among the industries with large weights, the decline in the information and communications industry was relatively small. Compared to January 2020, the index slightly increased in April and slightly decreased in May and June. By breaking down the information and communications industry, there was a remarkable increase in the index for the software industry, which is classified under the communications services industry. Because of the increase in “stay home” consumption, the game software services index reached a record high from March to April.

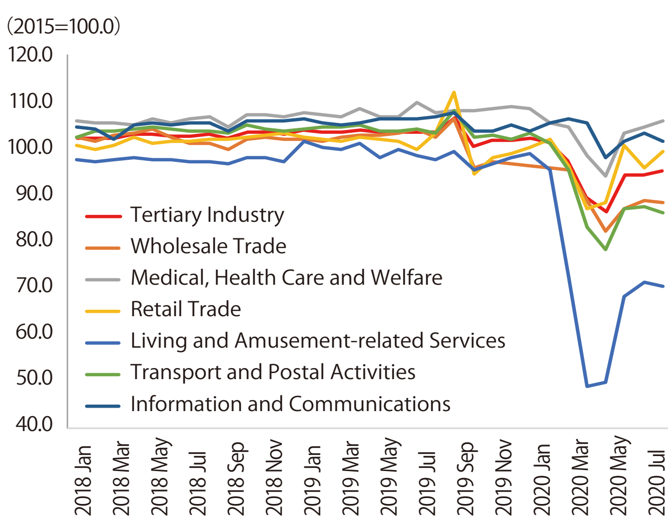
Similar to the activity index for the manufacturing index, the activity index for the service industry recovered in June. With the lifting of the state of emergency, the movement of people began to increase, and the index for living and amusement-related services improved significantly. In addition, the index for retail trade recovered to the level recorded in January 2020. By smaller items, motor vehicles retail sales, which fell sharply in April and May, improved. After June, the overall activity of the service industry has been rather slowly but gradually improving. As economic activity recovers, the activities of the service industry are expected to have a further increase. However, as Japanese consumers are particularly sensitive to the level of spread of the COVID-19 infections, the pace of recovery may slow down due to the future status of the spread of infections within the country.

Chart 3-8: Trends in Industrial Production Indices



Note: The chart shows "Total" and the five largest industries by weight.
Source: "Indices of Industrial Production" (METI)

Chart 3-9: Trends in the Tertiary Industry Activity Indices



Note: The chart shows "Total" and the give largest industries by weight.
Source: "Indices of Tertiary Industry Activity" (METI)

(2) Changes and Business Opportunities Brought to the Japanese Market by COVID-19

COVID-19 is affecting all aspects of the economy and society, and various changes have been observed in Japan's domestic market. This section reviews major changes in domestic businesses and consumers, taking into account the impact of COVID-19.

① Changes in Businesses in Japan

■ Negative impact on most domestic companies

COVID-19 has been influencing the business operations of many companies in Japan. According to the Business Outlook Survey, conducted by the Cabinet Office and the Ministry of Finance in August and released in September, business conditions for enterprises declined significantly in the second quarter of 2020 (Chart 3-10). Business conditions declined regardless of firm size, with the response of large firms being the second lowest after the first quarter of 2009, and medium-sized and small firms being the lowest since 2004. The assessment of the business conditions in the third quarter of 2020 shows that conditions have picked up for companies of all size, but the extent of recovery is lower for smaller firms.

A survey of domestic enterprises reveals that many enterprises were affected. According to the 8th Questionnaire Survey on COVID-19, conducted by Tokyo Shoko Research from August to September 2020, approximately 97% of the about 13,000 companies that responded said that they were or may be affected in some way.

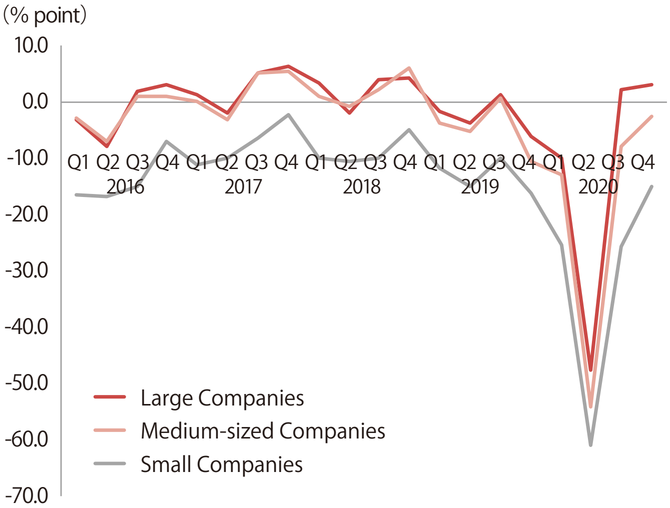
■ Domestic companies continue to invest in digital

The slump in the economy caused by COVID-19 has also affected capital investment by domestic companies. According to the Financial Statements Statistics of Corporations published by the Ministry of Finance, capital investment per company in the second quarter of 2020 decreased by 9.2% over the same period of the previous year (Chart 3-11). By size of enterprise, investment was sluggish, declining 9.5% year on year, among relatively large enterprises with capital stock of ¥1 billion or more.

While the whole amount of capital investment is decreasing, investment in the digital field, in which demand is further rising with COVID-19, is expected to increase. According to a survey of trends in capital investment conducted by Nihon Keizai Shimbun Inc. in August 2020 targeting listed companies and 948 companies with capital of at least ¥100 million, the planned amount of capital investment in fiscal 2020 in all industries fell 1.2% from the previous year, the first year-over-year decline in four years since fiscal 2016. On the other hand, investment for IT equipment (for 765 companies) is expected to increase by 15.8% y-o-y, representing a double-digit increase for the second consecutive year. According to the newspaper, investments to promote digital transformation through digitization are expected to be made across all industries.

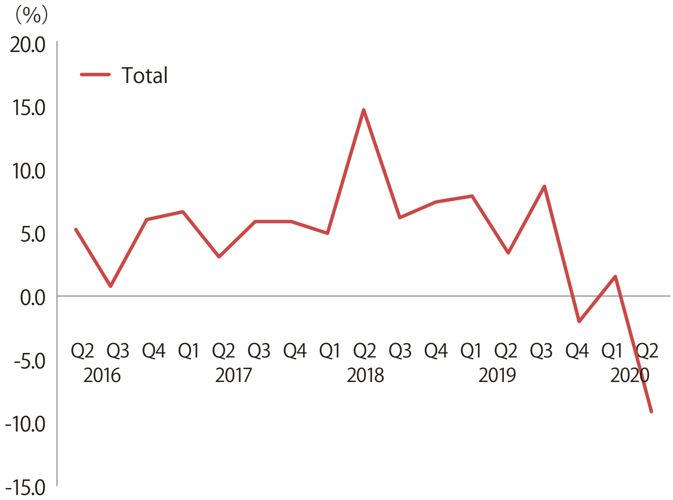
The same trend can be seen in the Regional Economic Reports published by the Bank of Japan in July and October 2020. The assessment of business fixed investment in this report showed that the investment was declining or had been relatively weak, and was not favorable. In reality, the BOJ's interview reports to companies show that some companies, especially those whose performance are expected to deteriorate due to a decrease in orders, have stopped making investments. On the other hand, in many regions, demands for 5G, automation, and labor saving as well as online shopping and telework continue, and plans for expansion of investment in digitization have been reported (Chart 3-12). Despite the large negative impact of COVID-19 on the economy as a whole, digitization, in which large demand is expected domestically, continues to attract attention and market growth is expected.

Chart 3-10: Business Conditions



Note: 1) % point is calculated by adding the percentage of companies answering their business condition is "rising" compared to the previous quarter minus that of those asnwering "falling. " 2) Q4 of 2020 is an outlook.
Source: "Business Outlook Survey" (Cabinet Office/MoF)

Chart 3-11: Trends in Capital Investment per Company (year-over-year)



Note: Industries include all industries, except for insurance and finance.
Source: "Financial Statements Statistics of Corporations" (MoF)

Chart 3-12: Examples of Digital-Related Investments

Region	Industry Sector	Voices of Businesses
Hokkaido	Construction	To eliminate the chronic shortage of human resources, the company will continue to make ICT-related investments. In the future, it will actively make related investments toward the full-scale introduction of telework.
Tohoku	Retail	The company is reviewing its investment plans by reducing store facilities amid the COVID-19 crisis while strengthening digital-related investments in response to a growing demand for e-commerce.
Hokuriku	Textile	Because of the increasingly challenging business environment, it is the time to improve productivity through aggressive labor-saving investment, such as automation of inspection processes and introduction of information systems to indirect departments.
Kanto, Koshinetsu	Transportation machinery	Due to deteriorating earnings, we have halved the investment amount for this fiscal year from the initial plan. Nevertheless, since it is essential to develop products that respond to new technologies to stay competitive, we will continue to invest in R&D.
Tokai	Production machinery	We have streamlined capital investment projects to secure cash reserves and decided to reduce them compared to the previous year. However, we will maintain R&D expenditures on 5G-related and manufacturing machinery for utilizing AI as before.
Kinki	Chemicals, electrical machinery	We will continue to make capital investments and R&D investments in the areas with medium- to long-term growth prospects as planned.
Chugoku	Information and communication	As cloud services continue to expand over the medium to long term, the volume of data communications will continue to increase in the future, reflecting the spread of telework and other factors. Therefore, we are expanding our data centers.
Shikoku	Lodging	As a measure against the COVID-19 infections, we have introduced a system to measure congestions in restaurants and bathrooms using AI and provide the information to guests.
Kyushu, Okinawa	General-purpose machinery	Despite the uncertainty with the future, we do not plan to revise our capital spending plans at this time, given the continuing strong 5G-related demand.

