

JETRO Invest Japan Report

2022



CHAPTER 1 FDI Trends in the World and Japan

Chapter 1 provides an overview of inward FDI in the world, introduces trends in inward FDI in Japan and major investment projects, and discusses recent inward FDI development in Japan.

Section 1. Global Inward FDI Flow in 2021

According to the United Nations Conference on Trade and Development (UNCTAD), global inward FDI in 2021 increased 64.3% from the previous year to 1,582.3 billion dollars (based on the directional principle). In 2020, it marked the lowest level since 2005, but in 2021, it returned to the level before the spread of COVID-19. By country and region, developed economies experienced a triple-digit increase, while developing economies saw a double-digit growth, and Japan recorded a 130.3% increase (Chart 1-1).

Chart 1-1: Trends in Global Inward FDI Flow (Million US dollars, %)

Country/Region	2019	2020	2021	2021 Growth rate (YoY)
World	1,480,626	963,139	1,582,310	64.3
Developed economies	764,456	319,190	745,739	133.6
Japan	13,755	10,703	24,652	130.3
Korea	9,634	8,765	16,820	91.9
Israel	17,363	24,283	29,615	22
Europe	404,756	80,786	219,033	171.1
EU	401,677	209,509	137,541	-34.4
Germany	52,665	64,589	31,267	-51.6
France	28,363	4,870	14,193	191.4
UK	45,454	18,194	27,561	51.5
North America	275,257	174,004	427,052	145.4
US	225,108	150,828	367,376	143.6
Canada	50,149	23,176	59,676	157.5
Developing Economies	84,442	64,400	99,655	54.7
East Asia	232,339	284,726	328,918	15.5
China	141,225	149,342	180,957	21.2
Hong Kong	73,714	134,710	140,696	4.4

Note: Figure for Japan in the chart are calculated by UNCTAD based on the directional principle. The data do not correspond to those in Chart 1-2. See column.

Source: UNCTAD data. Classification is also as defined by UNCTAD.

[Column] Measurement Principles



1. Asset and Liability Principle

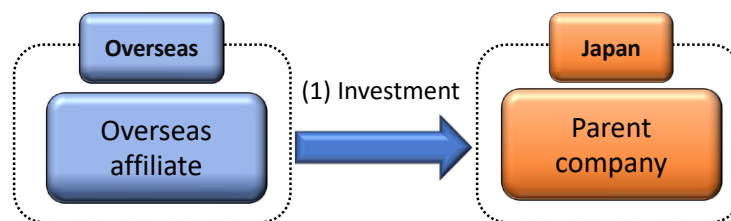
Investments from Japan to overseas are classified as "assets" (outward FDI), while those from overseas to Japan are classified as "liabilities" (inward FDI).

In the chart below, "(1) Investment" is recorded as inward FDI.

2. Directional Principle

Investments of a Japanese parent company in an overseas affiliate are classified as "outward FDI," and investments of an overseas parent company in a Japanese affiliate are classified as "inward FDI."

In the chart below, "(1) Investment" is not recorded as inward FDI but is regarded as a recovery of the Japanese parent company's investment (negative outward FDI).



