

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.

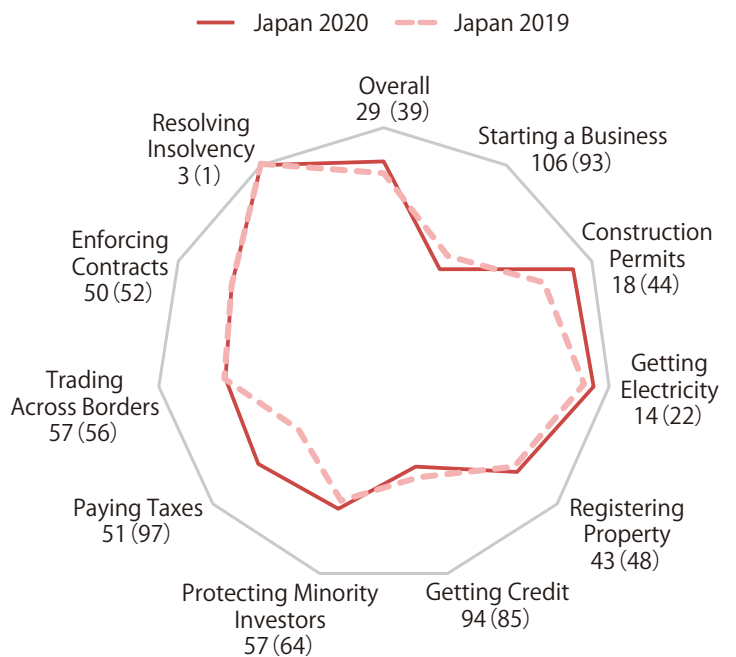
Doing Business covers 190 countries and regions around the world. It evaluates 10 areas related to the regulation and institutional aspects of business activities on a scale of 100 points. The World Bank publishes rankings every year (Chart 2-1).

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

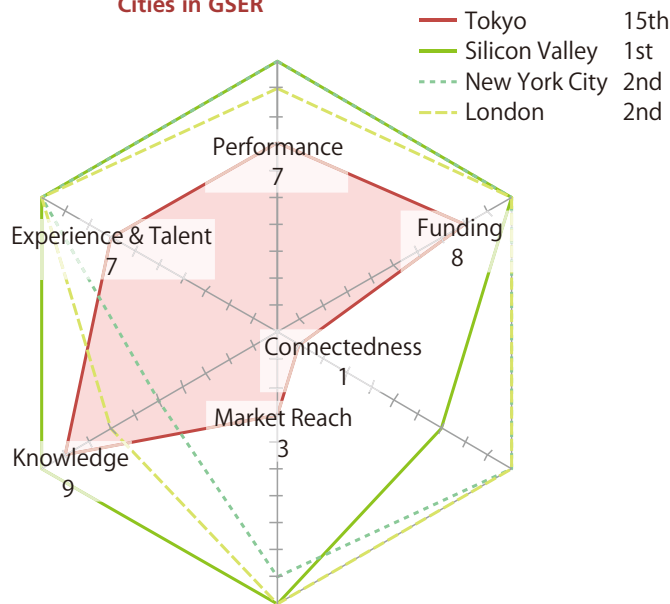
Rank	Country	City
1	US	Silicon Valley
2	US	New York City
2	UK	London
4	China	Beijing
5	US	Boston
6	Israel	Tel Aviv - Jerusalem
6	US	Los Angeles
8	China	Shanghai
9	US	Seattle
10	Sweden	Stockholm
11	US	Washington DC
12	Netherlands	Amsterdam
13	France	Paris
14	US	Chicago
15	Japan	Tokyo
16	Germany	Berlin
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.
Startup 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 training¹.

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	<ul style="list-style-type: none"> Investors with a record of sanction due to the Act State-owned enterprises (except those accredited by the Japanese authorities)
2) Foreign financial institutions	<ul style="list-style-type: none"> Securities/insurance companies, banks, etc.
3) General investors	<ul style="list-style-type: none"> Foreign companies and SWFs accredited by the Japanese authorities
×	
Industrial Sectors Investees Conduct Business in	
Non-Designated Business Sectors	
Designated Business Sectors : 155 sectors	
<ul style="list-style-type: none"> 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

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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 2020². 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 (Acquired share: more than 10%) · Not required (Acquired share: less than 10%)
3) General investors	Non-Core Designated Business Sectors	Only Exemption Conditions	Applicable 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 acquired 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.