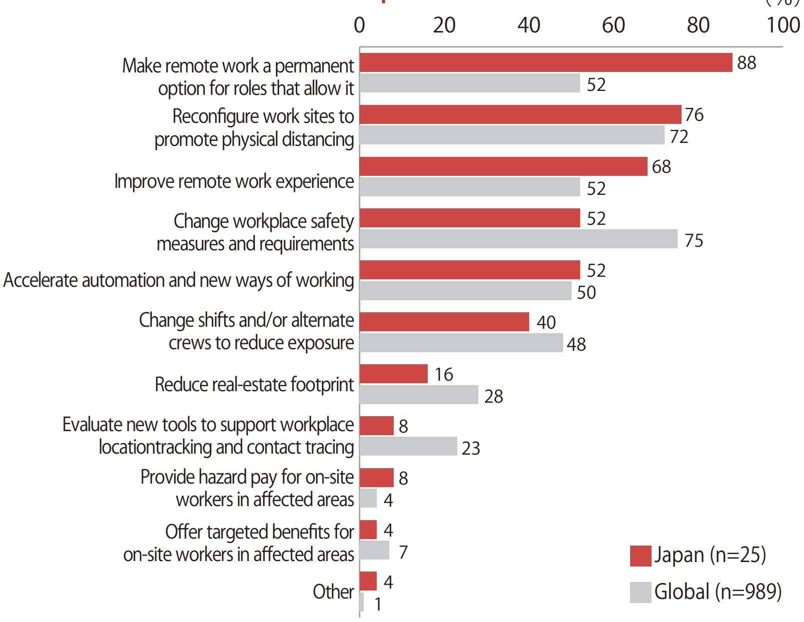
Note: The above opinions include those from businesses positive with digital-related investments in each region. They may not represent an overview of capital investment sentiments in the region or the industry.
Source: "Regional Economic Report" (July and October 2020) (Bank of Japan)

■ Expected continuity of telework

COVID-19 has had various impacts on many businesses. In the midst of digitalization advancing in various forms in order to reduce the contact with other people, work from home attracted the attention in the world. Compared to other countries, teleworking is of particular interest in Japan. According to a survey conducted by PwC targeting CFOs in 23 countries and regions around the world, 88% of CFOs of Japanese companies responded that they would work to "Make remote work a permanent option for roles that allow it" and 68% would "Improve remote work experience" as tasks to be undertaken after on-site work is resumed (Chart 3-13). Compared to the global response rate, the above two response rates were high in Japan.

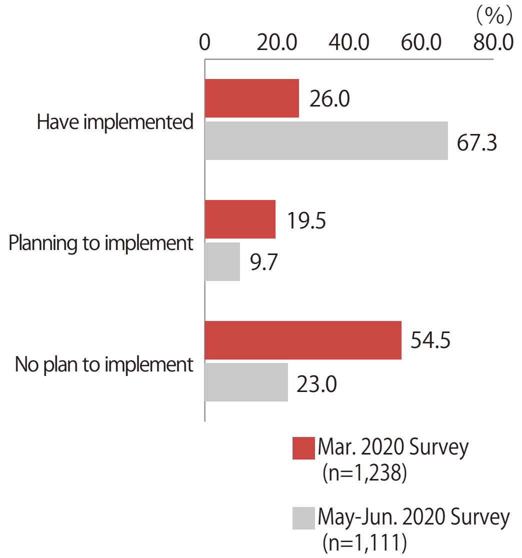
In order to prevent the spread of COVID-19, the Japanese government asked the citizens to avoid unnecessary or nonurgent outings, and at the same time, it asked companies to reduce the rate of on-site workers by 70% by encouraging telework. According to a survey conducted by Tokyo Shoko Research, Ltd. from the end of June to early July 2020, of the approximately 15,000 companies that responded, 57.8% answered they had been implementing or had implemented work from home or remote work (the sum of 31.0% that had had been implementing and 26.8% that had implemented it since COVID-19 but have now stopped). According to the Tokyo Chamber of Commerce and Industry, only 26.0% of the companies conducted telework as of March 2020, but the response rate increased by more than 40% in the May to June survey to 67.3% (Chart 3-14). According to the survey, more than half of the companies that responded that they were "implementing" began telework after the government issued the state of emergency in April 2020.

Chart 3-13: Businesses that will be Undertaken After Work is Resumed at the Workplace



Source: "COVID-19 CFO Pulse" (Conducted between Jun. 1st - 11th) (PwC)

Chart 3-14: Implementation Rate of Telework



Source: "Emergency Questionnaire on the Implementation Status of Telework" (Tokyo Chamber of Commerce and Industry)

The effects of telework have been also recognized. According to the above survey by the Tokyo Chamber of Commerce and Industry, many of the companies reported "progress in work style reform" (50.1% of the total) and "review of business processes" (42.3% of the total) as the effects of telework implementation. These responses were ranked high, regardless of when the companies started telework.

Even after the termination of the state of emergency, the government calls on the use of telework to maintain the rate of on-site workers at about 70%. A survey conducted by the Japan Association of Corporate Executives from the end of May to the beginning of June 2020 revealed that many companies were aware of the importance of digitization through telework amid the demand for so-called "new lifestyles."

■ Issues in teleworking and the business development of foreign-affiliated companies

While continuing operation of telework is expected in the future, its sustainable operation entails challenges. Some issues have been pointed out by various questionnaire surveys (Chart 3-15). Besides the development of the basic infrastructure environment, such as the necessary equipment and network environment, internal communications, progress management of operations, and the handling of paper documents can be major issues that affect sustainability and internal productivity in the future as work in the office and telework are to be implemented in parallel.

Some foreign-affiliated companies are contributing to address these issues through their business development in Japan. Lenovo Japan, a Japanese subsidiary of Lenovo in China, which engages in ICT equipment and related services, provided telework support to domestic SMEs (with 300 or fewer employees) by providing free three-month rental of notebook PCs and free Microsoft Teams accounts for efficient internal communications and other activities in April 2020.

One of the issues related to telework implementation is progress management of operations and employees. According to a questionnaire survey conducted by the Persol Research Institute, work from home raises concerns about the business management of employees and the evaluation of them. Asana, which established its Japanese base in March 2019, attracts global attentions for its work management platform, Asana. Founded in the US, the company has been offering its platform since 2012 and have had Japanese clients from 2013, since when the number of clients in Japan has been increasing. According to the company representative, there is “more demand for work management” than ever before, following the introduction of telework due to COVID-19. Asana’s contribution to the digital transformation and work style reform of companies in Japan is a prime example of foreign-affiliated companies that contribute to address social issues as well as improve productivity in the country.

DocuSign from the US, which provides an electronic signature service, is known for its service which enables companies to remotely carry out the seal, an often cited problem of remote work in the Japanese business custom. Dropbox Japan, a Japanese subsidiary of Dropbox in the US, which provides cloud services, also started providing electronic signature services to Japan in October 2020. As remote work expected to continue, business development of these foreign-affiliated companies is also expected to continue through solving the problem of remote work.

■ Search for new business models

COVID-19 brings about changes in various aspects of the economy and society. In response to COVID-19, the World Economic Forum has set the theme for 2021 as "Great Reset," and the Japanese government has expressed a society that has passed through COVID-19 as "New Normal." They predict that socioeconomic and economic trends from 2020 onward will bring different lifestyles and business forms than in the past.

Chart 3-15: Issues Related to Telework

Social issues	Outline
Improvement of infrastructure environment	According to a survey conducted by the Tokyo Chamber of Commerce and Industry, more than half of the 732 companies that introduced telework for employees faced challenges in "improving the network environment" (56.7% of the total) and "securing devices such as PCs and smartphones" (55.9%).
Internal communications	According to a survey conducted by the Tokyo Chamber of Commerce and Industry, 55.5% of the 732 companies that introduced telework cited "internal communications" as a telework issue. Also, according to a survey of 500 teleworkers conducted by Persol Research and Consulting in May to June 2020, 32.2% of respondents, the most frequent response, had communication concerns, saying that "non-face-to-face interactions make it difficult to understand other party's feelings."
Progress management of operations	According to a survey of 700 managers who have been managing teleworking staff before December 2019, 46.3% pointed out "occasionally feeling uneasy due to the difficulty of monitoring work progress." According to a survey of 500 teleworkers conducted in May to June 2020, the second-highest 31.4% had "concerns for fair evaluation from superiors."
Document check and seal-affixing	According to a survey by Adobe, of the 500 business persons who experienced telework, 64.2% of the respondents had to go to the office for document checks or affixing seals. According to a questionnaire survey conducted by the Tokyo Chamber of Commerce and Industry, 49.9% of the 732 companies that operated telework cited "affixing seals to documents" as an issue. In particular, the response rate was high among enterprises implementing telework before April 2020.
To ensure security	50.9% of the 732 companies surveyed by the Tokyo Chamber of Commerce and Industry and 50.5% of the 210 SMEs surveyed by the Osaka Chamber of Commerce and Industry cited security concerns as an issue.

Source: "Emergency Questionnaire on the Implementation Status of Telework" (June 2020) (Tokyo Chamber of Commerce and Industry), "Quantitative Survey on Uncertainty and Isolation in Telework" (March 2020) and "Third Survey on the Impact on Telework from the Measures against the New Corona Virus" (June 2020) (Persol Research and Consulting), "Survey Results on the Merits and Issues of Telework" (March 2020) (Adobe), "Emergency Questionnaire Survey on Telework in Small and Medium Enterprises" (June 2020) (Osaka Chamber of Commerce and Industry)."

In the changing economy and society, many domestic businesses are aiming to seek new business models. According to a questionnaire survey of global executives conducted annually by the US Conference Board since 1999, 58.7% of Japanese CEOs (n=92) responded that the most important long-term impacts and changes resulting from COVID-19 is to "Cause a rethink of our business model as customer preferences shift." Together with the response that collected second highest response rate, "Speed up the pace of transformation into a digitally driven organization" (54.4%), the response rate exceeded 50%. According to a survey on foreign-affiliated companies by JETRO, the largest number of companies responded that they would "seek new business areas" for their future business operations.

In Japan, collaboration and cooperation with other companies, such as open innovation, have been attracting attention as a method of searching for new business models. A variety of companies, primarily large enterprises, have been actively holding acceleration programs and pitch contests, aiming to collaborating with startups. The government is also focusing on promoting the creation of innovation, and has launched the Digital Transformation Promotion Team in JETRO to support the creation of new businesses through collaboration between foreign companies and Japanese companies. With these efforts made by both public and private sectors, further progress in business development through collaboration between foreign and Japanese companies in a new economy and society is expected.