Section2. Trends in Inward FDI to Japan

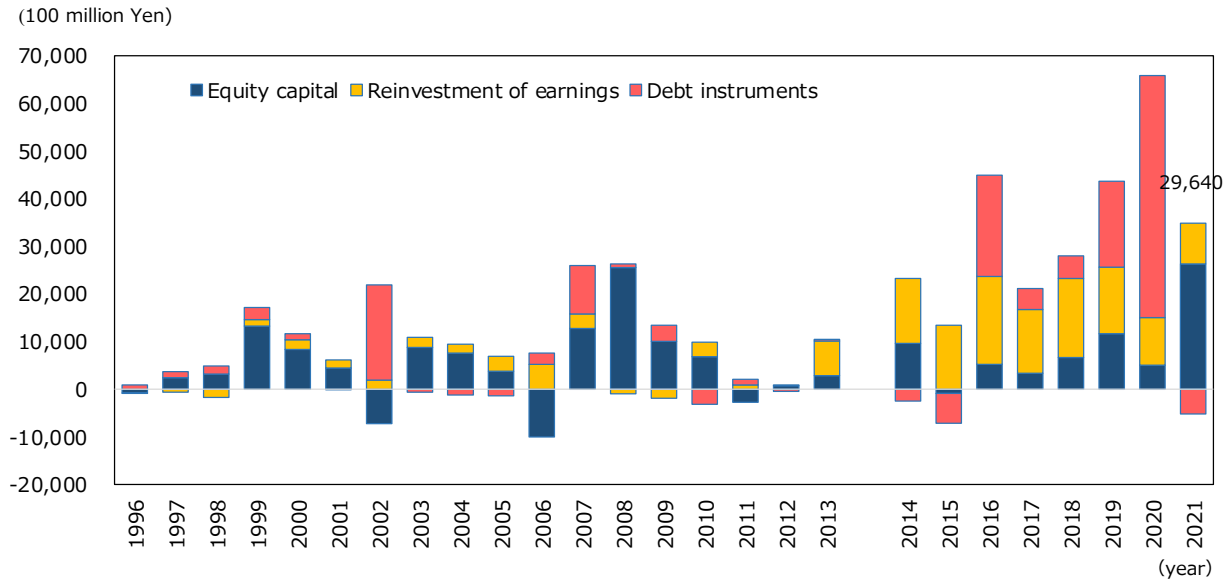


1. Flow



On the other hand, according to the "Balance of Payments" (asset and liability principle) of the Ministry of Finance and Bank of Japan, FDI flow to Japan in 2021 decreased significantly by 55.0% year-on-year to 3.0 trillion yen (Chart 1-2). Looking at this by type of capital, equity capital increased 425.0% year-on-year to 2.6 trillion yen, reinvestment of earnings fell 14.3% to 0.9 trillion yen, while debt instruments, which represent the lending and borrowing of funds between enterprises in capital ties, turned negative at -0.5 billion yen from 5.1 trillion yen in the previous year. Equity capital, which represents the trend of new investments and capital increases in Japan, increased significantly and reached a record high, a turnaround from 2020, when the economy and society were affected by the global COVID-19 crisis.

Chart 1-2: FDI to Japan (Flow)



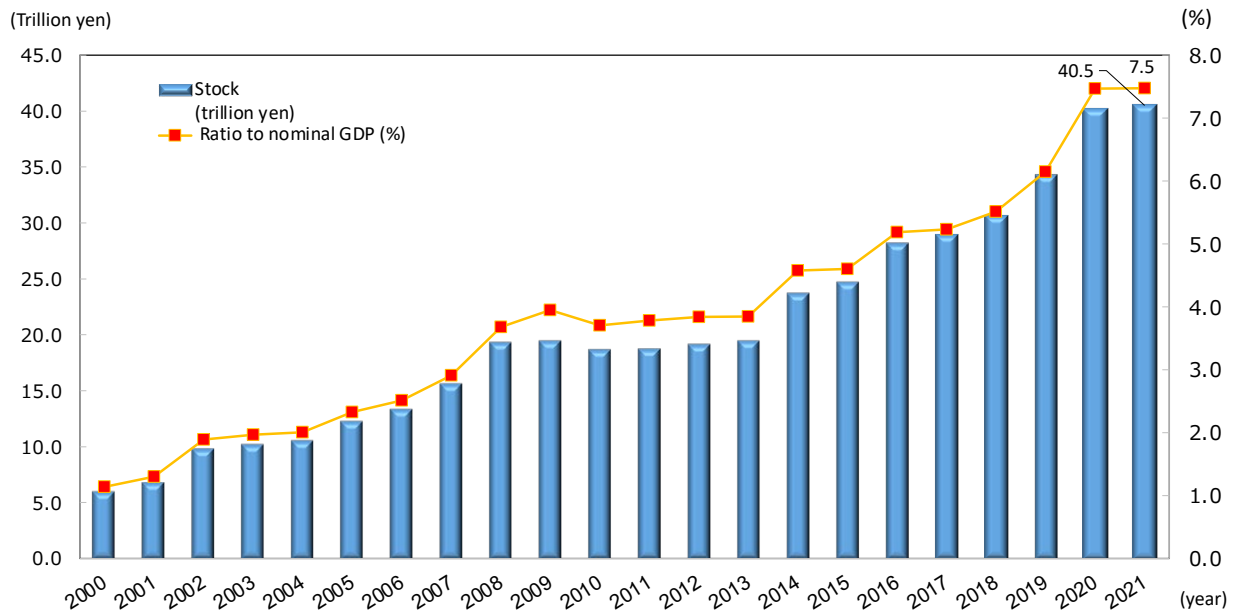
2. Stock



At the end of 2021, the FDI stock in Japan (asset liability principle) was 40.5 trillion yen, remaining at the highest level, albeit with only a slight increase of 0.8% over the previous year (Chart 1-3). The ratio against GDP was 7.5%.

