

JETRO Invest Japan Report

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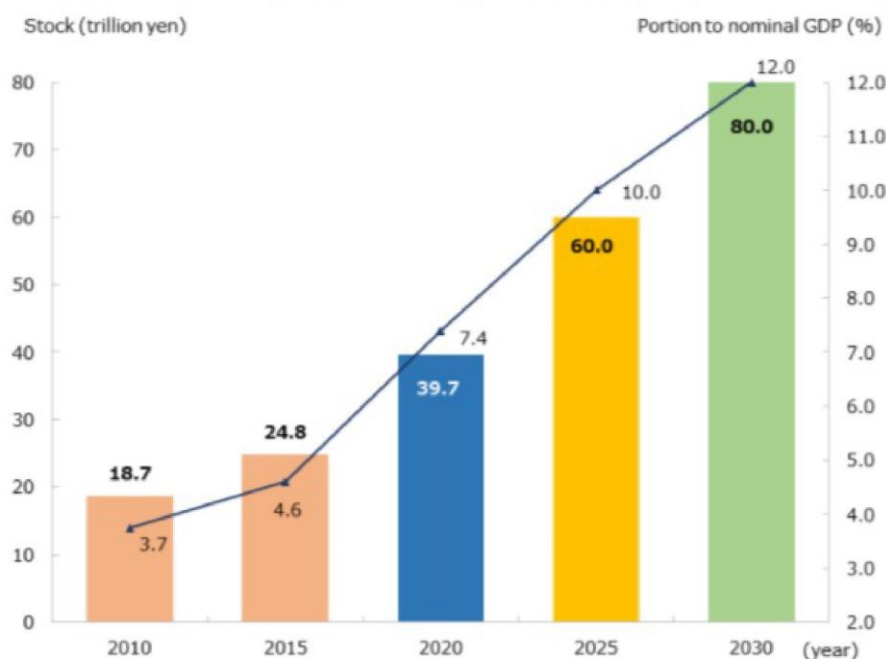
Chapter2. Japan's Business Environment and Foreign-Affiliated Companies

Section1. Strategy for Promoting FDI in Japan and Japan's Business Environment

Targeting to double the FDI stock in Japan by 2030

As seen in Chapter 1, the FDI stock in Japan at the end of 2020 was 39.7 trillion yen, and the ratio to GDP increased to 7.4%. As a result, the policy target of 35 trillion yen in FDI stock by the end of 2020^{*1} has been achieved. In June 2021, the Council for Promotion of Foreign Direct Investment in Japan selected the FDI stock in Japan as a KPI (Key Performance Indicator) It stipulated a new target of 80 trillion yen with its ratio to GDP: 12% by 2030. Also, the interim target was set at "60 trillion yen with its ratio to GDP at 10% by 2025" and an interim evaluation will be conducted at an appropriate time. (Chart 2-1).

Chart 2-1: Trends and Targets in FDI Stock in Japan



Note: The balance of direct investment in Japan is based on the 6th edition of the Balance of Payments Manual
 Source: "International Investment Position of Japan" (Ministry of Finance, Bank of Japan), "National Accounts of Japan" (Japan Cabinet Office)

The development of the business environment needs to be accelerated to achieve this policy goal. The Strategy for Promoting Foreign Direct Investment in Japan, stipulated along with the new targets at the Council for Promotion of Foreign Direct Investment in Japan on June 2, 2021, has three pillars:

- (1) Creating a new digital green market and building innovation ecosystems.
- (2) Accelerating the development of business environments in response to global changes.
- (3) Developing investment grounds through public-private partnerships utilizing regional strengths.

In addition, it has set out the following three indicators as supplementary indicators. The first is value added^{*2} created by business activities of foreign-affiliated companies^{*3} from a macroeconomic perspective. It targets to doubled from 17 trillion yen in 2018 to 34 trillion yen by 2030 with an ongoing follow-up.

At present, 42.9% of foreign-affiliated companies^{*4} are concentrated in Tokyo. The second supplementary indicator is the number of foreign-affiliated companies by prefecture. From the perspective of expanding the impact on the economy into regions, the target for the number of foreign-affiliated companies in prefectures outside Tokyo has been set at 10,000 by 2026.

The number of highly skilled foreigners entering Japan has become the third supplementary indicator to promote innovation. The target is to achieve 200,000 business management personnel to enter the country by 2030.

*1 Japan Revitalization Strategy (Cabinet decision on June 14, 2013)

*2 Value added = Operating income + Total salary + Depreciable Assets + Welfare expenses + Rent of movable property and real estate + Taxes and dues

*3 Companies stipulated in the Basic Survey of Corporate Activities (METI), in which the number of shares held or the ratio of the amount of investment by foreign investors to the total number of outstanding shares or the total amount of investment of the company exceeds one-third.

*4 Enterprises with a foreign ownership ratio of one third or more according to the 2018 Economic Census for Business Activity (METI)

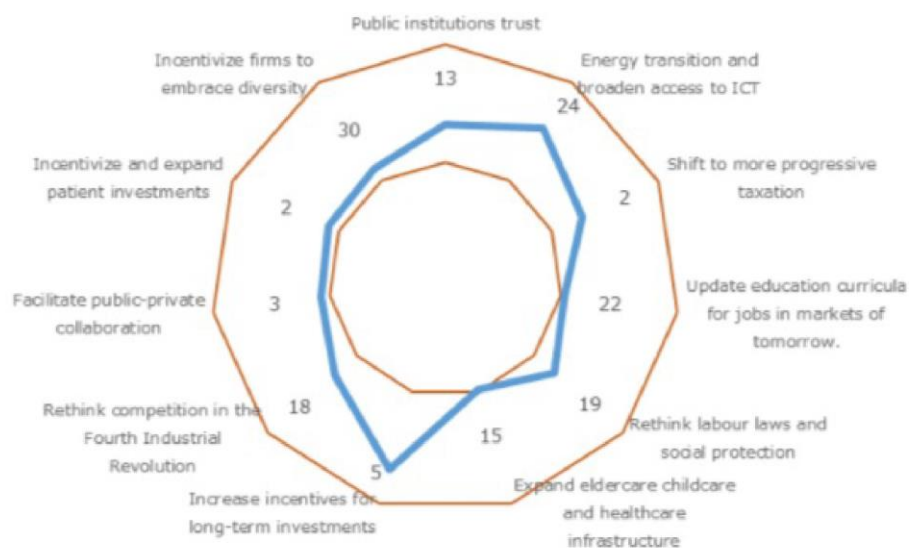
Indicators of business environment



In 2020, there were many special business environment analyses in the COVID-19 pandemics. The World Economic Forum published rankings in 11 priorities (scored 0 to 100 points) in the four broad areas for business environment transformation for 37 countries and regions in place of the usual Global Competitiveness Index ranking.