② Changes among Consumers in Japan

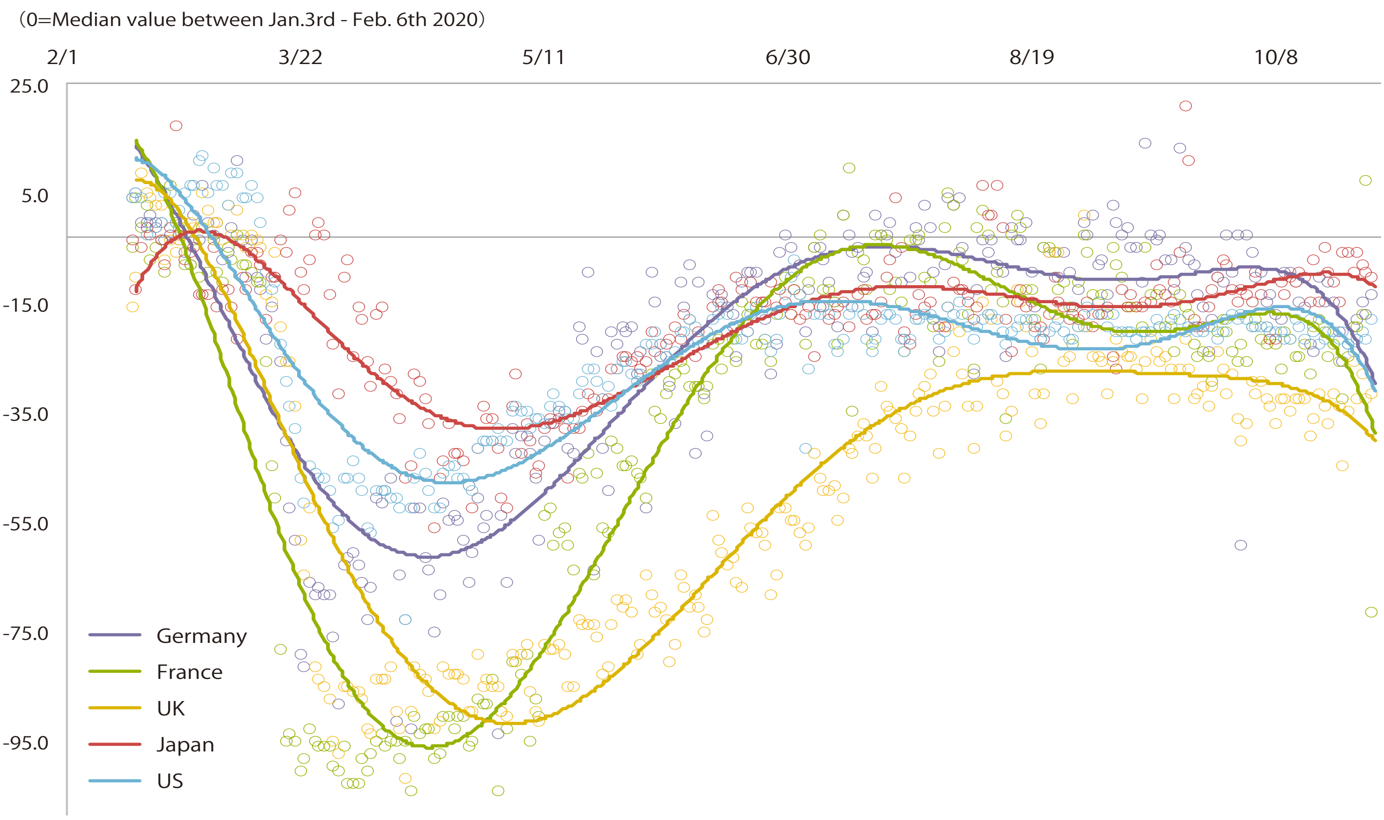
■ Consumption declined sharply due to COVID-19

To prevent the outbreak of COVID-19, governments around the world adopted policies such as bans on outings and requests for self-restraint. As mentioned earlier, the Japanese government requested its citizens to refrain from going outside when the state of emergency was issued. According to the Google Mobility Report, there was a decline in the movement of people from the latter half of March to around May, when the spread of infections was observed in developed countries (Chart 3-16).

Even in Japan, where the spread of infections was relatively restrained, a decline in movement of people was observed, as was the case in other countries. In particular, from mid-April to mid-May, when the state of emergency was issued, there was little movement of people. According to a questionnaire survey conducted by the Boston Consulting Group (BCG) in April 2020, 82% of respondents said "I'm trying to avoid public spaces as much as possible due to the coronavirus" despite no penalties for going out in Japan. Movement of people within the country recovered to some extent by late June and has leveled off since then.

Concerns about COVID-19 have also led to concerns about the economic impact of infectious diseases. According to the above-mentioned BCG survey, 89% of Japanese respondents said, "There will be an economic recession due to the coronavirus," which is higher than the results of Western European countries, China, India, and other countries during the same period.

Chart 3-16: Trends in Movement of People at Retail and Recreational Facilities



Note: The ◯ indicateds daily movement of poeple and the graph indicates the trend.
Source: "Google Mobility Report" (Google) (As of Nov. 5th 2020)

Japanese consumers' concerns about COVID-19 are also evident in domestic consumption trends. The Consumer Confidence Index, compiled by the Cabinet Office, shows a sharp decline from the previous month in March, when the number of the COVID-19 infections began to increase in Japan, and again in April, when the number of new infections had a more increase (Chart 3-17). The Consumer Confidence Index for April 2020 was 21.6, the lowest since comparable data was first recorded in June 1982.

The Consumer Confidence Index is calculated by a simple average of four items: 1) overall livelihood, 2) income growth, 3) employment, and 4) willingness to buy durable goods. In April 2020, all four items were the lowest ever. In particular, in 1) overall livelihood and 2) income growth, the month-over-month rate declined 8.1 points and 8.5 points, respectively, the largest decline ever. In May and June, when there were few new infections nationwide, the index recovered, but in July, when the number of infections began to increase again, the recovery in the index slowed, and in August, the overall index declined compared to the previous month. Among the four items of the month, the indices declined from the previous month for three items other than willingness to buy durable goods. As Japan aims to have economic recovery, improving consumer motivation to support domestic demand will continue to be an important issue.

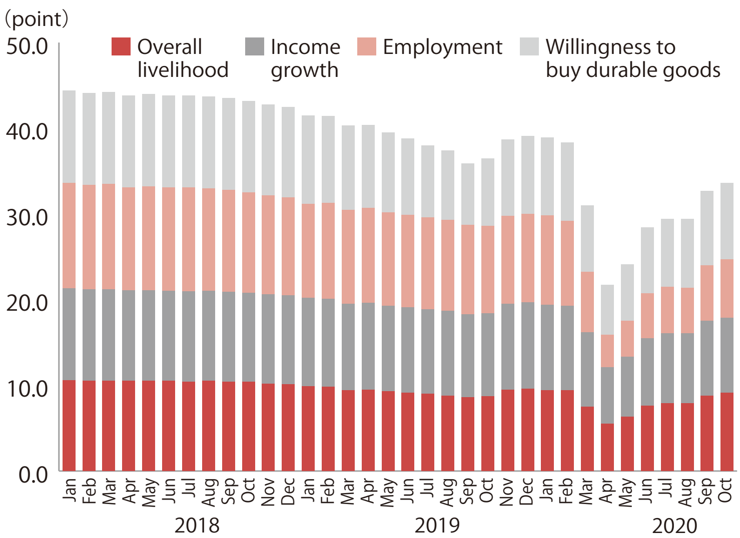
■ Increased domestic online spending

The expansion of the COVID-19 infections has led to an increase in the number of consumers refraining from going out, which has led to a sharp increase in online consumption of goods and services worldwide. According to a survey conducted by the Consumer Agency in July 2020 on the attitudes towards online services and eating out/having prepared meals at home, 78.2% of the respondents indicated that they performed online shopping in the last 1-2 months (Chart 3-18). By age group, the response rate exceeded 75% for people from 20s to 60s, and the rate for people in their 70s also exceeded 50%.

Consumption by households also shows an increase in spending online. The Survey of Household Economy conducted by the Ministry of Internal Affairs and Communications shows spending on the Internet was ¥17,252 in June 2020 (up 20.3% from the same month of the previous year), and ¥16,722 in July (up 15.1%) and ¥16,483 in August of the same year (up 8.8%). From April 2020, each month spending on the Internet was the highest for respective months after 2015, since when the data can be compared (Chart 3-19). Simple comparisons of amounts also show that June 2020 was the second largest month after December 2019, which was the highest since 2015.

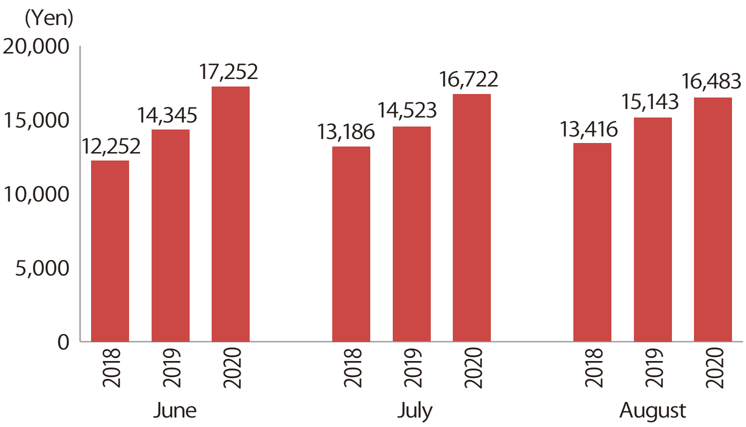
3

Chart 3-17 Trends in the Consumer Confidence Index



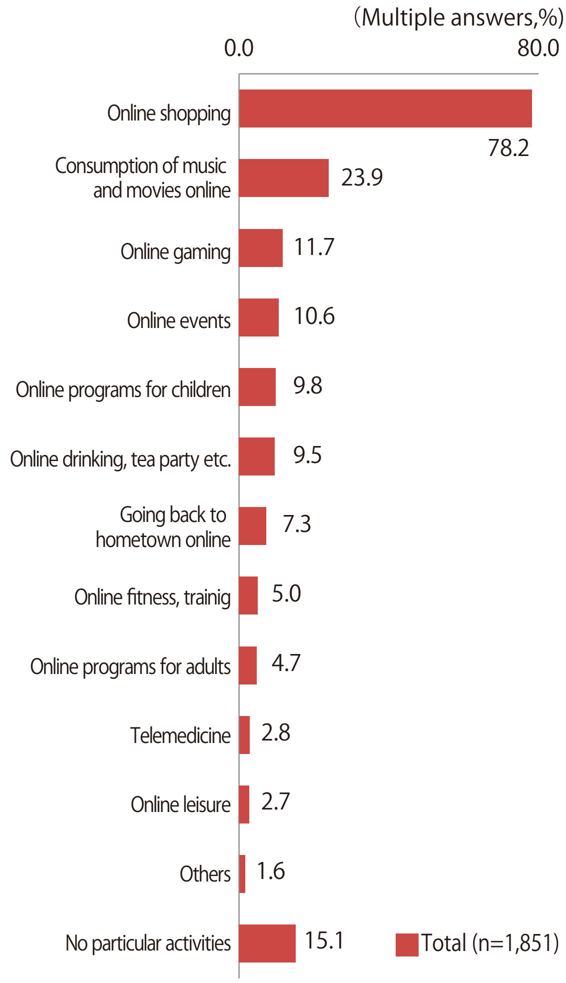
Source: "Consumer Confidence Survey" (Cabinet Office)

Chart 3-19: Trends in Internet-based Expenditures



Source: "Survey of Household Economy" (Ministry of Internal Affairs and Communications)

Chart 3-18: Consumer Online Activities



Source: "Survey on Attitudes towards Online Services and Eating out/ Having Prepared Meals at Home" (Consumer Agency)

In August 2020, expenditures on food (12.8% of the total) and on home appliances (8.5%) were high by item (Chart 3-20). On the other hand, the amount of expenditure related to lodgings, including accommodation charges, fares, and travel packages, was ¥1,901 (11.5% of the total). While the share is relatively large among items, compared to the same month of the previous year, the amount decreased by ¥2,870 and the share decreased by 20.0% points, which made the expenditure the lowest for the item compared to the same month since 2015. The share of lodging-related expenditures was more than 30% of the monthly expenditures during the peak months, but fell sharply due to a drop in consumption in related industries. Similarly, ticket spending declined significantly due to the impact of the cancellation or postponement of large-scale events, and the share of ticket spending to the total online spending in August 2020 fell 2.9% points year-over-year to 1.7%.

