

JETRO Invest Japan Report

2021

December 2021

JETRO

Invest Japan Department

[Disclaimer] Use of the information provided in this report is based on the judgment and responsibility of the reader. JETRO endeavors to provide as accurate information as possible. However, JETRO and the authors assume no responsibility in connection with the content provided in this report, even if the user suffers a disadvantage.

Index

Introduction.....	4
Chapter1. Macroeconomic and Inward/Outward Foreign Direct Investment Trends in the World and Japan.....	5
Section1. Macroeconomic Trends in the World and Japan.....	5
Section2. FDI Trends in the World and Japan.....	7
Global Trends in Inward FDI part1	7
Global Trends in Inward FDI part2	12
Global Trends in Outward FDI	16
Trends in Inward FDI to Japan part1	17
Trends in Inward FDI to Japan part2.....	21
Chapter 2 . Japan's Business Environment and Foreign-Affiliated Companies.....	28
Section1. Strategy for Promoting FDI in Japan and Japan's Business Environment	28
Section2. Improving the Business Environment in Japan	31
Initiatives for Innovation Cities	31
Acceleration of Digitalization	32
Government Initiatives for Simultaneous Achievement of Green and Digitalization ...	35
[COLUMN] Improving the business environment as a global city	36
Section3. Evaluation of Japan's Business Environment by Foreign-Affiliated Companies.....	39
Chapter3 JETRO's Efforts to Promote Investment in Japan	46
Section1. JETRO's Track Record of Supporting Foreign Companies	46
Section2. JETRO's Support for FDI in Japan	50

Introduction



JETRO Invest Japan Department has compiled a comprehensive report on foreign investment in Japan, "JETRO Invest Japan Report 2021." The key points are as follows.

1. FDI in Japan reached a record high in 2020, but sluggish in the first half of 2021

- In 2020, inward foreign direct investment (net, flow) rose 61.8% from the previous year to 7.1 trillion yen, the highest amount since 2014, for which comparable data is available. By region, Europe was the largest at 4.1 trillion yen, up 351.3% from the previous year.
- The stock of foreign direct investment in Japan at the end of 2020 was 39.7 trillion yen, a record high for the seventh consecutive year.
- The amount of FDI in Japan from January to August 2021 decreased by 64.4% from the same period of the previous year. The number of Greenfield investments (83) during the same period was also lower compared to the previous year (144), and it is necessary to closely monitor the trend in new investment projects in the future.

2. Set a new target of 80 trillion yen or 12% of GDP in FDI in Japan by 2030

- In June 2021, the Council for the Promotion of FDI in Japan decided on the "Strategy for Promoting Foreign Direct Investment in Japan," and set a new target of "aiming to increase the stock of FDI in Japan to 80 trillion yen or 12% of GDP by 2030."
- The strategy has three pillars: (1) Creation of new digital and green markets and construction of innovation ecosystems; (2) Acceleration of the development in business environments in response to global environmental changes; and (3) Improvement of the investment environment through public-private partnerships that take advantage of regional strengths.

3. More than half of foreign-affiliated companies responded that they "maintain the status quo" in terms of their business in Japan

- According to the Ministry of Economy, Trade and Industry's "Survey of Trends in Business Activities of Foreign Affiliates", few foreign affiliates are considering downsizing their business in the future, while more than half are planning to "maintain the status quo." Approximately 30% of the respondents intend to expand sales, promotion and marketing functions."
- Regarding the impact of COVID-19 on their business, about 60% of the respondents replied "Decrease in sales/orders." If these effects continue, over 60% of foreign-affiliated companies responded that they would have to retain customers and develop new customers as their business challenges.

4. In fiscal 2020, JETRO's support for foreign companies recorded 96 successful cases.

- In fiscal 2020, JETRO provided support to 1,020 companies through its Japan Investment Promotion Project, of which 96 companies established their bases in Japan or expanded their business in Japan.
- Looking at successful projects in fiscal 2020 by region of origin of the parent company, 37.5% were from Asia, 29.2% were from Europe, and 28.1% were from North America.
- Among the companies that established bases in Japan with support from JETRO in fiscal 2020, we can also see companies that contribute to solving social challenges in Japan, in response to the demand for automation due to the declining birthrate, aging population, and regional disparities.