The first area has three indicators of an effective business environment: "Public institutions trust," "Energy transition and broaden access to IT," and "Shift to more progressive taxation." Japan ranks second in the shift to more progressive taxation. The second area relates to human capital, and Japan ranks in the middle for all indicators, including "Update education curricula for jobs in markets of tomorrow," "Rethink labor laws and social protection," and "Expand eldercare, childcare, and healthcare." The third area is related to markets and includes indicators such as "Increase incentives for long-term investments," "Rethink competition in the Fourth Industrial Revolution," and "Facilitate public-private collaboration." Japan ranks third in the public-private collaboration. The fourth area is related to the innovation ecosystem, with "Incentivize and expand patient investments in research, innovation and invention" and "Incentivize firms to embrace diversity" as indicators. Japan ranks second in the incentives for research, innovation and invention investments. The only area in which Japan scored below 50 was "Expand eldercare, childcare, and healthcare" (49.3 points, 15th place), and the scores were all above average except for "Energy transition and broader access to IT" (76.9 points, 24th place), "Incentivize firms to embrace diversity" (56.0 points, 30th place), and "Update education curricula for jobs of tomorrow" (51.3 points, 22nd place) (Chart 2-2).

Chart 2-2: Japan's Ranking of the 11 Indicators



Source: Global Competitiveness Report (World Economic Forum)

Tokyo ranked ninth in the environmental Indicators for Startup Companies



On September 22, 2021, US research firm Startup Genome released the "Global Startup Ecosystem Report (GSER) 2021." This report covers and ranks more than 150 cities around the world. Tokyo ranked ninth by moving up six positions from 15th in 2020 making it one of the top 10 cities for the first time. There was no change in the top five (Chart 2-3).

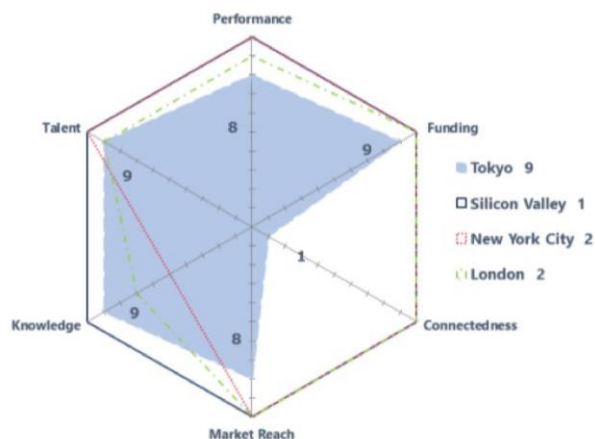
Chart 2-3: Top 20 Cities in GSER

Rank 2021	Country	City		Rank 2020	Country	City
1	USA	Silicon Valley	—	1	USA	Silicon Valley
2	USA	New York City	—	2	USA	New York City
2	UK	London	—	2	UK	London
4	China	Beijing	—	4	China	Beijing
5	USA	Boston	—	5	USA	Boston
6	USA	Los Angeles	—	6	Israel	Tel Aviv - Jerusalem
6	Israel	Tel Aviv	↘	6	USA	Los Angeles
8	China	Shanghai	—	8	China	Shanghai
9	Japan	Tokyo	↗	9	USA	Seattle
10	USA	Seattle	↘	10	Sweden	Stockholm
11	USA	Washington DC	—	11	USA	Washington DC
12	France	Paris	↗	12	Netherlands	Amsterdam
13	Netherlands	Amsterdam-Delta	↘	13	France	Paris
14	Canada	Toronto-Waterloo	↗	14	USA	Chicago
15	USA	Chicago	↘	15	Japan	Tokyo
16	Korea	Seoul	↗	16	Germany	Berlin
17	Sweden	Stockholm	↘	17	Singapore	Singapore
18	Singapore	Singapore	↘	18	Canada	Toronto-Waterloo
19	China	Shenzhen	↗	19	USA	Austin
20	USA	Austin	↘	20	Korea	Seoul

Source: GSER2021(Startup Genome)

GSER evaluates six success factors on a scale of 1 to 10 and ranks the top 40 cities according to its own calculation method. Looking at the scores for the top three cities, Silicon Valley scored a perfect 10 for all factors, and New York and London, which ranked second, scored 10 or 9 on all except R&D. Tokyo scored highly for "funding," "human resources," and "R&D," each of which received 9 points. On the other hand, Tokyo received a single point for "connectedness." More cooperation among regional networks is required (Chart 2-4).

Chart 2-4: Comparison of Tokyo and Top Three Cities in GSER



Note: Figures in each item refer to the score in Tokyo.
Source: GSER2021 (startup genomes).

Formation of hub cities for international startup ecosystems



Japan faces various social issues such as low birthrate, an aging population, and regional disparities. It is essential to build an innovation ecosystem by incorporating innovative technologies and know-how through open innovation and attracting excellent human resources and funds from overseas to achieve sustainable economic growth. The "Strategy for Promoting Foreign Direct Investment in Japan" also assets that the establishing an innovation ecosystem is one of the pillars for achieving the policy goals mentioned in Chapter 2 (1) above.

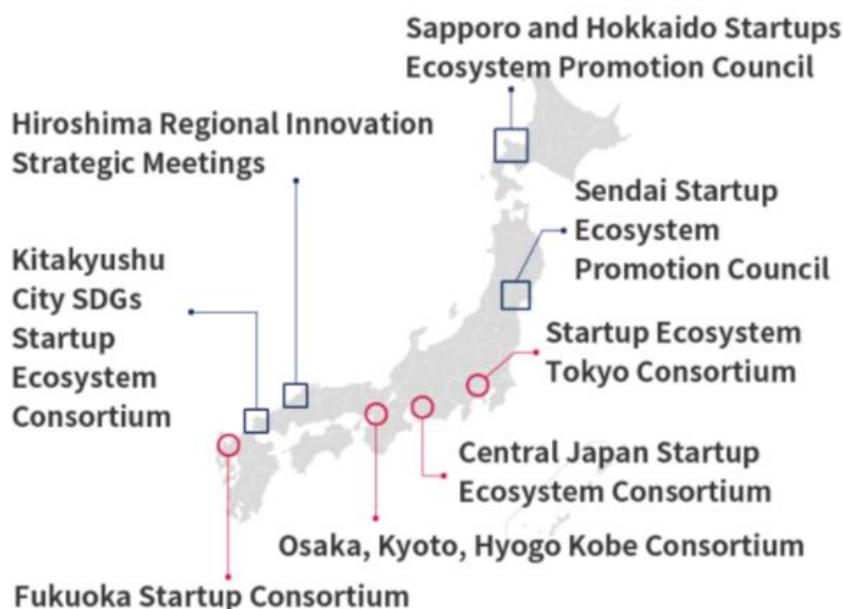
Specifically, the strategy states to create international innovation ecosystem cities that are internationally open, centered around the top universities in the region, and promote the accumulation of foreign startups, overseas human resources (teachers, researchers, entrepreneurs, etc.), and investors in a unified and integrated manner.