Chart 3-20: Major Items of Internet-based Expenditures

Item	Expenditure (Yen)	YoY Change	Share (%)	YoY Change
Food	2,102	817	12.8	4.3
Home appliances	1,408	544	8.5	2.8
Women's clothings	814	199	4.9	0.9
Lodging	1,901	-2,870	11.5	-20.0
Tickets	273	-423	1.7	-2.9
Total	16,483	1,340	100.0	0.0

Note: "Lodging" includes those paid online and those paid in other methods.
Source: "Survey of Household Economy" (Ministery of Internal Affairs and Communications)

In considering the Japanese market after COVID-19, it is worth exploring whether the current high level of online consumption will be maintained. An analysis conducted by Watanabe and Yamamoto (2020) on the "JCB Consumption NOW" calculated by JCB and Nowcast based on credit card information compares the online and offline consumption data of January and April 2020, and outlines the factors of increase in online consumption. According to the analysis, the impact of COVID-19 on consumers online consumption is not an irreversible change, and when the spread of the virus is contained, the increase in online consumption may settle down. While COVID-19 has increased contactless consumer consumption, future changes in consumption channels continue to require close monitoring.

■ Increasing cashless payments

One of the changes seen in Japan's recent consumer behavior is the increase in the use of cashless payments. According to the Ministry of Economy, Trade and Industry (METI), in 2019, the share of cashless payments of the total payments in Japan was 26.8%, an increase of 2.7% points from the previous year (Chart 3-21). By category, credit cards accounted for 24.0%, followed by electronic money (1.9%). QR code payments, which were 0.05% in 2018, increased to 0.31% in 2019, but the share remains the smallest of the four items.

Concerns over the spread of COVID-19 are expanding the use of cashless payments that enable contactless payments. According to a questionnaire survey of cashless payment users conducted by the JCB, the number of respondents who said that online payments increased due to the COVID-19 crisis was 58.5% of the total (n=1000). In particular, 71.5% of the 20s (n=200) and 64.0% of the 30s (n=200) answered so. In addition, as many as 93.0% of the respondents said they would continue to use cashless payments in the future. The most common reasons for the answer were "because points (that can be spent at stores) are accumulated for cashless payment" (63.2% of the total number of people who want to use cashless (930 people) in the future), "because payment is speedy" (40.8%), and "because there are more stores that accept cashless payment" (39.9%). The top answers are related to the benefits and convenience as well as improvement of infrastructure realized after consumers utilizing cashless payment, suggesting the possibility that the use of cashless payments will continue to expand even after the containment of the virus.

Expanding the use of existing users may also affect consumers who have not used it until now. According to a survey released in March 2020 by the Payments Japan Association, among consumers who have positive attitudes towards cashless payment, there is a tendency that their acquaintances and friends are cashless payment users or that they feel cashless payment is prevalent in the public. According to the results of interviews on this survey, there are cases in which interest is heightened by the perception that use of cashless payments is popular around themselves.

The Japanese government also helps promote the use of cashless payments. The government aims to raise the share of cashless payments to around 40% by 2025 and to 80% in the future. To promote the use of cashless payments, between October 2019 and June 2020, the government implemented a project to return up to 5% of the use of cashless payments at registered stores to users. According to data from METI, the number of stores registered for the project reached around 1.2 million (as of June 11, 2020), well above the initial forecast of 0.5 million stores. In September 2020, the government launched the "My Number Point" project, which offers a 25% return of points (up to ¥5,000) for the use of cashless payments linked to My Number (individual, social security and tax number) card. The Ministry of Internal Affairs and Communications as well as other public entities expect the implementation of this project to further promote the use of cashless payments.

Chart 3-21: Trends in Domestic Cashless Payments

	2016	2017	2018	2019
Credit Card	18.0	19.2	21.9	24.0
Debit Card	0.3	0.4	0.4	0.6
E-money	1.7	1.7	1.8	1.9
QR Code	-	-	0.1	0.3
Total	20.0	21.3	24.1	26.8

Note: 1) Based upon the amount of money consumed by each tool. 2) No data is available for "QR Code" before 2017.
Source: Documents from METI

[1] According to the analysis, the increase in online consumption during the target period is largely attributable to further online consumption by consumers who had previously consumed online. Online consumption increased as these consumers shifted their offline spending to online. In contrast, although the use of online consumption by consumers who had not previously consumed online were also observed, the degree has been small. The research notes that the increase in online consumption by COVID-19 may not be an irreversible change due to the small size of the consumer base that has shifted from offline consumption to online consumption.
Tsutomu Watanabe & Yuki Omori, 2020. "Online Consumption During the COVID-19 Crisis: Evidence from Japan," CARF Working Paper Series-J-112, Center for Advanced Research in Finance, Faculty of Economics, University of Tokyo.

In the above-mentioned project that ended in June 2020, while the introduction of cashless payments at small-and medium-sized stores progressed, the amount of payments used varied depending on the scale of the business. As part of efforts to promote cashless payment, METI will hold study groups to improve the environment in order to overcome the impediments to cashless payments at these stores. The government also aims to review domestic transfer fees and system usage fees required for communication for credit cards.

COVID-19 triggered an increase in domestic use of online consumption and cashless payments, which had been expanding. Future digitization of consumption will enable the acquisition of consumer data more than conventional business-to-consumer (B2C) transactions. In the future, relevant industries are expected to expand, such as analytical tools for consumer data as well as consulting services for acquiring customers and expanding the market through the effective use of the data.

Initiatives of Public-Private Partnerships by Local Governments in the Time of COVID-19

COLUMN

With COVID-19 having a major impact across Japan, some local governments have tried to tackle new social issues by collaborating with startups (Chart). Since 2018, Kobe City has been developing Urban Innovation Kobe aimed at resolving local issues through cooperation between city officials and startups. In April 2020, as part of this project, the city began recruiting products and services that can solve the issues of COVID-19 in citizens' lives and work of the local government. The project is characterized by the speed of screening. The application process was completed online, with the primary examination scheduled to take two business days from application and the secondary examination scheduled to take two weeks from application. In addition, coordination with the relevant departments of the city for demonstrations was to take one week in the shortest, which enabled each project to move quickly from their application to demonstration or implementation. During the period from April 20, when the application opened, to August, a variety of companies were selected, such as a company engaged in the provision of daily life information portals, one providing funding support for restaurants, and one providing support for home learning for students during the school closure period.

Urban Innovation Kobe launched by Kobe City changed its name to Urban Innovation Japan in 2019, and not only Kobe City but also other local governments throughout Japan are recruiting businesses to solve the social issues in their respective communities. In 2020, cities such as Toyohashi City, Nagoya City in Aichi Prefecture, Fujieda City in Shizuoka Prefecture listed local issues and are soliciting business proposals from startups. Some local governments have listed issues related to COVID-19, and there are high hopes that problem solving through the cooperation between local administrations and startups in each region will progress.

From 2016, Fukuoka City has hosted the Fukuoka City Full Support Project for Demonstration Experiments, which solicits demonstration projects that help solve social issues and improve the quality of life of its citizens. This project in 2020 was held on the theme of "Beyond Coronavirus," and seven companies were adopted in July 2020. Among foreign-affiliated companies, Gogolook, which was established in Taiwan in 2012 and subsequently established a base in Japan, has been selected. In the Fukuoka City project, the company will be building an information infrastructure to prevent telephone fraud and misinformation related to COVID-19, starting with demonstration experiments in the city.

Tokyo has held pitch-events of "Upgrade with Tokyo" since 2019 with the aim of collaborating with startups to solve problems raised in the operations of the Tokyo Metropolitan government. The fifth event, held in August 2020, featured pitches from five companies under the theme of the work style reforms amid a new daily life in light of the impact of COVID-19. At the event, a company that uses AI-based advanced water treatment technology to strengthen and promote public health through hand-washing, regardless of whether they are indoor or outdoor, or whether they have water supply systems, was selected. The company will proceed with negotiations with Tokyo Metropolitan government to push the project forward.

Chart: New COVID-19-related Public-Private Partnership Project by Local Government

Region	Program	Outline
Kobe City	Urban Innovation Kobe	In light of the impact of COVID-19, the city invites technologies and proposals for preventing the spread of infections and resolving new issues in citizen's lives and civil service operations. The city opened the program for proposals from April to August of 2020. The city government completed the first review in around two business days after the application and the second within two weeks to facilitate prompt screening. The city government coordinates relevant sections for service development, provides cooperation in conducting demonstration experiments, subsidizes service development (up to ¥500,000 per team), and early implementation support for successful demonstration experiments.
Fukuoka City	Fukuoka Demonstration Experiment Full-support Project	Together with related organizations, the city conducts the "Fukuoka Demonstration Experiment Full-support Project" to invite demonstration projects that use advanced technologies to solve social issues and improve citizens' quality of life. In 2020, under the theme of "Beyond Coronavirus," seven, including a Taiwanese startup Gogolook, out of 35 proposals were selected for projects aimed at resolving social issues posed by the infection. The selected companies will receive support such as providing a location for demonstration projects, public relations support, provision of administrative data, consideration of necessary deregulation, and grants.
Tokyo	Upgrade with Tokyo	The Tokyo Metropolitan Government holds "Upgrade with Tokyo" to host pitch events for startups with innovative products or services to address issues for the administration and to create venues for these startups to network with administrative agencies, VCs, and companies. The fifth session, held in August 2020, invited startups on the theme of "Aiming to Establish a 'New Normal' in a Society with COIVD-19" - Metropolitan Government Work Style Reform 2." At the event, five startups made pitches. A company aiming to strengthen public health through water treatment technology using AI was selected.

Source: Information including press releases from each local government

(3) Post-COVID-19 Japanese Market

■ **Emerging challenges and accelerated changes**

COVID-19 has affected all aspects, both domestic and foreign. Although Japan is suffering from a relatively small number of infections compared to some other countries, it has not been damage-free. Despite its adverse effects such as health damage and economic downturn, the current economic and social crisis has some positive side-effects of revealing potential changes and issues and accelerating to find solutions to them.