By type of capital, equity capital increased 13.8% year-on-year to 21.3 trillion yen, debt instruments decreased 13.4% to 11.9 trillion yen, and reinvestment of earnings fell 5.7% to 7.3 trillion yen. Reflecting the flow of debt instruments turning negative and the significant increase in equity capital mentioned earlier, the share of debt instruments in the stock declined to 29.4% at the end of 2021 from 34.2% at the end of 2020, while the equity capital increased to 52.7% from 46.6%.

Chart 1-3: FDI stock in Japan



Section3. Trends in Inward FDI to Japan by Country and Region

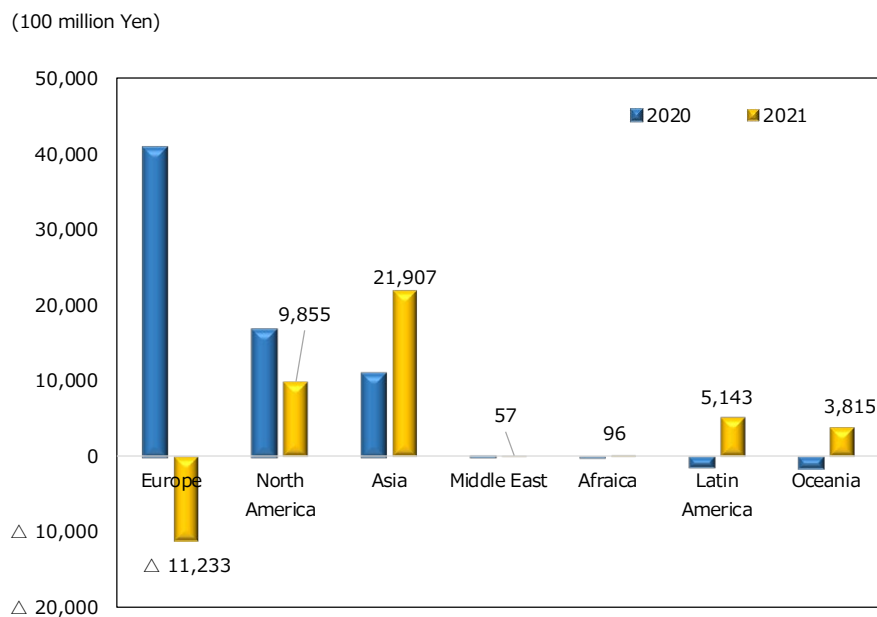


1. Flow



Breaking down FDI flow to Japan (asset liability principle) in 2021 by region, Asia accounted for the highest amount at 2.2 trillion yen, up 98.5% from the previous year, followed by North America at 1 trillion yen, down 41.4%. Europe saw a net withdrawal of 1.1 trillion yen (Chart 1-4). As for Asia, investment from Hong Kong was the largest among the countries and regions in the world at 1.3 trillion yen, up 533.1% year-on-year, and that from Singapore was the third largest at 0.6 trillion yen, up 33.7%. Those accounted for the majority of investment from Asia (Chart 1-5). The U.S. was the second largest investor at 0.9 trillion yen, down 44.1%. Europe saw net withdrawals, with Switzerland at -0.4 trillion yen, the U.K. at -0.3 trillion yen, Sweden at -0.3 trillion yen.