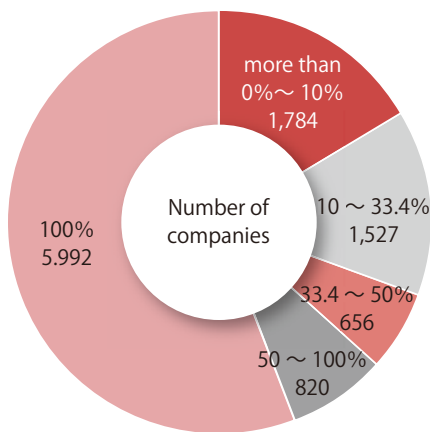
(3) Perception of the Business Environment in Japan among Foreign-affiliated Companies

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

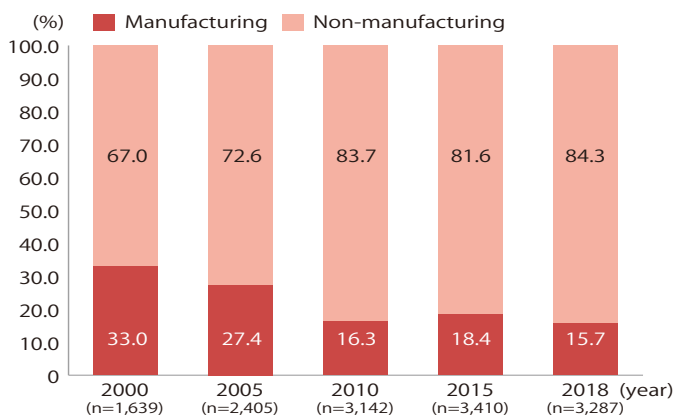


Source: "Economic Census-Activity Survey" (MIC, METI)

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 Japan¹.

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

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

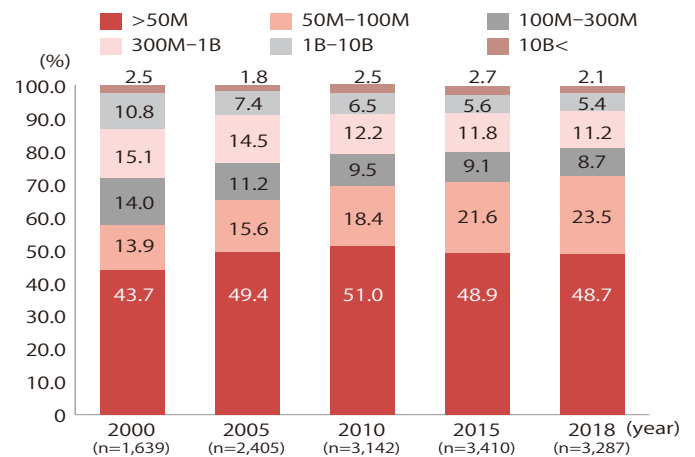


Note: "Year" represents the fiscal year respondents based their answers on.
Source: "Survey of Trends in Business Activities of Foreign Affiliates" (METI)

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.

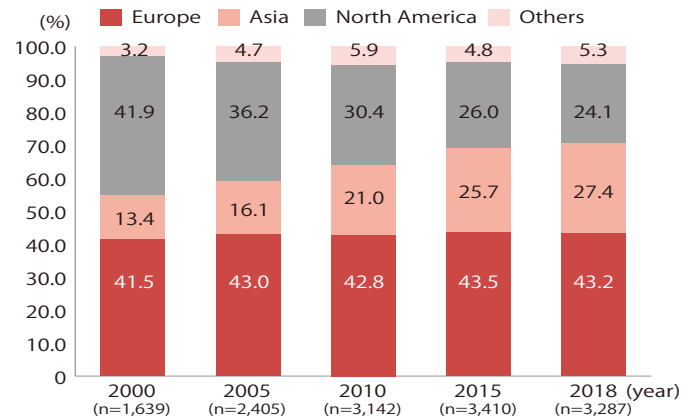
Looking at the questionnaire's respondents by the size of share capital, 48.7% of foreign companies had "¥50 million or less," followed by 23.5% with "¥50 million to ¥100 million," meaning over 70% of corporations had share capital of ¥100 million or less (Chart 2-16). Looking at the historical trend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