In Japan, many companies have introduced telework, which had been sluggish. Even after the government lifted its request for outing self-restraint, many companies are developing a flexible work environment by maintaining systems such as teleworking. Reviews of management of work processes and progress, which are indispensable for the introduction of telework, are expected to contribute to solving the longstanding issues of work style reform and low labor productivity. Moreover, domestic companies' search for new business models, eyeing the new economy and society, could strengthen competitiveness through cooperation and collaboration with other companies.

One way to reduce contact with others has been the digitization of consumption, such as increasing online spending and cashless payments. In particular, the impact of COVID-19 is expected to attract attention to the promotion of cashless payments, which had been one of the government's objectives, and the medium- to long-term development of relevant industries.

The impact of the COVID-19 crisis on the government is not insubstantial either. To cope with the blow on the economy, the Japanese government has formulated the most massive supplementary budgets ever, not only for enhancing the medical system, but also for supporting business and employment continuity, and strengthening domestic businesses. On the other hand, the administrative procedure issues, which had been regarded as a problem for some time, have become increasingly apparent. Former Prime Minister Shinzo Abe instructed central government ministries and agencies to review the system. Prime Minister Suga intends to make more efforts to streamline administrative procedures than ever before, such as aiming to establish a new digital agency.

The digital transformation of businesses, consumers, and administrative organizations, and the search for and adoption of new models are not merely temporary shifts in response to the virus. Instead, they may lead to a medium- to long-term economic, social progress. It will continue to require close monitoring.

According to a questionnaire survey of foreign-affiliated companies in Japan conducted by JETRO, less than 10% of all companies plan to shrink or withdraw from the Japanese market due to COVID-19. Many companies intend to continue or expand their business in Japan. As the attractiveness of doing business in Japan, 67.4% of enterprises continuing business in Japan cited "current market size" and 64.7% answered "potential growth of relevant industries" (refer Chapter 2(3) ② "Latest Trends of Foreign-affiliated Companies").

Because of the world's third-largest GDP after the US and China, and a high per capita GDP, Japan is often regarded as a mature market. On the other hand, some industrial sectors have higher growth potentials than in other countries. Some of the examples of the markets with growth potentials are telework, online consumption and cashless payments. Beyond these markets, the impacts of COVID-19 have shed light on relatively new markets, such as online education or telemedicine. In addition, in the process of economic recovery in the time of post-COVID-19, the renewable energy industries, including decarbonization, will remain as an important industrial sector.

Amid the COVID-19 crisis, domestic businesses, consumers, and administrations have been forced to quickly adopt to changes. For foreign and foreign-affiliated companies, the current changes in the Japanese society could provide opportunities for business development. Therefore, it is of utmost importance to have adequate understandings of the changes the society has been going through. Entries of foreign companies with new technologies and/or services and their business development in the Japanese market are expected to accelerate the digitalization and the improvement in the efficiency of the Japanese economy and society, thereby generating further growth of the country.

4 JETRO's Efforts to Promote Investment in Japan

(1) JETRO's Track Record of Supporting Foreign Companies

■ In fiscal 2019, 95 foreign companies successfully completed investment project with JETRO's support

The "Basic Policy on Economic and Fiscal Management and Reform 2020" released by the Japanese government in July 2020 states that Japan will work to further expand foreign direct investment in Japan in order to "further promote the vitality of overseas economies to local communities." The Japanese government will continue to place importance on supporting foreign companies' expansion into Japan.

JETRO supported 943 projects in fiscal 2019 (April 2019 to March 2020) and led 95[1] investment projects to successfully enter or expand business in the Japanese market (Chart 4-1). By region of origin, North America is the largest with 34.7%, followed by Asia (32.6% of the total) and Europe (25.3%) (Chart 4-2). By country, the United States accounted for 31.6%, which made it the only country that exceeded 30% and by far the largest, with China as the next largest at 11.6%

Chart4-1: Investment Projects Supported and Successfully Attracted by JETRO

	FY 2019
Successful Investment	95
Projects Supported	943

Note: "Successful Investment" indicates the number of investment cases where a foreign company successfully sets up new business or expands their business in Japan.

Chart 4-2: JETRO-attracted Investments by Region

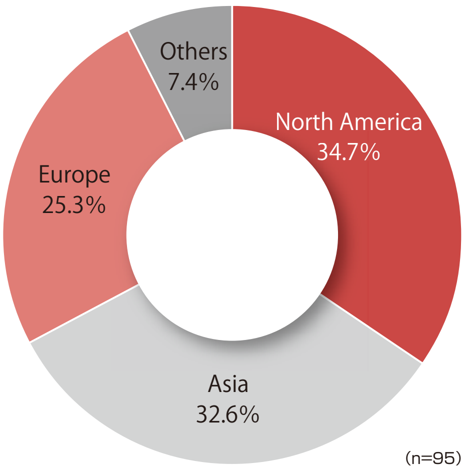


Chart 4-4: JETRO-attracted Investments by Industry

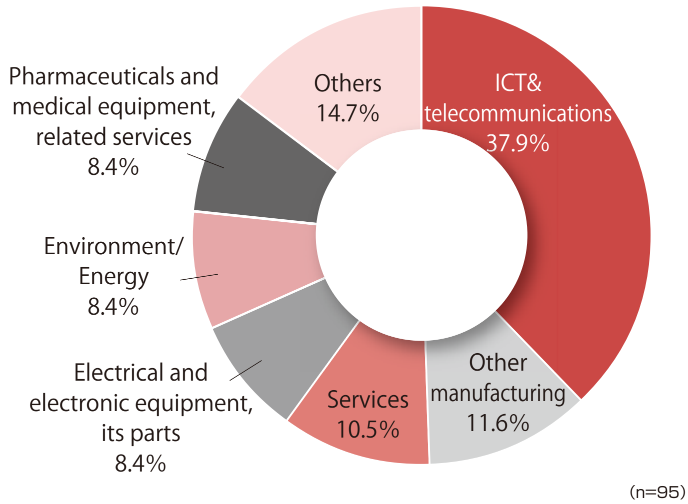


Chart 4-3: JETRO-attracted Investments by Country

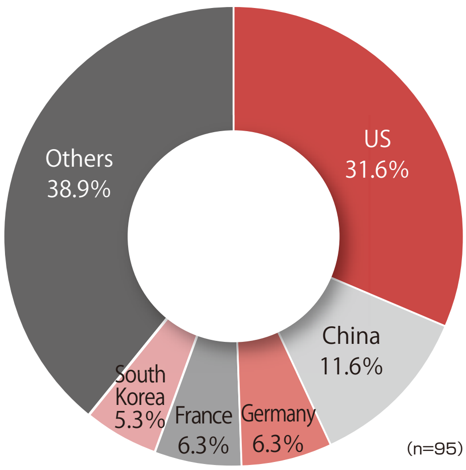
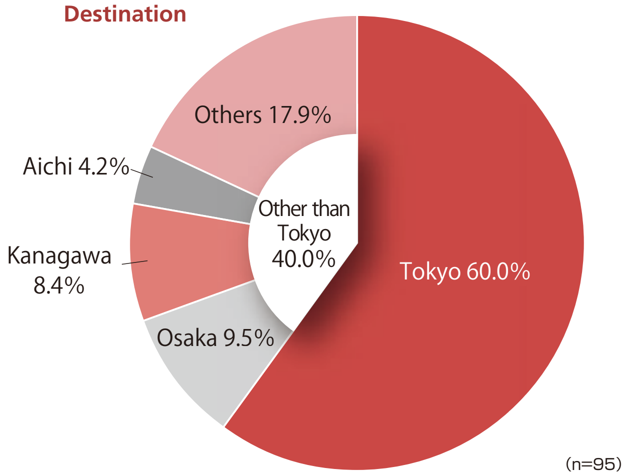


Chart 4-5: JETRO-attracted Investments by Investment Destination



[1] Since fiscal 2019, JETRO has focused its support on companies that are expected to generate innovation, and therefore, the number of successful projects cannot be compared with those before fiscal 2018.

(Chart 4-3). By industry, ICT and telecommunications accounted for the largest share at 37.9% (Chart 4-4). By investment destination within Japan, while Tokyo was the largest with 60.0%, around 40.0% continued to expand outside of Tokyo, the trend of which has been observed in previous years, and some companies established bases in Osaka Prefecture (9.5% of the total) and Kanagawa Prefecture (8.4%) (Chart 4-5).

The Japanese government expects the revitalization and increase in efficiency of the domestic economy and society through innovative technologies, products and services brought to Japan by foreign companies. Since fiscal 2019, JETRO has been particularly focusing on supporting foreign companies in industries that contribute to the creation of innovation (Chart 4-6). Among 95 investment projects JETRO led to success in the fiscal 2019, as many as about 70% projects were by companies that utilize digital technologies. In addition, two thirds of the investment projects were by companies that engage in business-to-business transactions while a certain number of companies were those that engage in business-to-consumer business. Looking at the enterprises established in Japan with JETRO's support in fiscal 2019, there are examples of enterprises that provide new products and services utilizing digital technology, such as IMAGR, a New Zealand company providing smart carts to retail stores, and Tellus You Care, a US company enabling contactless human health checks. Furthermore, there are companies like Naskeo Environment, which established its base in Hokkaido after the company was attracted by resources unique to the area (Chart 4-7).