Chart 1-4: FDI to Japan in 2021 (flow, by region)



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

Chart 1-5: FDI Flow to Japan in 2021: Top 10 country and region (100 million Yen, %)

Ranking	Country/Region	2021	2021 Growth rate (YoY)	2021 Share
1	Hong Kong	13,157	533.1	44.4
2	US	9,354	-44.1	31.6
3	Singapore	6,451	33.7	21.8
4	Cayman Isl.	4,711	—	15.9
5	Australia	3,101	—	10.5
6	Germany	1,928	24.7	6.5
7	South Korea	1,378	62.1	4.6
8	China	880	-43.0	3.0
9	Canada	501	454.7	1.7
10	Belgium	256	320.9	0.9
—	World	29,640	-55.0	100

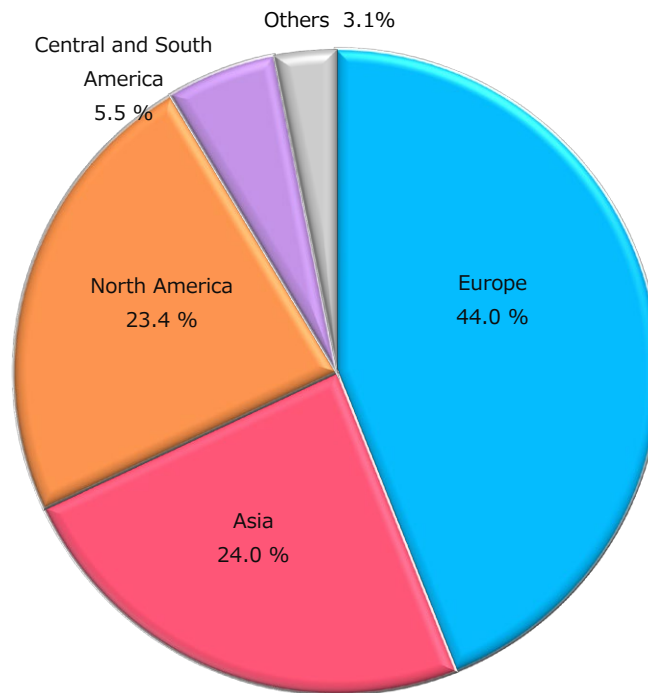
Source: "Balance of Payments" (MoF, BoJ)

2. Stock



Looking at the FDI stock at the end of 2021 (asset liability principle), Europe accounted for 44.0% of the total at 17.8 trillion yen and was the largest, followed by Asia at 9.7 trillion yen (24.0%), and North America at 9.5 trillion yen (23.4%) (Chart 1-6). With increased investment from Hong Kong, the FDI stock in Japan from Asia expanded, surpassing that from North America for the first time. On the other hand, Europe fell due to declines in the stock from major countries such as Switzerland and the Netherlands. By country and region, the U.S. continued to be the largest investor at 9.2 trillion yen (22.8%), followed by the U.K. at 5.7 trillion yen (14.0%) (Chart 1-7). The top 10 countries and regions were mainly taken up by Europe and Asia other than the U.S., accounting for 84.6% of the total FDI stock in Japan.

Chart1-6: FDI Stock in Japan by Region



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

Chart 1-7: FDI Stock in Japan by country and region

Rank	Country/Region	Stock	Share
1	U.S.	92,358	22.8
2	U.K.	56,562	14.0
3	Netherlands	39,236	9.7
4	Singapore	37,093	9.2
5	France	31,713	7.8
6	Hong Kong	27,598	6.8
7	Switzerland	19,253	4.8
8	Cayman Isl.	17,501	4.3
9	Germany	12,184	3.0
10	South Korea	9,299	2.3
—	Others	62,247	15.4
—	Total	405,044	100