In July 2020, the Cabinet Office selected eight cities - four global startup cities and four startup cities (Chart 2-5), to build innovation cities open to the world. The eight cities involve 18 local governments, which provide intensive support for startups located in these municipalities over a three-year period.

Chart 2-5: Startup ecosystem base cities

- Strategy 1** Formation of start up ecosystem base cities
- Strategy 2** Strengthen ecosystems centered on universities
- Strategy 3** Providing world class Acceleration Programs *
- Strategy 4** Promoting Gap funds** for tech startups
- Strategy 5** Government and municipalities to encourage challenges as customers of startups
- Strategy 6** Enhancement of ecosystem networks and fostering momentum
- Strategy 7** Increasing the mobility of R&D human resources

○ Global base cities □ Promotion base cities



Source: JETRO website

The "Support Package for the Formation of a Startup Ecosystem" formulated by the Cabinet Office, the Ministry of Education, Culture, Sports, Science and Technology, and the Ministry of Economy, Trade and Industry, includes the promotion of entrepreneurship education to learn about the mindset needed to start a business, the formation of networks and communities for education and support, the development of R&D systems for the creation of startups, and the generation of promising university startups with high growth potential. In addition, as part of the package, nine government agencies that support startups have concluded MOUs to strengthen their support systems.

JETRO will focus on supporting startups in regions to further promote the revitalization of the regional ecosystems. In February 2021, JETRO implemented an acceleration program by a U.S. accelerator for 49 startups in four global startup cities on strategy planning and measures to acquire human resources. To provide full-scale support, JETRO plans to expand the program by including the four startup cities on top of the four global startup cities from the fall of 2021 and offer online acceleration programs, including specialized courses, to about 100 startups. JETRO will implement the program from late October 2021 to February 2022.

Promoting the Super City Initiative



The Super City Initiative is an effort to improve the lives of citizens by providing advanced and convenient services through the use of cutting-edge technologies such as AI and big data in a wide range of fields spanning all aspects of life, including travel, logistics, education, and medical care. In May 2020, a law was enacted to partially revise the National Strategic Special Zones Law, setting forth the institutional framework for the Super City Initiative, and the revised law came into effect in September of the same year.

In December 2020, the Cabinet Office launched a public invitation for proposals on areas to be designated as special zones, advanced services to be implemented, and regulatory reforms in order to set up a super-city-type National Strategic Special Zones. A total of 31 municipalities applied by the time it closed on April 16, 2021. In August, an exclusive meeting was held to discuss zoning was held and based on the opinions of the members of the meeting, a call for resubmission of regulatory reforms was made by October 15, the same year. Regarding re-proposals, 28 of the 31 municipalities made proposals. The technical Committee will meet again in the future when there are more concrete proposals for regulatory reform. Thereafter, the National Strategic Special Zones Advisory Council will hold a meeting to express opinions on the proposed zone designations, followed by a Cabinet Order to designate the zones.

Revision of Tax Deduction System for Research and Development (R&D Tax Credit System)



METI has reviewed the R&D tax system in the fiscal 2021 tax reform in order to encourage companies that actively maintain or expand R&D investment. The tax system allows companies conducting R&D to deduct a certain percentage (2-14%) of their R&D expenditures from the amount of corporation tax. As a result of the tax reform in fiscal 2021, the following four points are implemented: 1) raise of the maximum deduction from the current maximum of 45% to a maximum of 50% of corporation tax; 2) revise of the tax credit rate to maintain and increase R&D expenditures; 3) addition of R&D related to software that provides services through the cloud to the scope of this tax credit, assuming automatic infrastructure inspection services using drones, etc., and mobility services such as sharing; and 4) open innovation-type operational improvements.

Acceleration of Digitalization



Six Bills for Promoting Digitalization Established



Six related bills of digital promotion were enacted in May 2021 (Chart 2-6). The bill to establish the Digital Agency, which will be the key organization to accelerate the shift of administrative procedures to online, etc. The Digital Agency was established on September 1, 2021 with about 600 members. It has hired many people from the private sector to tackle issues such as the slow digitization of government services and the integration of national and local government systems. The enacted bills include the Basic Act on the Formation of a Digital Society, which formulates the basic policies of IT policies, and the Act on the Arrangement of Related Acts for the Formation of a Digital Society, which includes the revision of the personal information protection system and administrative procedures requiring a seal.

Chart 2-6: Outline of Six Digital Reform Bills

Act on the Establishment of the Digital Agency	Established in September 2021 with about 600 members
Basic Act on the Formation of a Digital Society	Formulate a basic policy for the government's IT policy with the aim of strengthening Japan's international competitiveness and improving convenience for the people.
Act on Deposit and Savings Account Registration for Receiving Public Money	Establish a system that allows for advance registration of deposit accounts for receiving benefits.
Act on Deposit and Savings Account Management	Create a system that links accounts and My Number to enable account inquiries at the time of a disaster or inheritance
Act on the Arrangement of Related Acts for the Formation of a Digital Society	Integrate the three laws on Personal Information Protection, which are enacted respectively for the private sector, administrative organs, and independent administrative agencies. Remove seal requirements in administrative and private procedures.
Act on the Standardization of Local Government Information Systems	Promote the unification of the administrative systems between the national and local governments.

Source: Various press materials

Furthermore, in November 2021, the Cabinet Secretariat held the first meeting and took the first step toward the realization of the "Digital Garden City State Concept," an initiative to solve local challenges by utilizing digital technology and close the gap between local and urban areas. Digitization is an important field related to the fundamentals of all industries, not only the manufacturing but also service and agriculture, in order to solve social issues that Japan faces, such as declining birthrate and aging population, regional disparities, and aging infrastructure. In the future, the government will promote the unification of the administrative systems of the national and local governments, as well as speedup of the procedures of various benefits and introduction of online administrative procedures. In addition, the government will work to improve convenience for the public by deregulating online medical treatment and digital education.

Establishment of Digital Transformation (DX) Investment Promotion Tax System



The Ministry of Economy, Trade and Industry has included the creation of a digital transformation (DX) investment promotion tax system in the fiscal 2021 tax reform in order to promote corporate transformation using digital technology. The tax system allows for the selection of a tax credit of 3% of the acquisition price (5% if the data is to be linked with businesses outside the group) or a special depreciation of 30% for digital-related investments utilizing cloud technology required to realize digital transformation. The application period is until March 31, 2023, and the amount of tax credit will be up to 20% of the income tax for the current fiscal year in total with the tax credit under the Carbon Neutral Investment Promotion Tax Credit Scheme described below (Chart 2-7).