Chart 4-6: Target Industries Expected to Generate Innovation

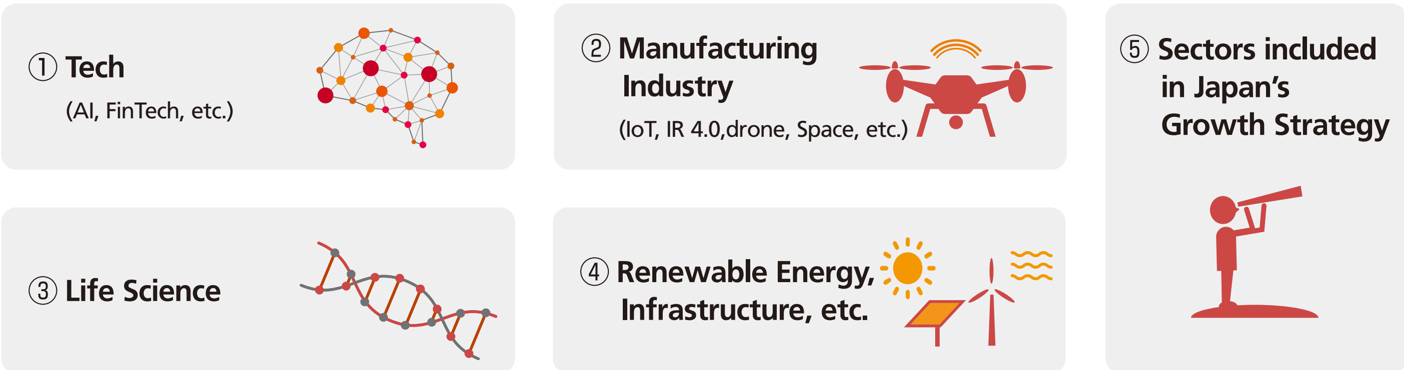


Chart 4-7: Foreign Companies that Expanded into Japan with JETRO's Support

Corporate Name: **IMAGR**
Nationality: New Zealand

IMAGR, founded in New Zealand in 2016, developes smart shopping carts equipped with four small cameras that enhance customer shopping experience and cost-efficiency of retail stores, with its world-class quality AI image identification system. Its carts automatically identify goods put into and enable auto-payments through a designated app. With the carts, customers are free from stresses of waiting on clerks scanning each item or other customers paying at casheir, which would result in more smooth shopping experience without having to entirely change their shopping behavior. Retail stores can significantly save initial costs, compared to a system that requires numerous cameras on the ceiling or a system with which stores need install sensors on the shelf. In Japan, the company won the Asian Entrepreneurship Award 2018 held in Kashiwa, Chiba Prefecture, in November 2018. In January 2020, the company received a $5 million investment from Toshiba Tec Corporation. To expand its business in Japan, the company established a Japanese subsidiary, IMAGR KK in Osaka City in August 2019. When IMAGR establishing its first overseas base, JETRO provided consultations on corporate registration, labor, tax, and visa acquisition, as well as introductions to accounting firms and real estate companies.

Corporate Name: **Tellus You Care**
Nationality: U.S.

Established in the U.S. in 2017, Tellus You Care is a startup that enables remotely check up the elderly and people in the need of nursing care by collecting and processing information on indoor human behavior and health conditions through radar wave generated from a dedicated small device. Because the method does not require devices attached the body or surveillance by cameras as required with the conventional wearable device, the burden on the elderly and persons targeted for care can be reduced. In Japan, NTT DoCoMo Ventures invested in the company in November 2018, and in August 2020, a group of investors, including NTT DoCoMo Ventures and a venture capital of the University of Tokyo, invested a total of 730 million yen. In addition, as part of the business collaboration agreement between NTT DoCoMo and Kobe City, demonstrations at nursing homes in Kobe City were conducted over a period of approximately one month from the end of July to the end of August 2019, which illustrated a possibility that the service could lead to the resolution of the problem of labor shortages. To expand its business in Japan, the company established Tellus You Care G.K. in Tokyo in February 2020. JETRO provided support such as providing domestic market information, introducing lawyers and tax accountants, and business matching.

Corporate Name: **Royole**
Nationality: China

Established in Shenzhen, China in 2012, Royole is a startup that develops its own technology for the world's thinnest screens that can be fully flexible displays and touch-operated flexible surface screens. It holds more than 3000 intellectual property rights worldwide and provides tailored solutions to cutomer demand, building on its own tecnologies. In Japan, it sells its own brand products, such as the world's first foldable smartphone and digital hand-written pads. In addition, its technology is expected to be applied in a variety of industries.One example is the adoption of the Company's surface displays in the glass of vehicles exhibited by Toyota at the Tokyo Motor Show in 2019. In order to further expand its sales channels in Japan, the company established a Japanese subsidiary, Royole Japan KK in January, 2020. with support from JETRO on the rental of the temporary office at IBSC, business matching opportunities in Japan, and PR support.

Corporate Name: **Naskeo Environnement**
Nationality: France

Naskeo Environnement is a French company established in 2005 that ferments waste materials such as food and agricultural residues and livestock manure and uses the methane gas produced for power generation and gas purification. Using its wide range of biogas-related technologies from waste treatment to utilization, the company offers the full spectrum of service, from research and development to design and operation of biogas plants. In Japan, the company collaborates with a local company to provide power generation services using biogas in Tsurui Village, Hokkaido. The company's business will likely contribute to Tsurui Village's goal of reducing the environmental impact of dairy farm waste and developing the biomass industry. The company established Naskeo Kankyo KK in Hokkaido in April 2019 to further expand its business. Upon establishing the company in Japan, JETRO provided consultation (registration and construction-related matters), information about relevant regulations and markets, and introduced local governments and industry groups.

Source: Prepared from business websites, JETRO-related materials, etc.

(2) JETRO's Support for FDI in Japan

① Contents of JETRO's Support

■ Comprehensive support for market entry and business expansion in Japan.

JETRO, as Japan's only public organization promoting foreign investment to Japan, provides a full range of services, from the dissemination of information on Japan's business environment to the discovery of companies interested in investing in Japan, support for establishing bases, and support for expanding business in the country (Chart 4-8). In addition, JETRO also provides support to local governments to attract foreign companies to their communities and urge the Japanese government to further improve its business environment. In fiscal 2020, information on the impacts of COVID-19 has been additionally provided, and supports to foreign companies and local governments have been further strengthened to meet their needs in the difficult time.

1) Dissemination of information by JETRO

JETRO provides information on foreign investment in Japan to foreign companies and foreign-affiliated companies in the country through websites and seminars. JETRO's website for foreign investment in Japan

Chart 4-8: Overview of JETRO's Efforts to Promote Investment in Japan

For Foreign/ Foreign-affiliated Companies

Information Dissemination on Japanese business environment
- “Investing in Japan” website
- Variety of materials/brochures
- Overseas seminars and symposiums

Finding foreign companies interested in investing or collaborating in Japan
- Finding foreign companies at business events and exhibitions or through networking
- Providing information on markets and regulations
- Providing market entry proposals
- Business matching with potential partners

Supporting business setups through IBSC
- Temporary offices (Tokyo, Osaka, Yokohama, Nagoya, Kobe, Fukuoka)
- Advice from specialists on business setups, legal, employment, and tax
- Support to find human resources and office spaces

Expansion of business with Japanese partners
- Business matching with Japanese companies
- Support to cooperate with local governments
- Support for secondary investment and expanding business

For Local Governments in Japan

Support to build inward investment strategies
- Advice on building inward investment strategies

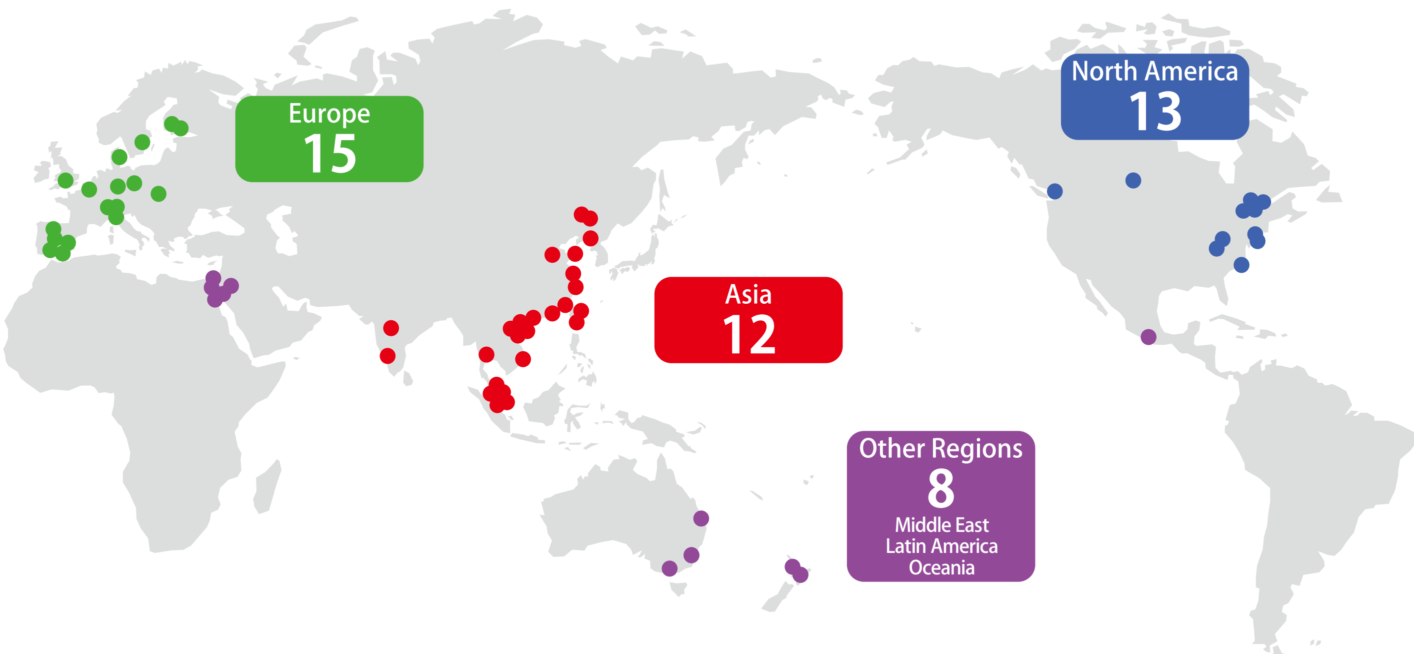
Support to promote inward investment
- Support for high officials to promote investment into their region (providing opportunities, etc.)
- Opportunities to deliver speech at overseas investment seminars

Support to approach foreign companies
- Inviting foreign companies interested in investing in Japan

Japanese government

Collection of voices on regulatory reforms to improve Japan’s business environment and policy proposals to the government
- Collection of voices from foreign-affiliated companies in Japan as well as companies interested in investing in Japan and making policy proposals as well as providing information to policy makers
- Providing information on improvement of Japan’s investment environment

Chart 4-9: JETRO's Seminar on Investment in Japan in Fiscal 2019



disseminates a variety of information in seven languages, including Japanese. In addition to the market overview and attractiveness in Japan, "How to Set Up Business in Japan" provides a wide range of information required for incorporation, including company registration, visas, taxation systems, and labor management. "Navigation system for investing in Japan's local regions" is an information portal where visitors can acquire various information from basic economic and social data to that on industries, infrastructure, and incentives of prefectures and major cities. "Businesses Expanding" and "Success Stories" present case studies of companies that have entered the Japanese market, attracting many visitors including foreign companies that are interested in Japan.

In addition to disseminating information on its website, JETRO provides information to foreign and foreign-affiliated companies through a variety of seminars. To raise interest in Japan among foreign companies, JETRO held 48 seminars on foreign investment in Japan worldwide in fiscal 2019 (Chart 4-9). Based upon demand in each country and region, a range of topics of seminars, including those on Japan's growing markets and those specializing in foreign startups, were held.