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

Section4. Trends in Inward FDI to Japan by Industry

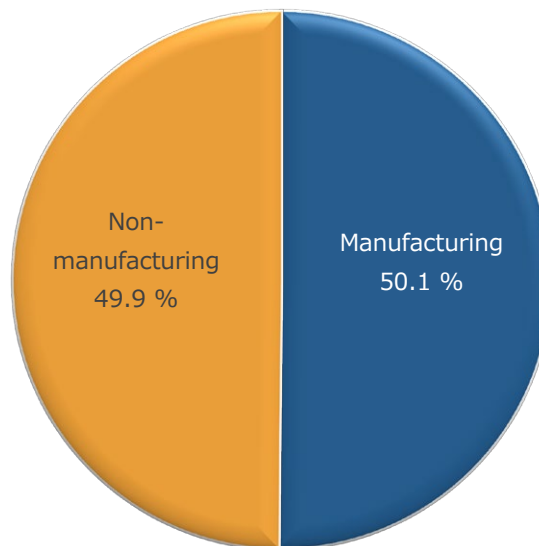


1. Flow



Breaking down FDI flow to Japan in 2021 by industry based on the directional principle, FDI flow to Japan increased 136.8% year-on-year to 2.7 trillion yen, surpassing the record high marked in 2016. The manufacturing industry grew significantly to 1.4 trillion yen (50.1% of the total), while the non-manufacturing industry accounted for 1.3 trillion yen (49.9%), with an almost even split between the two sectors (Chart 1-8). By industry in detail, chemicals and pharmaceuticals increased significantly from the previous year to 1.5 trillion yen, followed by finance and insurance at 0.9 trillion yen, up 25.1% (Chart 1-9). In terms of investment in the chemicals and pharmaceuticals industry by country and region, Hong Kong marked the largest flow accounting for more than 70% of the total in the industry, at 1.1 trillion yen, a 3,642.9% jump from the previous year. In this industry, investment from Switzerland was also robust and rose 24.2% to 148.6 billion yen. In the manufacturing industry, electric machinery performed well, rose 49.1% year-on-year to 200 billion yen, but transportation equipment turned negative at -300 billion yen.

Chart 1-8: FDI to Japan in 2021 (Flow, by Industry)



Note: This is based on the directional principle and different from that of the statistics by country/region (asset and liability principle).

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

Chart 1-9: FDI to Japan in 2021: Top 10 sectors

Ranking	Sector	2021	Growth rate (YoY)
1	Chemicals and pharmaceuticals	14,713	987.7
2	Finance and insurance	9,297	25.1
3	Communications	4,246	2,981.5
4	Electric machinery	2,350	49.1
5	Service	613	-30.1
6	Transportation	487	130.6
7	General machinery	137	-34.7
8	Iron, non-ferrous, and metals	102	250.0
9	Construction	98	—
10	Lumber and pulp	88	860.4
—	Wholesale and retail	-2,403	—
—	Transportation equipment	-3,293	—

Note: (1) Directional principle. (2) Negative amount indicates net withdrawal.

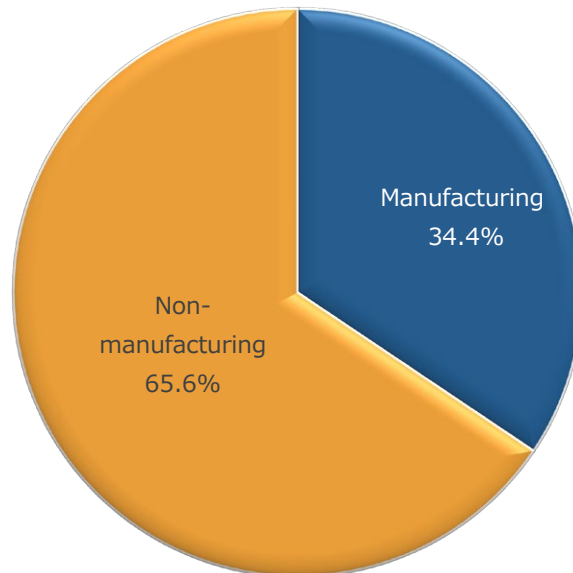
Source: "Balance of Payments" (MoF, BoJ)

2. Stock



At the end of 2021, the FDI stock in Japan by industry (directional principle) was 27.2 trillion yen, up 4.8% from the previous year. The manufacturing industry accounted for 34.4%, while the non-manufacturing industry accounted for 65.6% (Chart 1-10). By sectors, finance and insurance grew by 10.4% from the previous year to 11.0 trillion yen (40.5% of the total), which was the largest (Chart1-11). Chemicals and pharmaceuticals followed this at 3.3 trillion yen (12.3% of the total), up 77.8% from the previous year, which was the highest growth rate. Meanwhile, transportation equipment saw a double-digit decrease, falling 13.2% from the previous year to 2.8 trillion yen (10.4% of the total). Electric machinery also declined to about 60% of the prior year.