*This report was compiled in November based on the data as of October 2021.

Section1. Macroeconomic Trends in the World and Japan



Macroeconomic Trends in the World



World economy expected to recover in 2021, but with regional unevenness

According to the World Economic Outlook (WEO) released in October 2021 by the International Monetary Fund (IMF) (Chart 1-1), the global real GDP growth rate in 2020 was -3.1% in 2020, while the forecast for 2021 was 5.9%.

Chart 1-1: World Economic Outlook (%)

Country/Region	2019	2020	2021	2022
World	2.8	-3.1	5.9	4.9
Developed Economies	1.6	-4.5	5.2	4.5
US	2.2	-3.4	6.0	5.2
Japan	0.0	-4.6	2.4	3.2
UK	1.4	-9.8	6.8	5.0
EuroArea	1.3	-6.3	5.0	4.3
Germany	0.6	-4.6	3.1	4.6
Developing Economies	3.7	-2.1	6.4	5.1
Emerging and Developing Asia	5.4	-0.8	7.2	6.3
China	6.0	2.3	8.0	5.6
India	4.0	-7.3	9.5	8.5
ASEAN-5	4.9	-3.4	2.9	5.8
Latin America	0.1	-7.0	6.3	3.0
Middle East and Central Asia	1.4	-2.8	4.1	4.1
Sub-Saharan Africa	3.2	-1.7	3.7	3.8

Note: 1) Categories of regions follows the rules of the source. 2) Data in Italic indicates outlook.

Source: "World Economic Outlook, Oct. 2021" (IMF)

The economic growth projections have been revised from the last WEO of July 2021 based on the situation in each region. The projected growth rate of developed economies and regions in 2021 has been revised upward by 0.4 percentage point in light of the new fiscal policy that the U.S. government is considering introducing. On the other hand, that for emerging economies and regions has been revised downward by 0.4 percentage point. In particular, the growth rate projection for emerging Asian economies has been lowered by 1.0 percentage point due to the re-spread of novel coronaviruses (hereafter, COVID-19) in India and Southeast Asian countries and the shrinkage in the scale of China's fiscal policies and public investment. As upward revisions in developed economies offset downward revisions in emerging economies, the global growth rate forecast has remained unchanged from the previous WEO. However, different responses to COVID-19 across countries and regions have resulted in uneven projected economic recoveries among countries and regions.

The future recovery of the world economy will continue to be centered on the response to COVID-19.