Chart 2-7 Investment Promotion Tax Systems for Carbon Neutrality and Digital Transformation (DX)

Tax system	Requirements	Eligible Facilities	Details of measures
Investment Promotion Tax System toward carbon neutrality	1.Introduction of production facilities for products with significant decarbonization effects	Equipment used exclusively in the production of products such as compound power semiconductors and fuel cells that are expected to contribute to the expansion of new demand with significant greenhouse gas reduction effects. *The target facilities are machinery and equipment.	Tax credit of 10% or special depreciation of 50%
	2.Introduction of facilities that achieve both decarbonization of production processes and increase of added value	Equipment required for planning to significantly improve carbon productivity (value-added amount/energy-originated CO2 emissions) at business sites, including the introduction of new energy management facilities (*) *The target facilities are machinery and equipment, furniture and fixtures, building fixtures, and structures. The introduction of the facilities improves the carbon productivity at the business site by 1% or more.	[Improvement in carbon productivity and corresponding measures] 10% or more improvement within 3 years: Tax credit of 10% or special depreciation of 50% 7% or more improvement within 3 years: Tax credit of 5% or special depreciation of 5%
Digital Transformation (DX) Investment Promotion Tax System	Digital (D) requirements <ul style="list-style-type: none"> · Linking and sharing of data (linkage of data owned by other entities or data newly obtained by business operators using sensors with existing internal data) · Utilization of cloud technology · Acquiring of the certification examined by the Japan Information-technology Promotion Agency (DX certification) 	Software Deferred assets Machinery and equipment Furniture and fixtures	Tax credit of 3% (5% for data linkage with external parties) or, Special depreciation of 30%
	Corporate Transformation (X) Requirements <ul style="list-style-type: none"> · Reduction of product manufacturing costs by 8.8% or more, etc. · Establishment of targets for productivity improvement and sales growth · Setting of targets for productivity improvement and sales growth <ul style="list-style-type: none"> · Within the plan's effective period, an ROA increase by 1.5 percentage points from the 2014-2018 average as the base. · Within the plan's effective period, sales growth rate that exceeds the growth rate of the industry over the past five fiscal years by 5 percentage points or more. · Total investment must be 0.1% or more of sales. 		

[N.B.]1. The maximum amount of investment eligible for investment measures under the Carbon Neutral Investment Promotion Tax System is 50 billion yen. 2.The maximum amount of the total capital investment under the Digital Transformation (DX) Investment Promotion Tax System is 30 billion yen. 3.The tax credit is up to 20% of the corporate tax in the sum of the investment promotion tax system for carbon neutrality and the digital transformation (DX) Investment Promotion Tax System.

Source: "Fiscal 2021 Tax Reform" (Ministry of Finance), and materials from the Agency for Natural Resources and Energy, Ministry of Economy, Trade and Industry

Government Initiatives for Simultaneous Achievement of Green and Digitalization



Moves toward realization of Carbon Neutrality



In October 2020, the government declared "carbon neutrality by 2050," a goal to reduce overall greenhouse gas emissions to zero by 2050. To achieve this goal, The Ministry of Economy, Trade and Industry has established a tax system to promote investment in carbon decarbonization for its acceleration. Under the tax system, a tax credit of up to 10% or a special depreciation of 50% will be applied to the introduction of 1) production facilities for fuel cells, compound power semiconductor, and other products that have a significant decarbonization effect, and 2) facilities that achieve both decarbonize of production processes and increase of added value, such as the introduction of state-of-the-art production facilities (Chart 2-7).

The Ministry of Economy, Trade and Industry established the "Green Innovation Fund Project" of 2 trillion yen within the New Energy and Industrial Technology Development Organization (NEDO), which provide continuous support for 10 years, from R&D and demonstration social implementation, to companies addressing the "carbon neutrality by 2050" as their business challenge. The project aims to incorporate overseas advanced technologies to have ripple effects on the domestic economy. Corporate support through the Green Innovation Fund is included in the Basic Policy on Economic and Fiscal Management and Reform (2021), and is also referred to in the Strategy for Promoting Foreign Direct Investment in Japan.

Formulation of semiconductor and digital industry strategy



The spread of COVID-19 has accelerated the global response to the digitization of society, and the importance of semiconductors, the core products of digitization, has been reaffirmed. With the global supply and demand situation tightening, securing semiconductors is important from the viewpoint of economic security, and energy saving and greening of semiconductors are essential to aiming at carbon neutrality by 2050. Under the major direction of the Basic Policy on Economic and Fiscal Management and Reform 2021, the Action Plan of the Growth Strategy Execution Plan, approved by the Cabinet in June 2021, clearly states the promotion of energy saving and greening of digital devices and information and communications as well. Under these circumstances, METI established the "Semiconductor and Digital Industry Strategy Review Conference" in March 2021 to discuss the future policy direction of the semiconductor, digital infrastructure, and digital industry, and compiled the "Strategy for Semiconductors and the Digital Industry" in June of the same year.

Digitization is supported by digital industries utilizing clouds, etc., digital infrastructure such as data centers, and semiconductors used in electronic devices. METI has included policies to promote priority investment in these three fields into the Strategy for Semiconductors and the Digital Industry. Specifically, it will proceed with locating new data centers in Japan and promote the systematic development of data centers and support for investment. Japan will play a central role in semiconductor technology and its production by building interdependent relationships in collaboration with Western countries as well, aiming to achieve simultaneous and early realization of digitization and greening through "contribution to carbon neutrality by making the economy and society smarter through the use of digital technology, and simultaneously improving energy efficiency decarbonization in the digital field in order to minimize the increase in energy and environmental impact" (Strategy for Semiconductor and Digital Industry Strategy).

Furthermore, the government is considering a bill to amend the related law, which includes a subsidy system for semiconductor-related capital investment, with the aim of building a stable production system for semiconductors in Japan.

[COLUMN] Improving the business environment as a global city



Measures to establish the city's status as an international financial center



The government incorporated the "Japan as a Global Financial Center" (Finance Place Japan)" in the Comprehensive Economic Measures to Secure People's Lives and Livelihoods towards Relief and Hope approved by the Cabinet on December 8, 2020 (Chart 2-8).

Chart 2-8: Improvement of the environment for the International Financial Center (Sector)

Sector	Current	After reform	Date of Enforcement
Tax reform Corporate tax for asset management firms	Performance-based compensation for directors Listed companies: Deductible Unlisted companies: Not deductible	A private, non-family company which mainly operates asset management business shall be allowed to include deductible expenses if, for example, the calculation method of performance-based compensation is posted on the Financial Services Agency's website.	Effective November 22, 2021
Tax reform Inheritance tax for heirs of foreign residents in Japan including fund managers, etc.	Living in Japan over 10 years: Tax on Worldwide assets. Living less than 10 years : Tax on assets in Japan.	Foreign nationals residing in Japan with a valid working visa shall be exempt from Japanese inheritance tax on their foreign assets regardless of the period of residence.	Effective April 1, 2021
Tax reform Income tax for fund managers	It is unclear whether the carried interests - distribution allocated returns in excess of their capital contribution ratio is a capital gain or not.	It is clarified that, when a profit distribution of a carried interest has an economic rationality, it shall not be subject to comprehensive taxation (progressive tax rate, up to 55%), but taxed as a capital gains tax (uniformly 20%)	Published April 1, 2021. See the Financial Services Agency's website for check sheets and statements.
Simplification of entry procedures Procedures in English	In preliminary consultations and registration examinations for overseas asset management companies, the jurisdiction is divided between the Financial Services Agency and the Local Finance Bureau, and it is necessary to submit documents and discuss in Japanese.	In January 2021, the Financial Services Agency and the Finance Bureau jointly opened the Financial Market Entry Office. It handles everything from financial licensing consultation to registration procedures and, ultimately, post-registration management, all in English and without any obstacles.	
Simplification of entry procedures Entry system	In principle, even asset management companies that have overseas professional investors as their clients need to be registered in order to do asset management business in Japan, and even if they have a business track record overseas, registration procedures require a certain amount of time.	1) Investment managers who have obtained licenses and approval from overseas authorities and have a track record of managing overseas clients' funds, and manage only the funds of overseas clients (a five-year provisional measure) and, 2) Investment managers of funds whose clients are mainly overseas professional investors, will be allowed to enter the market through a simplified procedure.	Effective November 22, 2021