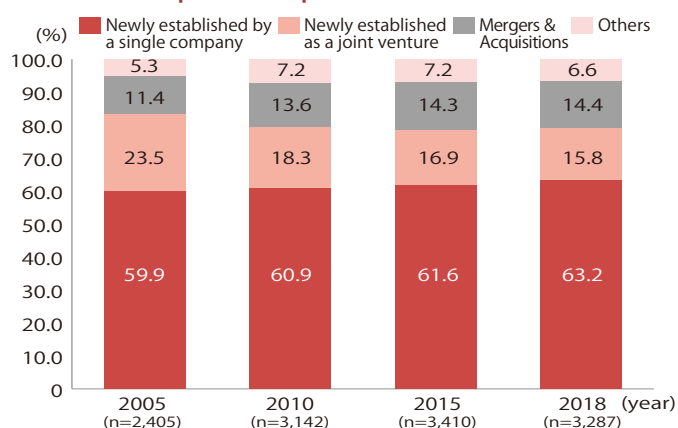
¹ The 53rd survey were 5701 Target Companies and 3449 Respondent Companies, and the response rate was 60.5% (the denominator for each question is based on valid responses to the question). Although the survey results do not cover all the foreign-affiliated companies in Japan, they serve as data to identify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

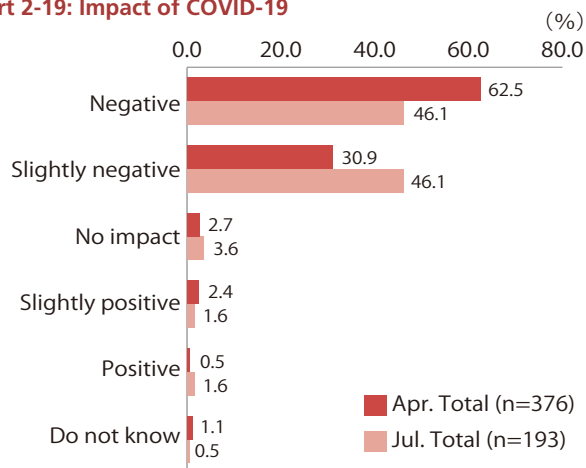
■ Approximately 20% of enterprises increased sales despite the COVID-19 impact

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.

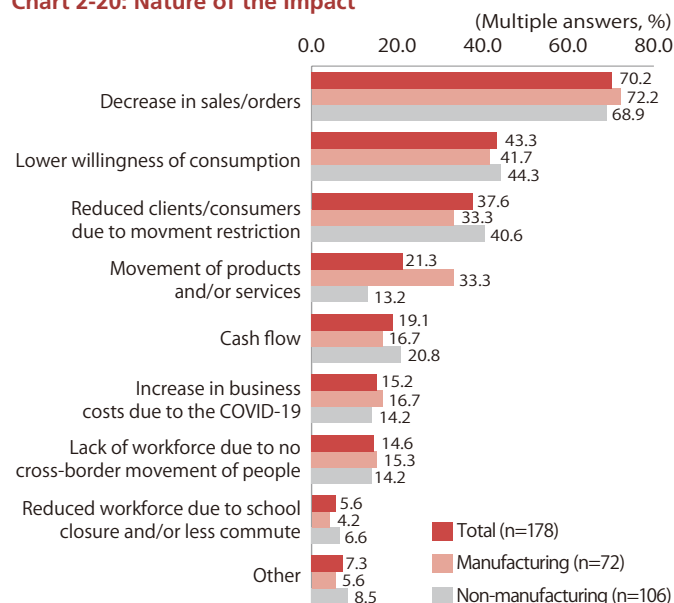
As for the nature of the impacts among those that answered they experienced the negative impacts, approximately 70% experienced "decrease in sales/orders," followed by "lower willingness of consumption" and "Reduced clients/consumers due to movement restriction" (Chart 2-20).

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

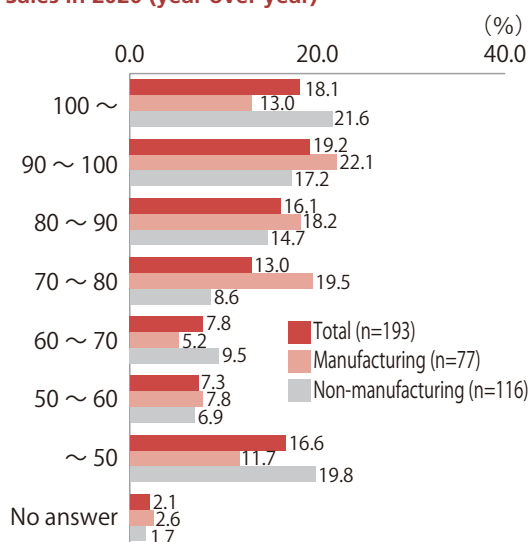


Note: n is companies that answered either "negative" or "slightly negative" impacts due to COVID-19. Respondents could choose up to three answers.
Source: "Survey on Operations of Foreign-affiliated Companies in Japan" (JETRO)

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.