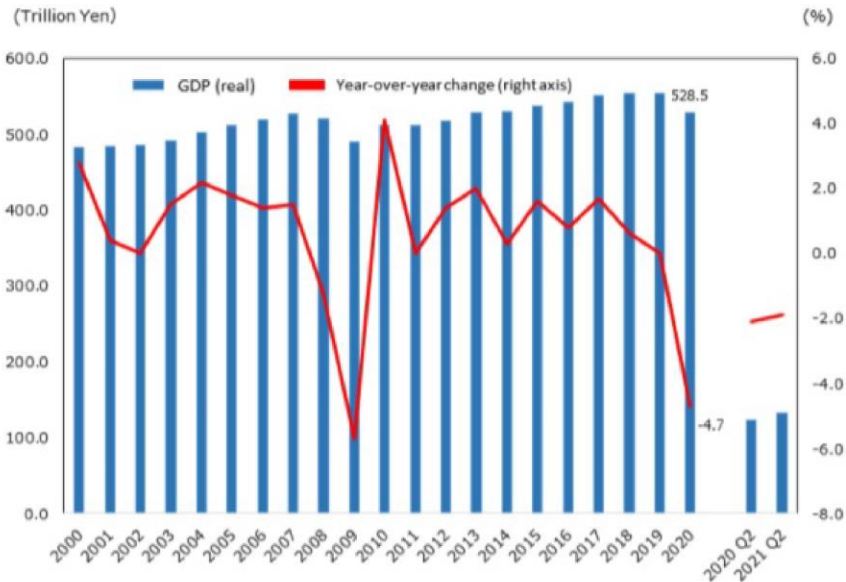
Macroeconomic Trends in Japan



Negative growth in 2020 due to COVID-19, but GDP expected to recover within 2021

According to the Cabinet Office, Japan's real GDP decreased by 4.7% to 528.5 trillion yen in 2020 (Chart 1-2). 2020 was heavily affected by COVID-19 and marked negative growth for the first time since 2009.

Chart 1-2: Real GDP of Japan



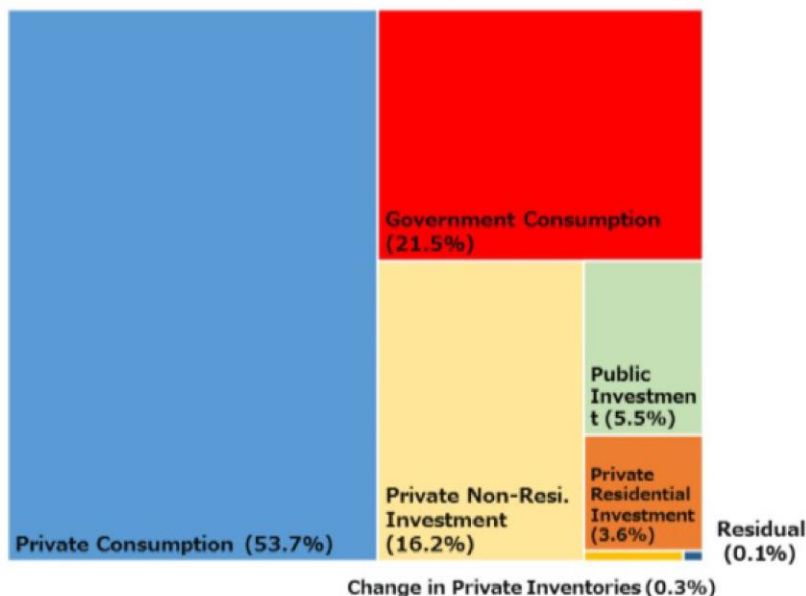
Source: Cabinet Office (As of May, 18th, 2021)

Looking at the breakdown of GDP^{*1} by demand item in 2020, private final consumption expenditure accounted for the largest share of the total at 53.7%, followed by government final consumption expenditure (21.5% of the total) and private non-residential investment (16.2% of the total) (Chart 1-3). Of the demand items, only the government final consumption expenditure (up 2.8% year-on-year) and public fixed capital formation^{*2} (up 3.6% year-on-year) increased, while all other items decreased year-on-year. In particular, private final consumption expenditure, which accounted for the largest share, fell 5.8% from the previous year, contributing to about two-thirds of the negative growth in real GDP in 2020.

*1 There is a net export (-0.8%), and the sum of the graphs does not add up to 100%.

*2 Public fixed capital formation refers to public investment by the government to develop infrastructure such as roads.

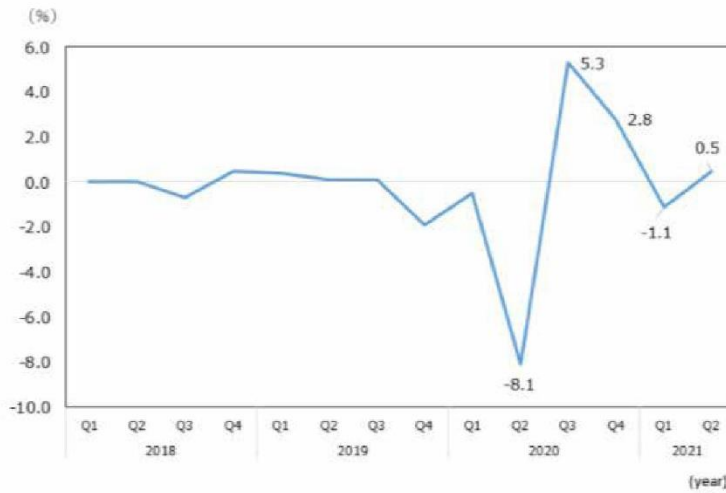
Chart 1-3: Breakdown of GDP of Japan (2020)