Chart1-10: FDI Stock in Japan by Industry



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

Chart 1-11: FDI Stock in Japan: Top 10 sectors (at the end of 2021)

Rank	Sector	Stock	Share
1	Finance and insurance	110,072	40.5
2	Chemicals and pharmaceuticals	33,459	12.3
3	Transportation equipment	28,327	10.4
4	Communications	23,262	8.6
5	Electric machinery	15,563	5.7
6	Services	13,957	5.1
7	General machinery	5,971	2.2
8	Transportation	4,976	1.8
9	Real estate	4,569	1.7
10	Glass and ceramics	4,433	1.6
—	Others	26,996	9.9
—	Total	271,585	100

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

Section5. Trends in Greenfield Investment in Japan

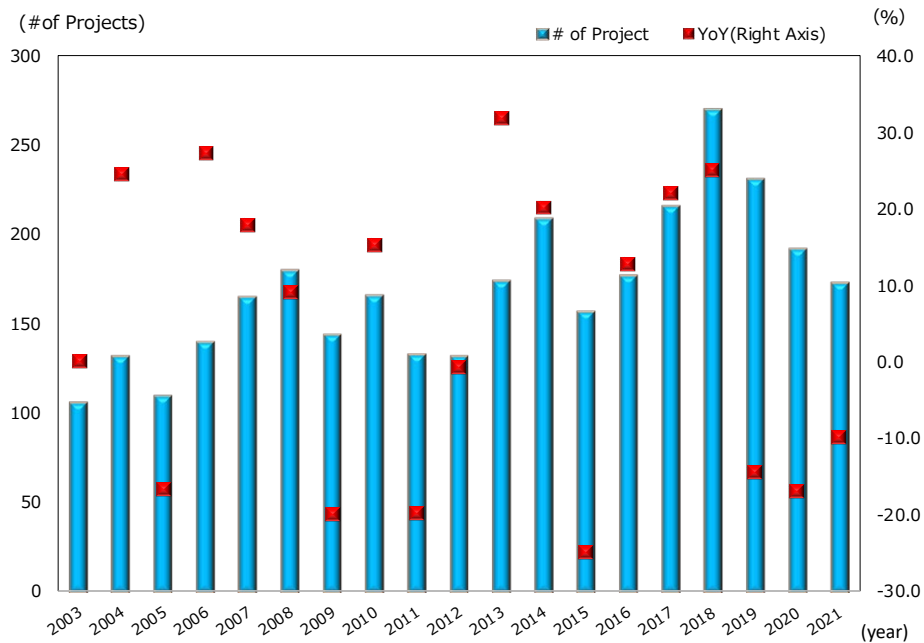


1. Number of projects



The number of greenfield investments in Japan in 2021 (based on the date of announcement) fell 9.9% from the previous year to 173, marking the third consecutive year-on-year decline (Chart 1-12).

Chart 1-12: Number of Greenfield Investments in Japan



Source: "fDi Markets" (Financial Times) (as of June 23, 2022)

2. Top 5 Countries and Regions/Top 5 Sectors



Looking at greenfield investment in Japan in 2021 by investor country/region, the U.S. marked the largest number of projects at 54, despite a 12.9% decrease from the previous year. It was nearly three times larger than that of Germany, the second largest, and far surpassing other countries and regions (Chart 1-13). The U.K., the third largest, rose 50.0% from the previous year to 18, while Singapore fell 36.8% to 12.

Looking at by sectors, as in previous years, software accounted for the largest number of projects at 50, although it fell 20.6% from the prior year (Chart 1-14). Communications grew significantly by 81.8% to 20, followed by business services with 17, up 6.3%. Semiconductors also jumped to 11 from 2 in 2021, up 450.0%.

Chart 1-13: Number of Greenfield Investments in Japan in 2021 by Investor Country and Region (# of Projects, %)

Ranking	Country/Region	# of Projects	Growth rate (YoY)	Share
1	United States	54	-12.9	31.2
2	Germany	19	11.8	11.0
3	United Kingdom	18	50.0	10.4
4	Singapore	12	-36.8	6.9
5	China	7	16.7	4.0
—	Total	173	-9.9	100

Source]“fDi Markets”(Financial Times)(as of Jun. 23rd, 2022)

Chart1-14: Number of Greenfield Investments in Japan in 2021 by sectors (# of Projects, %)

Ranking	Sector	# of Projects	Growth rate (YoY)	Share
1	Software & IT services	50	-20.6	28.9
2	Communications	20	81.8	11.6
3	Business services	17	6.3	9.8
4	Industrial equipment	13	0.0	7.5
5	Semiconductors	11	450	6.4
—	Total	173	-9.9	100

Source]“fDi Markets”(Financial Times)(as of Jun. 23rd, 2022)

3. Major Greenfield Investment Projects in 2021



Among significant greenfield investment projects in Japan in 2021, investment activities in the semiconductor sector stood out, including Taiwan Semiconductor Manufacturing (TSMC) as well as a large-scale investment plan by Micron Technology reported in the media. In addition, data centers and renewable energy-related investment projects showed their presence (Chart 1-15).