(Visa-related)

Visa-related	After reform	Remarks
Status of Residence	Foreigners who enter Japan as a Temporary Visitor for the preparation of setting up a business can change their status of residence directly to Highly-skilled Professional or Business Manager etc. without returning to their home country before commencing their business, subject to certain requirements (*1).	*1. Registration as an Investment management business should be made while staying in Japan as a Temporary Visitor, etc. *2. Registration as an Investment management business should be made while staying in Japan as a Temporary Visitor, etc.
Highly skilled professionals	A new bonus category (+10 points) is added for asset management businesses for calculating the points to apply for the status of residence of Highly Skilled Professional. When applying for a Highly Skilled Professional status of residence, it will be given with preferential processing (expected to be within 10 days)	*3. Living with highly skilled professionals and engaging in activities that fall under the category of Engineer, Specialist in Humanities, International Services, etc. while earning at least an equivalent amount of income to Japanese with similar jobs.
Domestic workers	Highly-skilled professionals in asset management business, etc. who meet certain requirements (*2) are allowed to: 1) employ domestic workers even if not meeting the conditions such as having a child under 13 years of age. 2) increase the number of domestic workers that they can hire from one to two, if the household annual income exceeds 30 million.	
Spouse	Spouses of highly skilled professionals can work full-time without obtaining working visas if they meet certain requirements (*3). Preferential processing is also applied (expected to be within 10 days).	

Source: Financial Services Agency website

With a view to attracting foreign investments to Japan and establishing Japan as an international financial center, the 2021 tax reform has included measures to attract foreign financial businesses and skilled professionals.

First, regarding the corporate tax, unlisted, private non-family corporations whose main business is asset management will be allowed to deduct its performance-based compensation with a number of conditions, including where the calculation methods are posted on the Financial Service Agency website, etc.

Second, with regard to inheritance tax, foreign nationals, who reside abroad or in Japan for short period of time becomes an heir, the foreign property will not be subject to Japanese inheritance tax, regardless of the period of residence. Until now, if a foreigner whose total domestic residence period within 15 years before inheritance is more than 10 years becomes an heir, foreign property was also subject to inheritance tax.

Third, regarding the income tax, with regard to the distribution of profits (carrying interest) that the fund manager receives from the fund that holds the equity interest in excess of the investment ratio according to the investment results, it is clarified that they are not subject to the aggregate taxation (progressive tax rate, up to 55%) but are subject to separate taxation (uniformly 20%) as "gains on transfer of shares, etc." in cases where there is economic rationality in the distribution of profits.

In addition to the tax system, the entry procedures are also being reviewed. In January 2021, the Financial Services Agency and the Finance Bureau jointly established the "Financial Market Entry Office" as a centralized consultation service desk for overseas financial companies considering establishment in Japan. This makes it possible to handle everything from financial licensing consultation to registration procedures and, ultimately, supervision after the registration, all in English and without any obstacles. It also responds to advance consultations from overseas via video conference.

There are also moves to simplify the entry procedures. At present, even asset management companies with overseas professional investors as clients need to be registered first in principle in order to engage in the asset management business in Japan, and even if they have a track record of overseas operations, it took a certain period of time to complete the registration process. In March 2021, the Financial Service Agency submitted the revised Financial Instruments and Exchange Law to the Diet to create an exception that would allow foreign companies to enter the fund business through a simplified procedure (notifications) in order to encourage them to enter the fund business. This bill was enacted in May of the same year and has been in force since November of the same year. Specifically, (1) investment managers who have obtained licenses and approvals from overseas authorities and have a track record of managing overseas clients' funds and manage only the funds of overseas clients (a five-year provisional measure), and (2) investment managers of funds whose clients are mainly overseas professional investors, will be allowed to enter the market through a simplified procedure (notification).

Regarding the status of residence, as part of the measures to create an environment where foreign businesspersons can conduct business in Japan with peace of mind, it was decided to take various steps to improve procedures with regard to the status of residence in Japan under the "Comprehensive Economic Measures to Secure People's Lives and Livelihoods towards Relief and Hope."

Specifically, foreigners who enter Japan as a "Temporary Visitor" for the preparation of setting up a business can change their status of residence without returning to their home country before starting their business, subject to certain requirements. As for highly-skilled professionals, a new bonus category (+10 points) is added for asset management businesses for calculating the points to apply for the status of residence of "Highly-skilled Professional" who can receive various special measures. When applying for a "Highly-skilled Professional" status of residence, it will be given with preferential processing (expected to be within 10 days).

In addition, for highly-skilled professionals who meet certain requirements, it is now possible to employ domestic workers even if they do not meet conditions such as having a child under the age of 13, and the number of domestic employees that can be hired by highly-skilled professionals can hire has been expanded from one to two. In addition, spouses of highly-skilled professionals can work full-time without obtaining working visas if they meet certain requirements.

Strengthening efforts to attract foreign financial institutions in Osaka and Fukuoka in addition to Tokyo



In November 2017, Tokyo formulated the "Global Financial City: Tokyo" concept, outlining the structure and issues to be addressed in order to improve its status as an international financial city. Based on this initiative, Tokyo concluded an agreement with the City of London for cooperation in the financial field, and established the "Organization of Global Financial City Tokyo (FinCity.Tokyo)" to promote Tokyo's efforts and attractions both domestically and internationally through public-private partnerships. Since then, Tokyo decided to revise the concept in order to respond to changes in the global environment surrounding finance including growing interest in decarbonization and the UK's withdrawal from the EU. With the aim of revising the concept, the Advisory Council of Experts was held five times until June 2021, and public comments were collected from July to August 2021. Based on the opinions received in public comments, the "Global Financial City: Tokyo Concept 2.0" was formulated in November 2021. In the new concept, includes the establishment of a green finance market such as support for entities issuing green bonds; the promotion of digitalization in financial sector such as the promotion of cashless society; attracting and founding support of FinTech companies; and the concentration of diversified financial-related companies and experts, including the efforts to attract and train asset managers.