2) Hands-on support for foreign companies

JETRO's Personal Advisor (PA) System for Foreign Companies is a core service of JETRO's support for foreign companies. Under the PA system, JETRO staff will provide fine-tuned support by facing the regulations and administrative procedures necessary for establishing corporations and conducting business activities in Japan, together with foreign companies. It also provides support tailored to each company's needs, including consulting on tax, labor, and legal matters, providing market and regulatory information, and participating in business events.

JETRO provides temporary offices (up to 50 business days free) available to foreign companies to prepare for their establishment in Japan at its Invest Japan Business Support Center (IBSC), which operate at six JETRO offices (Tokyo, Yokohama, Nagoya, Osaka, Kobe, and Fukuoka) and other locations. Various supports by staff and experts are provided to tenant companies at IBSC of JETRO domestic offices. IBSC within JETRO Tokyo Headquarters is adjacent to Tokyo One-Stop Business Establishment Center (TOSBEC), which consolidates the contact points for procedures required at the time of establishment of a corporation in Tokyo in one place (operator: Tokyo Metropolitan government and the Japanese government).

3) Support for attracting investment in Japan to local communities

JETRO provides support to local governments in order to strengthen their capacities and promote their activities to attract investment to local communities of Japan. In addition to compiling information on each region and delivering it to foreign companies through the above-mentioned "Navigation system for investing in Japan's local regions," various types of supports are provided to participating municipalities through the "Support Program for Regional Foreign Direct Investment in Japan" (hereinafter, "Support Program") launched in fiscal 2018. Some of the supports are to provide know-how to attract investment, invite foreign companies to the local communities, and provide promotion opportunities targeting foreign companies (Chart 4-10). Until fiscal 2019, seminars were held offline by JETRO staff and experts to assist local governments in strengthening the capacity for attracting enterprises. In addition, foreign companies were invited to host regions at Regional Business Conference (RBC).

Chart 4-10: Major Assistances in Support Programs

Item	Support items	Outline of support
Provision of know-how	Training for attracting foreign companies (Basic training)	Training sessions by JETRO staff and consultants on the basics of attracting foreign companies for local government officials
	Training for attracting foreign companies (Theme-specific training)	Industry-specific workshops by experts and consultants in specific fields. English-language training for working with foreign companies.
	Dispatch of experts and consultants	JETRO staff, consultants, and others visit local governments to hold training and study meetings by request on various topics, such as the formulation of strategies to attract foreign companies.
Inviting foreign companies	Regional Business Conference (RBC)	Regional Business Conference (RBC) to widely disseminate business opportunities in multiple local governments to foreign companies. In fiscal 2020, JETRO opens applications for RBC projects in four areas: ① disaster prevention and mitigation; ② innovation; ③ productivity improvement; and ④ tourism. JETRO will cover some expenses for selected projects.
	Targeted recruiting	Provide local governments with opportunities to promote business opportunities targeting foreign companies with a particularly strong desire to expand into Japan. JETRO is inviting local governments, regardless of the sector they promote, and covers some expenses for the adopted project.
Other opportunities for promotion	Opportunities for local government officials to promote their communities to foreign companies	JETRO opens up limited space at foreign company-related events held by JETRO for local government officials, for publicity to foreign companies. During local government officials' overseas trips, JETRO's local offices set up meetings to exchange opinions.

4) Efforts toward improvement of the business environment

In order to improve the business environment in Japan, JETRO listens to requests for improvements in regulations from foreign and foreign-affiliated companies and work with the government and related ministries and agencies. JETRO also serves as a bridge between the Japanese government and foreign companies. It acts as a contact point for foreign and foreign-affiliated companies under the "Invest Japan Hotline[2]," which accepts requests from companies and holds interviews with relevant ministries and agencies, and the "Regulatory Sandbox System[3]" launched by the Japanese government in 2018. Furthermore, in the "Investment Advisor Assignment System[4]" launched by the Japanese government in 2016, JETRO supports the business development of foreign-affiliated companies in Japan through arranging interviews with state ministers of concerned ministries. JETRO is a member of the Council for Promotion of Foreign Direct Investment in Japan, which is organized by relavant ministries and agencies to realize institutional reforms, and is working to improve the business environment in cooperation with them.

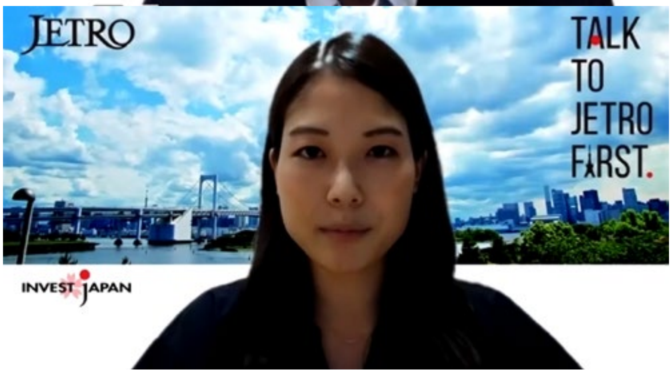
② JETRO's Support during the COVID-19 Crisis

In response to the impacts of COVID-19, JETRO is enhancing its functions of the provision of information, hands-on support to foreign and foreign-affiliated companies, support to local governments, and efforts for improvement of the business environment in fiscal 2020.

In light of the economic and social uncertainties raised by COVID-19, JETRO not only ascertained the trends of foreign-affiliated companies amid the COVID-19 crisis but also globally disseminated information on the Japanese market and the responses of the Japanese government. JETRO conducted out-of-cycle surveys, primarily targeting its client companies, in April, in which the number of the new infections rapidly increased in Japan, and July, to understand the impact of the virus on foreign-affiliated companies. In addition, as part of the efforts to strengthen the information dissemination functions, JETRO introduced an information portal in April 2020, which compiles English information on support measures of the Japanese government. In order to disseminate information on a new Japanese society, JETRO worked on videos that capture the Japanese market, which is being transformed through the time of COVID-19 (Chart 4-11). Also, six online seminars were held between May and July 2020 for companies overseas that were interested in Japan, mainly in North America, Asia, and Europe (Chart 4-12). At the seminar, besides basic information on the Japanese economy with the latest statistics and policy measures imposed by the Japanese government, experts provided information on the Japanese growing markets such as AI, automobiles, and biotechnology, to foster interets in future business development in Japan.

Chart 4-11: Video to Convey the Changes in the Japanese Market due to COVID-19

Chart 4-12: Online Seminars on COVID-19



As support for individual companies during the COVID-19 crisis, JETRO worked with its client companies to address any issues they faced by conducting follow-up on individual companies based on the results of the above-mentioned questionnaire surveys. In particular, efforts were made to resolve issues that could pose extremely serious damages to the domestic business operations of foreign-affiliated companies, such as the use of subsidies formulated by the Japanese government and inquiries regarding visas for foreign workers. In addition, in light of the results of the April survey and the content of inquiries, JETRO established the COVID-19 Helpline in June to strengthen the support system. The Helpline responds to inquiries from companies in Japanese, English, and Chinese by telephone and e-mail.

[2] Invest Japan Hotline: https://www.jetro.go.jp/en/invest/hotline.html
[3] Regulatory Sandbox System (in Japanese): https://www.kantei.go.jp/jp/singi/keizaisaisei/regulatorysandbox.html
[4] Investment Advisor Assignment System: http://www.invest-japan.go.jp/policy/investment_advisor_assignment_system/en_index.html

As people have also been avoiding domestic travel, much of the support for local governments since 2020 has been provided online. For municipalities participating in the Support Program, JETRO held online seminars to provide information on the impact of the virus on FDI and the economy and on capacity building. In addition, by holding the RBC online, which were held offline in fiscal 2019, JETRO continues to support activities of local governments to attract foreign companies to their communities. In February 2021, local governments of Sendai City, Miyagi Prefecture, and Fukushima Prefecture are to hold online events with the theme of disaster prevention/mitigation and innovation, and those of Kyoto, Osaka and Hyogo will be holding another online event to promote and strengthen their startup ecosystems (Chart 4-13).

As a bridge between foreign/foreign-affiliated companies and the Japanese government, JETRO sought to improve the business environment by listening to issues related to administrative procedures and international movement of people through the surveys and support to address issues faced by supporting companies and communicating them to relevant ministries and agencies.

In an increasingly uncertain global economy, there continues to be a strong interest in the Japanese market, which has large, well-capitalized companies and consumers. JETRO will contribute to the further growth of the Japanese economy and society that is about to transform through COVID-19 by supporting entries of foreign companies into Japan or their business expansion.

Chart 4-13: Online RBC on Bosai-tech

Appendix

JETRO Invest Japan Report

“JETRO Invest Japan Report” is an annual report that comprehensively provides overviews of trends in inward FDI to Japan, policy measures of the government to improve the business environment, changes in the Japanese market, and JETRO’s efforts. This report is compiled in English and Japanese. Since the first publication in 2015, “JETRO Invest Japan Report 2020” marks the sixth edition. The subtitles of the past edition at the press release are as follows.

2015 -
2016 - Foreign companies are enthusiastic to set up R&D bases in Japan -
2017 - Foreign Technology Contributes to Innovation in Japanese Society -
2018 - Foreign Investment Contributing to Emergence of Innovation -
2019 - Innovation by foreign companies spreading across Japan-
2020 - The Changing Japanese Market amid COVID-19 and Prospects for Business Development -

Major M&A Deals in Japan since 2019

Date (Completion)		Target Company		Acquirer			Value (100Mil. Yen)
			Industry		Nationality	Industry	
2019	Apr	Ci:z Holdings	Cosmetics	Johnson&Johnson	US	Healthcare	1,496
	Mar	Clarion	Electronics	Faurecia	France	Transport Equipment	1,409
	Jun	GODIVA（Asia Pacific）	Food	MBK Partners	South Korea	Investment Firm	1,109
	Jan	6 logistics facilities owned by ESR	Real Estate	AXA（France）etc.	-	Investors Group	1,087
	Apr	CIC	Investment Firm	Johnson&Johnson	US	Healthcare	802
2020	Jun	UNIZO Holdings	Real Estate	Lone Star Funds (US) etc.	-	Investors Group	2,053
	Apr	Showa Aircraft	Transport Equipment	Bain Capital	US	Investment Firm	900
	Sep	Accordia Golf Asset	Real Estate	MBK Partners	South Korea	Investment Firm	652
	Jan	Aspen Japan	Pharmaceuticals	Novartis	Switzerland	Pharmaceuticals	481
	Aug	A logistic facility owned by Redwood Group	Warehousing	AXA（France）etc.	-	Investors Group	390