Chart 1-15: Major Greenfield Investment Projects in Japan in 2021

Date (based on announcement)	Company	Country/ Region	Sector	Destination (Prefecture)	Outline	Investment amount (US\$ million)
July	Taiwan Semiconductor Manufacturing (TSMC)	Taiwan	Semiconductor	Kumamoto	Established a subsidiary to provide foundry service with the aim of responding to the strong global demand for semiconductors.	7,500
June	Princeton Digital Group	Singapore	Communications	Saitama	Started construction of a large-scale data center with a capacity of 100 MW.	1,000
August	Envision AESC	China	Electronic components	Ibaraki	Decided to establish one of Japan's largest manufacturing plants in the Industrial Parks in IBARAKITOWN. The plant will manufacture next-generation lithium-ion batteries for electric vehicles.	393
April	Canadian Solar Inc (CSI)	Canada	Renewable energy	Fukushima, Ibaraki, Hiroshima	Started construction of solar power generation projects, which include the flagship Azuma Kofuji Project (Fukushima Prefecture) of 100MWp, as well as projects totaling 43MWp in Ibaraki Prefecture and Hiroshima Prefecture.	Undisclosed
October	Goodman	Australia	Real Estate	Chiba	Announced development of a data center for ST Telemedia Global Data Centres, a major data center operator in Singapore.	Undisclosed
February	Taiwan Semiconductor Manufacturing (TSMC)	Taiwan	Semiconductor	Ibaraki	Decided to establish TSMC Japan 3DIC Research and Development Center within AIST in order to conduct joint research with AIST on new materials for three-dimensional integrated circuit (3DIC) implementation.	186
August	Pacifico Energy	US	Renewable energy	Hyogo	Started construction of a large-scale solar power plant on a former golf course site. The scale of power generation is 121 MW.	Undisclosed
October	DSL. Japan	Germany	Chemicals	Hyogo	A joint venture between the Japanese subsidiary of German chemical giant Evonik and Shionogi has expanded its production line for high-performance gel-type silica to meet increased demand for reducing environmental impact.	Undisclosed