Osaka Prefecture, Osaka City, and economic organizations of Kansai area established the International Financial City OSAKA Promotion Committee on March 29, 2021, with the aim of creating an international financial city that will attract financial experts and financial institutions from overseas. In July, the committee released its draft strategy for realizing the concept of an international financial city, which calls for expanding financial functions and improving the business environment in Osaka by supporting fund-raising for startups and deregulating financial services. The final plan will be formulated by the spring of 2022, after which it will be put into concrete implementation.

In September 2020, Fukuoka Prefecture and Fukuoka City and other local governments, educational institutions such as Kyushu University, and local companies such as Kyushu Electric Power Co., Inc. and National Japan Railway Co., Ltd. Launched TEAM FUKUOKA, an industry-government-academia organization that aims to attract foreign financial functions to Fukuoka. Fukuoka's accessibility to major business districts in Asia is one of its strengths, and it has been successful in attracting Asian financial-related companies. Specifically, MCP Holdings, a Hong Kong-based asset management company in February 2021, and Capbridge Financial, a Singapore-based FinTech company in April 2021, have announced that they would establish bases in Fukuoka.

Section3. Evaluation of Japan’s Business Environment by Foreign-Affiliated Companies

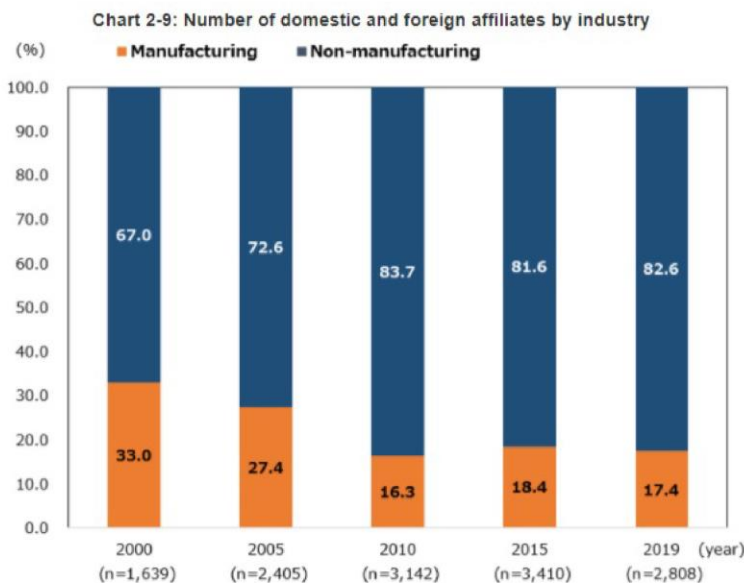


Survey of Trends in Business Activities of Foreign Affiliates



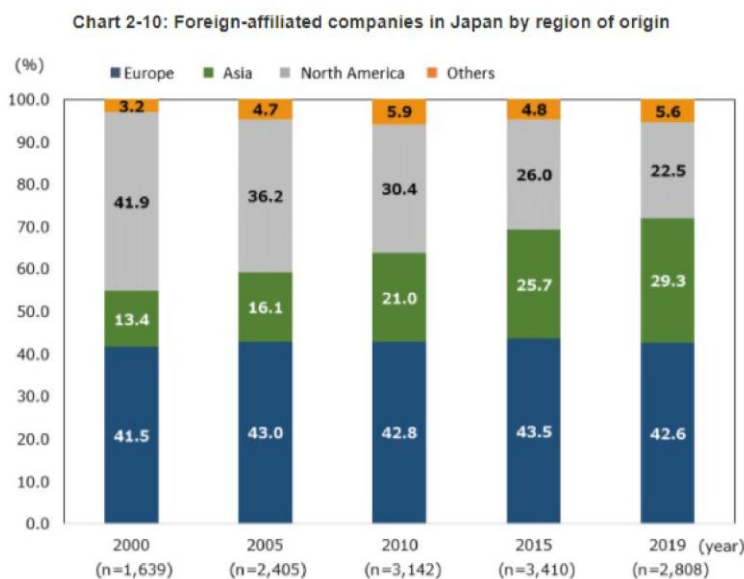
The Ministry of Economy, Trade and Industry has conducted the “Survey of Trends in Business Activities of Foreign Affiliates” (which ended in fiscal 2020), targeting companies meeting specific conditions such as the foreign ownership of one third or more. Based on the latest version of survey^{*5}, looking at the responded foreign companies by industry, the manufacturing sector accounted for 17.4%, and non-manufacturing sector accounted for 82.6% in fiscal 2019 results (Chart 2-9). Information and communications equipment in the manufacturing sector, and wholesaling in non-manufacturing sector accounted for the largest share respectively, and the share of non-manufacturing sector has been increasing.

*5 “54th Survey of Trends in Business Activities of Foreign Affiliates” (results of 2019). The number of companies surveyed was 5,748, the number of collected companies was 2,978, and the number of valid responses (in operation) was 2,808 (including finance / insurance and real estate).



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

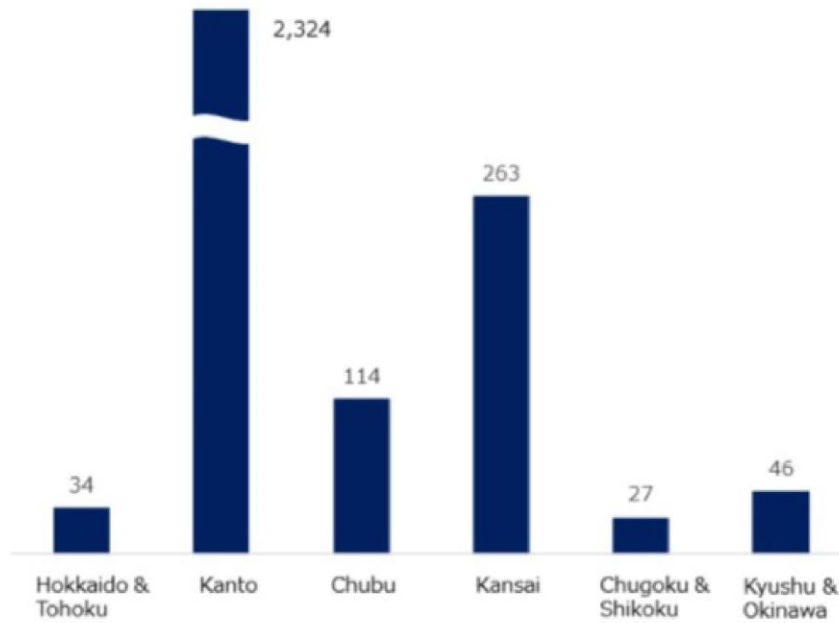
Looking at the foreign affiliates in Japan by the parent company’s location, Europe had the largest share with 42.6%, followed by Asia with 29.3%, and North America with 22.5% (Chart 2-10). Many of them have their parent companies in Germany and France in Europe, and China and South Korea in Asia. It can be seen that since 2000, the proportion of North American companies has declined, and that of Asian companies has increased.