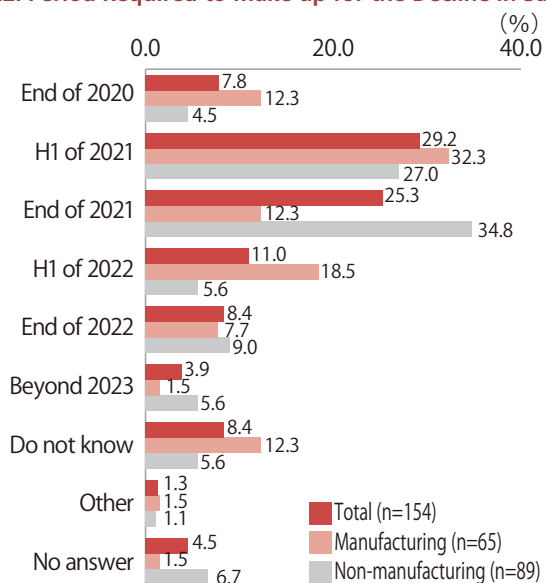
Regarding the sales in 2020 up to the time of the July survey (the same period of the previous year = 100 as reference period), 18.1% of the total experienced sales increase from the same period of the previous year, while 79.8% suffered from decreases. (Chart 2-21). In terms of industries of enterprises that gained sales increase from the prior year, there were many precision machinery companies and

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)

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.

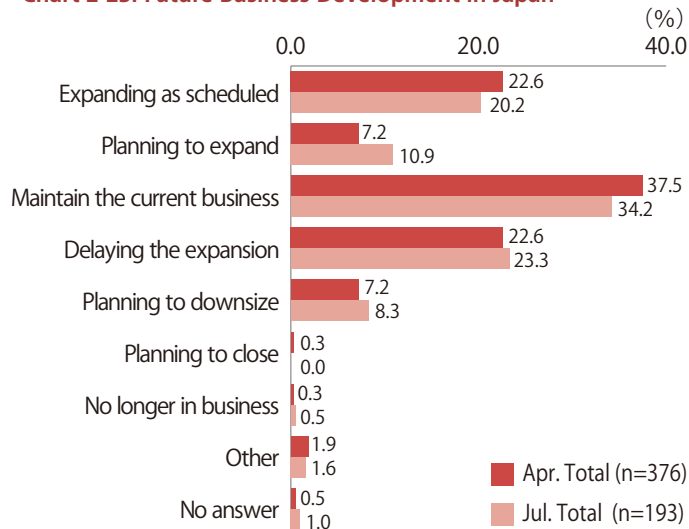
We asked the enterprises that experienced sales decline from the same period of the previous year how long it would take to compensate for the decline in sales. 29.2% of the enterprises said, "until the first half of 2021," followed by "until the end of 2021" (25.3% of the total) (Chart 2-22). By sector, 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.

■ 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

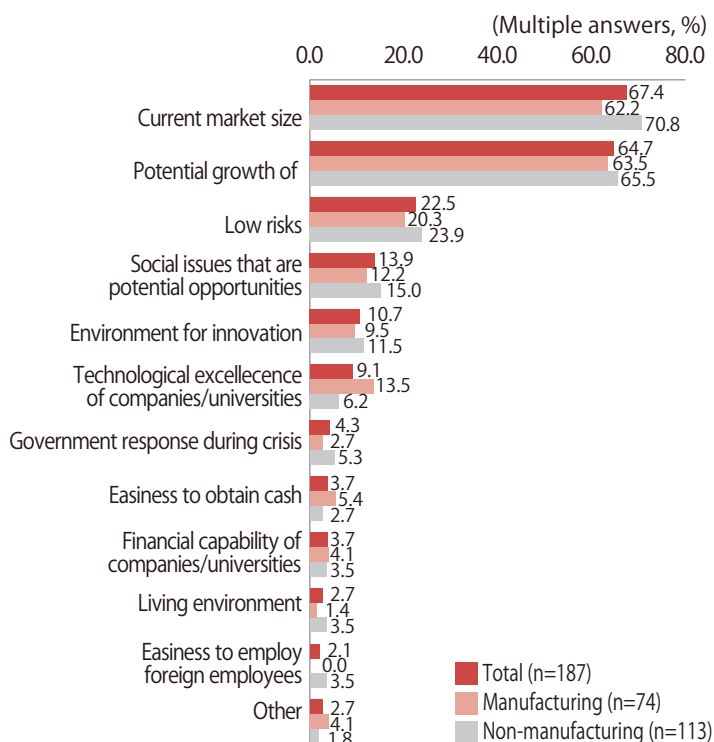


Source: "Survey on Operations of Foreign-affiliated Companies in Japan" (JETRO)

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.