Source: "fDi Markets" (Financial Times) and company announcements

Section6. Trends in Inbound M&A in Japan

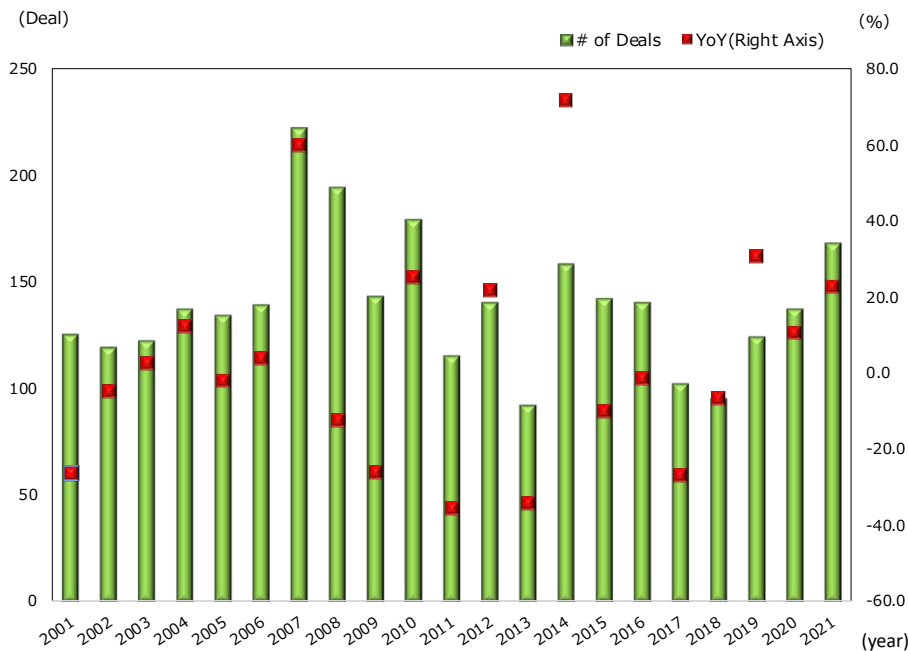


1. Number of M&A Deals: Top 5 Countries and Regions



In 2021, the number of cross-border M&A deals to Japan (hereafter inbound M&A deals), based on the completion date, increased 22.6% from the previous year to 168 (Chart 1-16). The number of inbound M&A deals declined year-on-year for four consecutive years until 2018, but from 2019, it increased by double digits for three straight years. Looking at the number of deals in 2021 by investor country and region, the U.S. accounted for the largest at 56 deals(33.3% of the total), followed by Singapore (19 deals, 11.3% of the total) and South Korea (18 deals, 10.7% of the total) (Chart 1-17).

Chart 1-16: Inbound M&A Deals in Japan



Source: "Workspace" (Refinitiv) (as of June 23, 2022)

Chart 1-17: Inbound M&A Deals in Japan in 2021 by Investor Country and Region (%)

Ranking	Country/Region	# of Deals	Growth rate(YoY)	Share
1	US	56	43.6	33.3
2	Singapore	19	26.7	11.3
3	South Korea	18	38.5	10.7
4	China	15	0.0	8.9
5	UK	9	125	5.4
5	France	9	80	5.4
—	Total	168	22.6	100

Source: "Workspace" (Refinitiv) (as of June 23, 2022)

2. Major M&A Deals in Japan in 2021



Major M&A deals in Japan in 2021 include the acquisition of Paidy Inc. by PayPal Holdings Inc (location of the ultimate parent company: US), and Takeda Consumer Healthcare Co., Ltd. by Oscar A-Co K.K. (location of the ultimate parent company: US) (Chart 1-18).

Chart 1-18: Major Inbound M&A deals in Japan in 2021

No.	Completion	Target company	Target company: Industry	Acquiring company	Acquiring company: Country/Region	Acquiring company: Industry	Value (US\$ million)
1	October	Paidy Inc.	Other financials	PayPal Holdings Inc	US	Other financials	2,731
2	March	Takeda Consumer Healthcare Co., Ltd.	Pharmaceuticals	Oscar A-Co K.K.	US	Other financials	2,288
3	July	Shiseido Company, Limited-Personal Care Business	Other services, wholesale trade	K.K. Oriental Beauty Holding	UK	Other financials	1,524
4	November	Trygroup Inc.	Education	CVC Capital Partners Asia V Ltd	UK	Other financials	980
5	March	Rakuten Group, Inc.	E-commerce, B2B	Image Frame Investment (HK) Ltd	China	Other financials	606
6	November	GCA Corporation	Asset management, investment advisory	Houlihan Lokey Inc	US	Securities	458
7	February	Takeda Pharmaceutical Company Limited-TachoSil Business	Biotechnology	Corza Health Inc	US	Other financials	415
8	November	Text Trading Company, K.K.	Apparel sales	Foot Locker Inc	US	Apparel sales	360
9	June	Hulic Co., Ltd. -Hewlett Packard Japan Office Building	Commercial real estate	Tsubaki special-purpose company	Singapore	Asset management, investment advisory	353
10	December	Hanamizuki Holdings special purpose company -Kuwana Logistics Center	Commercial real estate	Hinoki LLC	Singapore	Other financials	307

Note: M&As with the top 10 transaction values are listed. The nationality of the acquiring company is the location of the ultimate parent company.

Source: "Workspace" (Refinitiv) (as of June 23, 2022)

[JETRO's Global Network]



Invest Japan Department
Japan External Trade Organization (JETRO)
1-12-32, Akasaka, Minato-ku, Tokyo
107-6006 Japan
Tel. +81 3 3582 5571

www.jetro.go.jp/en/invest/

Neither this publication nor any part of it may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior permission of JETRO. All information in this publication is verified to the best of the writers' and the publisher's ability. However, JETRO does not accept responsibilities for any loss arising from reliance on it.