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 distribution of foreign affiliates by region in Japan, they are concentrated in the Kanto region (2,324 companies), which is home to major metropolitan areas, followed by the Kinki region (263 companies) (Chart 2-11). By prefecture, over 60% of foreign-affiliated companies are concentrated in Tokyo, followed by Kanagawa, Osaka, and Aichi prefectures.

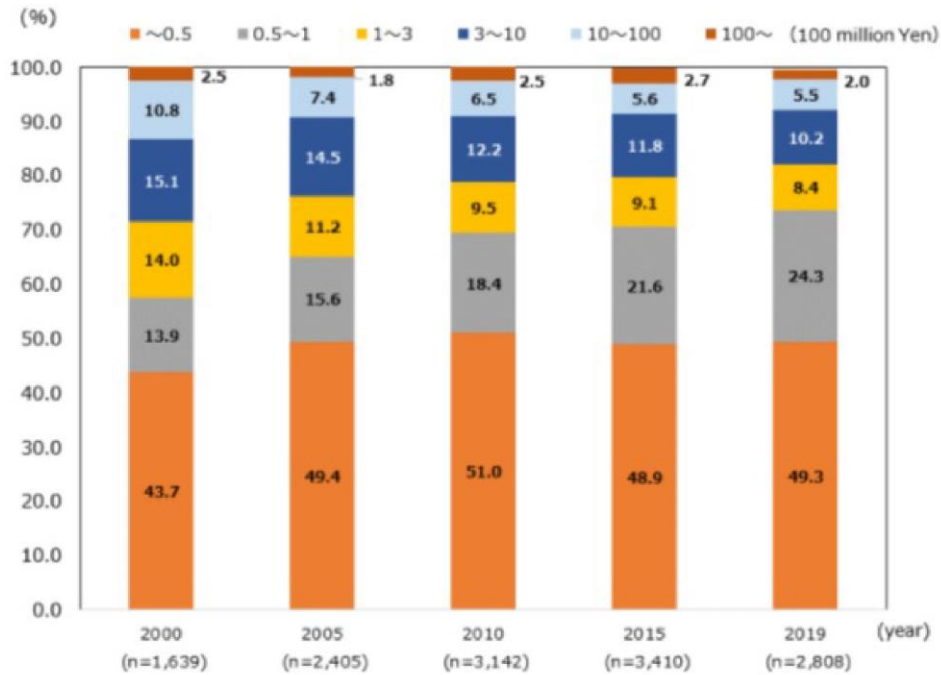
Chart 2-11: Number of foreign affiliates in Japan by



Source: METI's 54th Foreign Affiliate Trend Survey

In terms of the size of share capital, 49.3% of foreign companies had "50 million yen or less", followed by 24.3% with "50 million yen to 100 million yen," and over 70% of the companies had share capital of "100 million yen or less" (Chart 2-12).

Chart 2-12: 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)

The greatest attractiveness of the Japanese market is its size



The survey asked foreign-affiliated companies about the attractiveness of doing business in Japan. According to the results, the top attractive factor for doing in Japan is its "large market size", and more than 60% of companies valued the Japanese market, for its high income level and the large volume of customers for their products and services (Chart 2-13). Next, nearly 50% of companies cited the extensive of infrastructure such as transportation and information, and the verifiability of competitiveness for new products and services, as evaluating the characteristics of the market that is sensitive to the added value and trends in products and services.

Chart 2-13: Attractiveness of Business Expansion in Japan (Top 10)

Rank	Answer	Total(n=2,468)	Manufacturing(n=418)	Non-manufacturing(n=2,050)
1	High income levels and high customer volumes for products and services (large market size)	61.0	8.7	52.3
2	Extensive infrastructure (transportation, energy, communications, etc.)	47.6	8.1	39.6
3	Sensitive to added value and trends in products and services, providing ground for measuring the competitiveness of new products and services	47.3	8.4	38.9
4	Concentration of global companies and affiliates	36.8	6.1	30.7
5	Developed living environment	34.8	5.7	29.1
6	Availability of quality personnel	23.9	5.9	18.0
7	Gateway to the Asian market. Optimal location for regional headquarters	19.8	3.8	16.0
8	Geographical advantage for accessing to headquarters and countries your company is managing	18.2	3.1	15.1
9	Solid financial environment, financing opportunities	13.1	2.7	10.5
10	High quality R&D environment	10.4	3.8	6.6

Note: Multiple answers: top 5 responses per company

Source: "Survey of Trends in Business Activities of Foreign Affiliates" (METI)

On the other hand, more than 70% of the companies cited "high business costs," including labor costs and real estate, as an impediment to doing business in Japan (Chart 2-14). Among the business costs, many companies cited labor costs, tax burdens, and office rents. "Difficulty in securing personnel," such as engineers and persons with language skills was cited by more than 50%, and "exclusivity and distinctiveness of the Japanese market," such as the existence of affiliated transactions, personal connections, and business practices was cited by more than 40%.

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Chart 2-14: Factors Inhibiting Business Expansion in Japan

Rank	Answer	Total (n=2,476)	Manufacturing (n=418)	Non-manufacturing (n=2,058)
1	High cost of doing business (labor, tax, real estate, etc.)	75.1	80.1	74.1
2	Difficulty in securing personnel (management, engineers, persons with language skills, common labor, etc.)	53.6	57.4	52.8
3	Exclusivity and distinctiveness of the Japanese market (intragroup transactions, connections, shortage of market information in English, business practices, etc.)	45.2	40.9	46.1
4	High standard that users demand from products and services (quality, delivery, price, etc.)	44.3	49.5	43.2
5	Complicated administrative procedures (long time required from application to approval, complicated procedures, etc.)	40.5	36.4	41.3
6	Strict regulations, permits and license system (legal restraints, product standards/inspection, etc.)	39.3	37.6	39.7
7	Insufficient tax and other incentives (shortage of tax privileges, available assistance, etc.)	18.7	21.5	18.1
8	Living environment for foreigners (admittance system of schools, hospitals, lifestyle differences, etc.)	12.2	13.6	11.9
9	Difficulty in obtaining visas (unclear status of residence, difficulty in obtaining working and family stay visas, etc.)	7.0	6.0	7.2
10	Difficulty in securing financing (difficult loan conditions, regulations regarding financing)	6.7	6.9	6.7
11	Other	5.6	5.7	5.5
12	Difficult M&A environment (legal system, resistance to foreign capital)	5.2	6.2	5.0

Note: A total of 2476 companies responded. Each respondent can select up to the top five items. Items are listed in descending order of the number of responding companies.