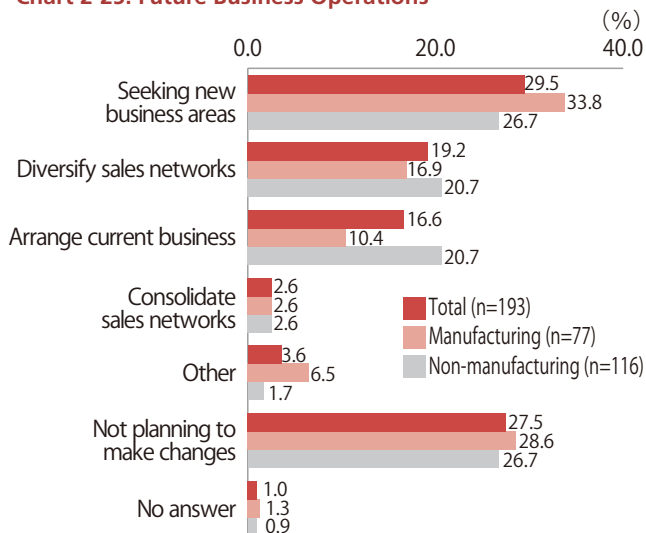
Open innovation (OI) has recently been in the limelight as one of the means to bring about the creation of innovative businesses. Regarding OI-related activities in Japan by foreign affiliates, 26.9% of all companies "have implemented and will continue/expand"(Chart

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

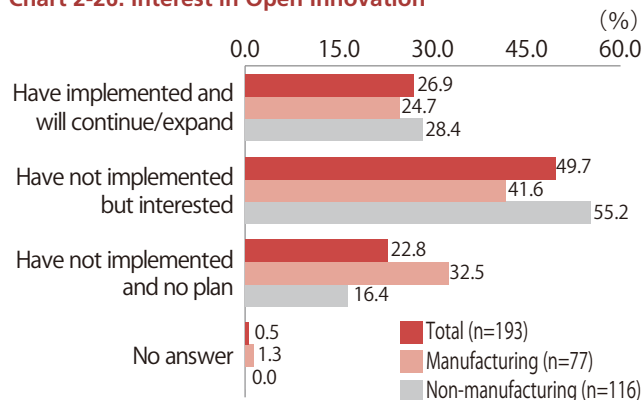


Source: "Survey on Operations of Foreign-affiliated Companies in Japan" (JETRO)

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 survey 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).

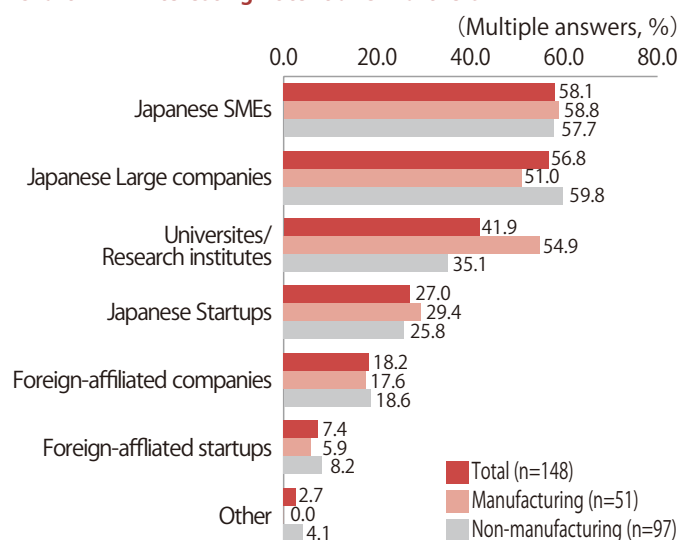
JETRO surveys on foreign-affiliated companies in Japan have found that many companies are continuing or positive about expanding their domestic business, despite the COVID-19 impacts. The Japanese market size will continue to attract companies and remain an essential factor in formulating business strategies 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 2-26: 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)