Note: 1) M&As with the top 5 transaction values for each year are listed. The value is per trasaction. 2) "Acquirer" is the ultimate acquirer (including corporate group).
Source: "Thomson One" (as of Nov. 4th,2020)

Major Bills Enacted in 200th Session in 2019 and 201st Session in 2020

Proposed bill	Outline
Revision of the Foreign Exchange Act	
Bill: Amedment Bill of the Foreign Exchange and Foreign Trade Act Entactment: November 22, 2019 Promulgation: November 29, 2019 Effective: May 8, 2020 Competent Authority: Ministry of Finance	Given recent technological innovation and changes in investment trends, the Foreign Exchange and Foreign Trade Act and related rules and regulations were revised. Major revisions included 1) changes in investment thresholds requiring prior notification of investments by foreign investors, and 2) the introduction of an exemption system for prior notification of investment projects that meet certain criteria.
Establishment of tax system to promote open innovation	
Bill: Act to partially amend Income Tax Act, etc. Enactment: March 27, 2020 Promulgation: March 31, 2020 Effective: April 1, 2020 Competent Authority: Ministry of Finance (Request for Revision: Ministry of Economics and Industries)	A special tax system was introduced to promote investment by domestic companies or their CVCs in unlisted companies for open innovation. Companies making investments between April 1, 2020 and March 31, 2022 in unlisted enterprises and satisfy certain requirements (such as investment size, term, and purpose) are eligible for tax deduction worth 25% of the share acquisition price.
Establishment of 5G Investment Promotion Tax System	
Bill: Act to partially amend Income Tax Act, etc. Enactment: March 27, 2020 Promulgation: March 31, 2020 Effective: April 1, 2020 Competent Authority: Ministry of Finance (Request for revision: Ministry of Internal Affairs and Communications)	To support the expansion of 5G network in Japan, preferential tax measures were established to develop local 5G and accelerate the construction of 5G base stations by mobile carriers. A 15% corporate/income tax credit or a 30% special depreciation is available for certain 5G capital expenditures made between April 1, 2020 and March 31, 2022.
Realization of the Super City initiative	
Bill: Bill for the Partial Amendment of the National Strategy Special Zones Act Enactment: May 27, 2020 Promulgation: June 3, 2020 Effective: September 1, 2020 Competent Authority: Cabinet Office	Aim to realize cities that provide various services with improved convenience and efficiency by utilizing data across sectors in a wide range of fields spanning citizens' lives. The law and related basic policies stipulate publishing API to facilitate coordination between cities for data infrastructure development and establish a cooperative process to strengthen coordination among ministries to respond flexibly and promptly to regulations that could act as barriers to the introduction of new technologies and services.
Enactment of the act for transparency in trading on digital platforms	
Bill: Bill for the Act on Improvement of Transparency and Fairness in Trading on Specified Digital Platforms Enactment: May 27, 2020 Promulgation: June 3, 2020 Effective: Within one year from promulgation Competent Authority: Ministry of Economy, Trade and Industry	While digital platforms increase companies' business potential, there are possibilities of causing unfair transactions between platformers and businesses. The introduced Act aims to ensure, among other things, transparency in transactions so that platformers and businesses can trade in a more fair environment. The Act requires disclosure of information, such as the terms and conditions of transactions for digital platforms, advance notice of changes to such information, and the submission of self-evaluation reports by certain platformers.
Amendment of the Act on the Protection of Personal Information	
Bill: Amendment Act of the Act on the Protection of Personal Information, etc. Enactment: June 5, 2020 Promulgation: June 12, 2020 Effective: within two years of promulgation, with some exceptions Competent Authority: Personal Information Protection Committee	This revision was based on the revision clause established in the amended Protection of Personal Information in 2015. The main points of the revision were 1) individual rights, 2) responsibilities of businesses, 3) measures concerning the utilization of data, 4) penalty, and 5) cross-border transfer and extraterritorial applications.
Improvement of regulatory system of fund transfers	
Bill: Bill to amend the Act on Sales, etc. of Financial Instruments, etc. for the Improvement of Convenience for and Protection of Financial Services Users Enactment: June 5, 2020 Promulgation: June 12, 2020 Effective: Within 18 months of promulgation, with some exceptions Competent Authority: Finance Services Agency	Amid the growing digital payments and related services, the revisions aimed at regulations to align with actual practices. Under the existing rules, the maximum amount of one transfer by a registered fund transfer provider was 1 million yen, and transfers of larger amounts were only allowed to banks. Under the amended Act, remitters are classified into three categories by the size of remittance. "Small-amount type (registration system)" who deals with transfers worth tens of thousands of yen, "current type (registration system)" covering tens of thousands of yen to 1 million yen, and "large-amount type (approval system)" covering 1 million yen or more. The revision aimed at applying regulations according to the handled amount and related risks.
Establishment of financial services intermediary business	
Bill: Bill to amend the Act on Sales, etc. of Financial Instruments, etc. for the Improvement of Convenience for and Protection of Financial Services Users Enactment: June 5, 2020 Promulgation: June 12, 2020 Effective: Within 18 months of promulgation, with some exceptions Competent Authority: Finance Services Agency	While it recently has become possible to provide financial services online, existing regulations required registration of the main financial services, banking, securities, and insurance brokerage services on an individual basis. There were only five institutions to provide three types of services in a unified manner. This revision created a "financial services intermediary business" that can act as an intermediary for banking, securities, and insurance fields in one registration. The amendment establishes uniform required standards for all registered businesses, and service providers are required to comply additional rules only subject to the types of services (banking, securities, and insurance) they handle.

Note: The date of "enactment" of a bill means the date passed by both the House of Representatives and the House of Councillors.
Source: Information from relevant documents on bills

The Government's Efforts and JETRO's Inward FDI Promotion Activities

2003	Jan	The government decided on the target to "double the inward FDI stock compared to the value as of the end of 2001 in 5 years."
	May	The government held up "Invest Japan" as a slogan and set up "Invest Japan Offices" in the relevant ministries. The "Invest Japan Business Support Center (IBSC)," a one-stop center for information about investing in japan, was set up in JETRO.
2006	Mar	The government set up a new goal to "double the ratio of inward FDI stock to its GDP (to about 5%) by the end of 2010."
2007	May	The regulation on "flexible merger consideration (triangular merger)" in the Companies Act was enforced.
2010	Jun	The "New Growth Strategy" was approved by the Cabinet, aiming to double the flow of people, things, and money into Japan."
2011	Jan	"Subsidy Program for Projects Promoting Asian Site Location in Japan" was created (the secretariat was placed in JETRO).
	Aug	The "Comprehensive Special Zone Law" was enforced, with an aim to create industrial clusters in regions through taking preferential measures such as tax and regulation reforms.
	Dec	The "Great East Japan Earthquake Reconstruction Special Zone Law" was enforced, to provide incentives such as tax/regulatory reforms for investment in the affected areas. "Program for Promoting Japan as an Asian Business Center and Direct Investment into Japan" was approved. Goals were set to increase the numbers of high added-value business bases and to double the number of employees at foreign-affiliated companies.
2012	Apr	Effective corporate tax rate was lowered (40.69%→38.01%).
	May	The "Points-based Preferential Immigration Treatment for Highly Skilled Foreign Professionals" was started.
2013	Jun	The "Japan Revitalization Strategy" was approved by the Cabinet, setting up a clear goal to increase the inward FDI stock to 35 trillion yen by 2020, and indicating the strengthening of industrial specialist program and Invest Japan Hotline in JETRO.
2014	Mar	The special corporate tax of reconstruction was abolished (effective corporate tax: 38.01%→35.64%).
	Apr	The Council for Promotion of FDI in Japan was founded.
	Jun	The "Japan Revitalization Strategy (Revised in 2014)" was approved by the Cabinet, clarifying the role of JETRO to cooperate with Japanese embassies and local governments to attract FDI into Japan.
2015	Mar	The second meeting of the Council for Promotion of FDI in Japan was held. Prime Minister Abe announced the "Five Promises for Attracting Foreign Businesses to Japan."
	Apr	The "Tokyo One-Stop Business Establish Center (TOSBEC)" opened in the Tokyo Area of the National Strategic Special Zones (in JETRO Tokyo HQ).
	Jun	The "Japan Revitalization Strategy (Revised in 2015)" was approved by the Cabinet, clarifying the role of JETRO to enhance PR & dispatch of information and to work on promotion of target fields by cooperating with Japanese embassies and local governments.
	Sep	The government announced the "New Three Arrow" of Abenomics, aiming to create a stronger economy and more support for childcare and social security.
2016	Feb	"Subsidy Program for Global Innovation Centers" was established (the secretariat was placed in JETRO).
	Apr	Effective corporate tax rate was lowered (32.11%→29.97%). The third meeting of the Council for Promotion of FDI in Japan was held. The "Investment Advisor Assignment System" was established. Under this system, State Ministers act as advisors to companies that have made significant investments in Japan.
	May	The fourth meeting of the Council for Promotion of FDI in Japan was held. The "Policy Package for Promoting Foreign Direct Investment into Japan to Make Japan a global Hub and establishment of the "Working Group for Revising Regulations and Administrative Procedures" were approved by the Council.
	Jun	The "Japan Revitalization Strategy 2016" was approved by the Cabinet, increasing the promotion activities and support for individual companies through the strengthening of JETRO's structure.
2017	Apr	The working Group for Revising Regulations and Administrative Procedures adopted the "Final Report." The "Japanese Green Card for Highly-Skilled Foreign Professionals" system was established.
	May	The fifth meeting of the Council for Promotion of FDI in Japan was held.
	Jun	The "Growth Strategy 2017" was approved by the Cabinet, introducing the "Personal Advisors System for Foreign Companies" to JETRO.
2018	Apr	Effective corporate tax rate was lowered (29.97%→29.74%).
	May	The sixth meeting of the Council for Promotion of FDI in Japan was held. The "Support Program for Regional Foreign Direct Investment in Japan" was approved by the Council.
	Jun	The project-based "Regulatory Sandbox" system was established.
		The "Growth Strategy 2018" was approved by the Cabinet, clarifying the role of JETRO and related ministries to cooperate with local governments to attract foreign companies into Japan.
2019	Apr	The seventh meeting of the Council for Promotion of FDI in Japan was held, in which "Program to Intensively Attract Foreign Direct Investment in Regional Japan" was approved.
	Jun	The "Growth Strategy" was approved by the Cabinet.
2020	Jul	The eighth meeting of the Council for Promotion of FDI in Japan was held (a round robin method), in which the policy for formulating a "Medium and Long-term Strategy for Promoting Foreign Direct Investment in Japan 2021" was decided.
	Oct	The first working group to formulate the "Medium and Long-term Strategy for Promoting Foreign Direct Investment in Japan" was held.

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[JETRO's Global Network]

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