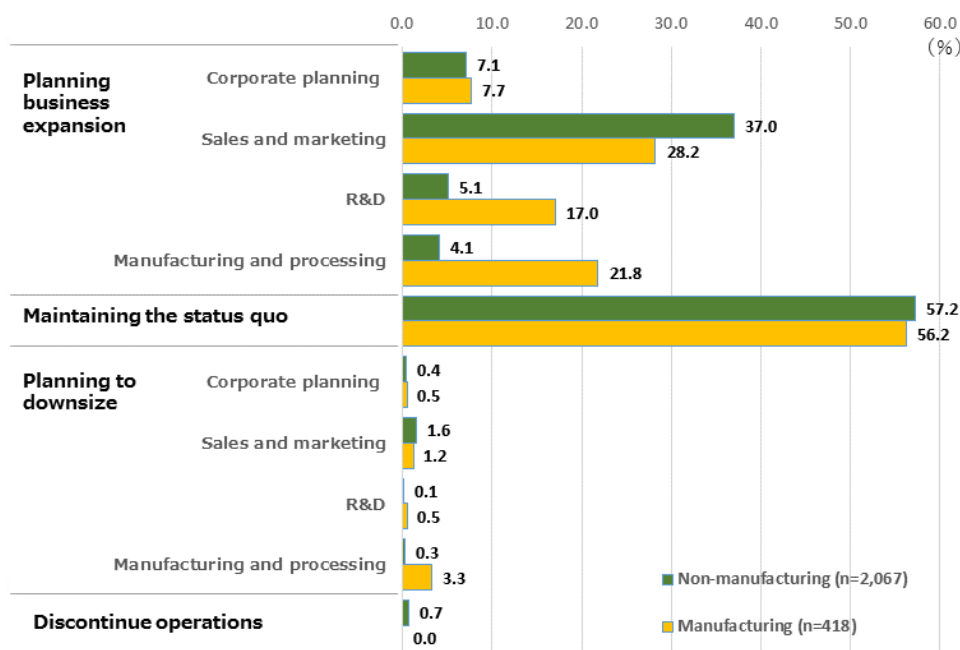
Source: "Survey of Trends in Business Activities of Foreign Affiliates" (METI)

30% of foreign-affiliated companies cited they would expand their business



Although the business environment has changed drastically due to the impact of COVID-19, few foreign-affiliated companies are considering downsizing their business in the future. More than half of the companies replied they would maintain the status quo, and about 30% of them were planning to expand sales and marketing functions (Chart 2-15).

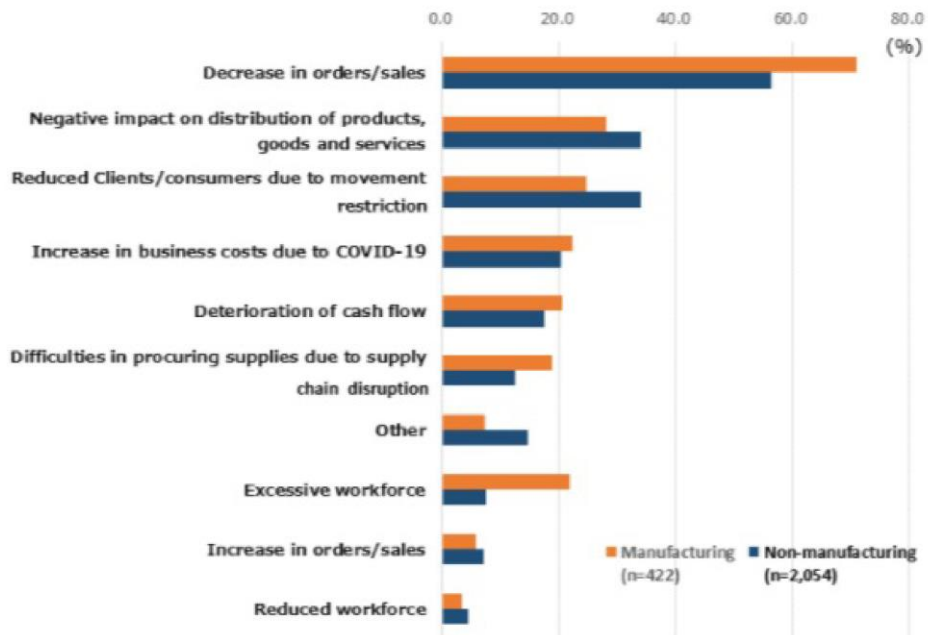
Chart 2-15: Future Business Expansion in Japan by industry



Source: "Survey of Trends in Business Activities of Foreign Affiliates" (METI)

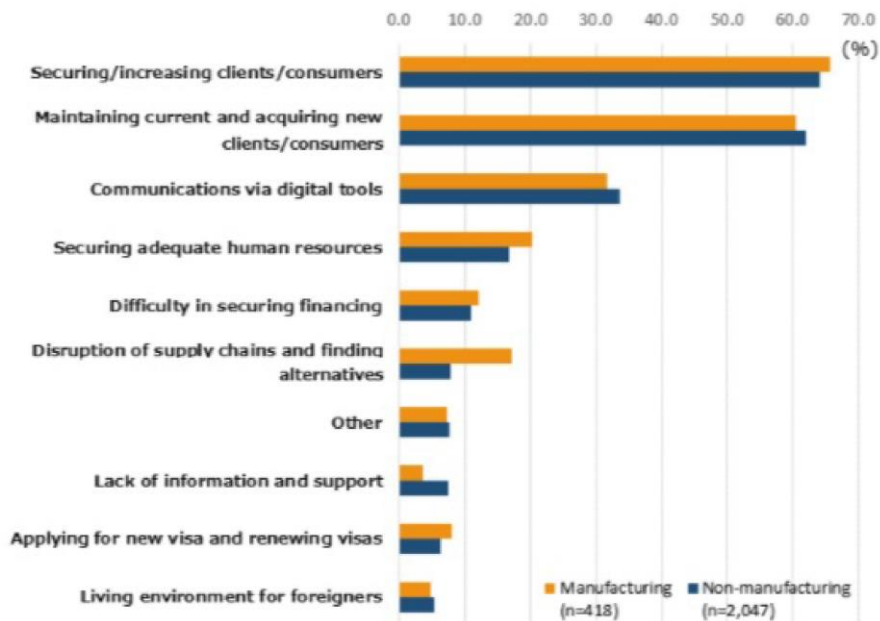
On the other hand, regarding the impact of COVID-19 on their business, "decrease in sales/orders" accounted for about 60% of the total (Chart 2-16), indicating that, in particular in manufacturing sites, there is a labor surplus due to the decline in orders. In addition, more than 30% of companies cited "negative impact on distribution of products, goods and services" and "reduced clients/consumers due to movement restriction," and the response rate for these items was high in non-manufacturing sector. More than 60% of foreign-affiliated companies responded that they would have to maintain customers and develop new customers as business challenges, if these effects continue in the future (Chart 2-17). Also, as digitization progressed, 30% of the companies cited communication through digital technology as a challenge.

Chart 2-16: Impacts of COVID-19 on Business



Source: "Survey of Trends in Business Activities of Foreign Affiliates" (METI)

Chart 2-17: Current Difficulties in Continuing Business If the Impact of COVID-19 Continues



Source: "Survey of Trends in Business Activities of Foreign Affiliates" (METI)