Source: Cabinet Office (As of May, 18th, 2021)

As for the current trends in Japan's economy, the real GDP growth rate for the third quarter and fourth quarter of 2020 was 5.3% and 2.8%, respectively, but was -1.1% in the first quarter of 2021 and a slight pick-up of 0.5% in the second quarter (Chart 1-4). In a report released by OECD in May 2021, Japan's GDP per capita will recover to pre-pandemic levels around the third quarter of 2021. One key to the recovery of the Japanese economy is the speed of vaccination against COVID-19. Although the start of vaccination in Japan lagged behind other countries and regions, after it started in March 2021, the number of people who completed the second dose of vaccination has exceeded 60% of the total population as of October 4, 2021.

Chart 1-4: Trends in Japan's GDP over the past few years (quarter-on-quarter change)



Source: Cabinet Office (As of Oct 16th, 2021)

Section2. FDI Trends in the World and Japan

Global Trends in Inward FDI part1

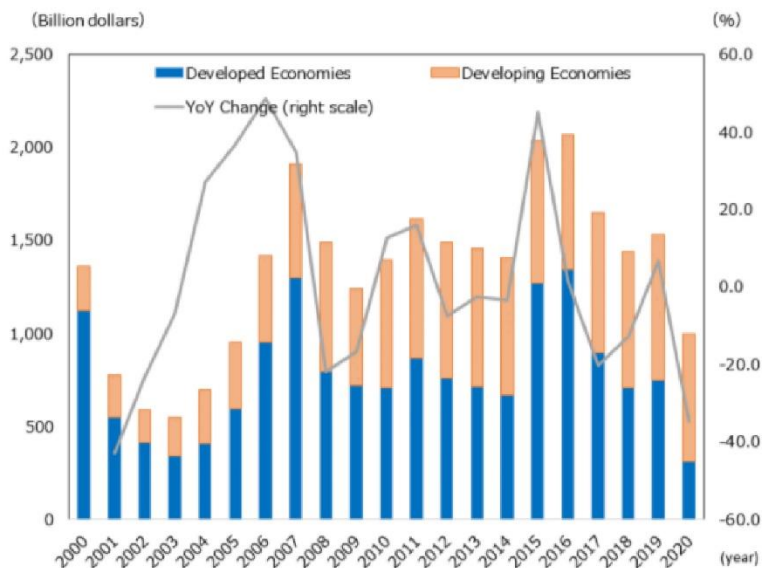


Global FDI in 2020 fell 34.7% year-on-year to 999 billion dollars



According to the United Nations Conference on Trade and Development (UNCTAD), global inward direct investment (net, flow; hereafter, inward FDI) was \$999 billion in 2020 (Chart 1-5). It fell 34.7% from the previous year due largely to the impact of COVID-19, the amount of decline exceeded that of the 2008-2009 financial crisis, and it fell below \$1 trillion for the first time since 2005.

Chart 1-5: Trends in Global Inward FDI



Note: "Developed economies" is as defined by UNCTAD. The amount of inflow to developing economies is computed by subtracting that of developed economies from that of the world.

Source: "World Investment Report 2021"(UNCTAD)

The amount of investment in developed economies decreased by 58.3% year-on-year to \$312 billion, and that in emerging economies decreased by 12.1% to \$687 billion (Chart 1-6). Both regions saw a year-on-year decrease. In particular, the investment amount in developed economies fell to the 2003 level. In 2020, inward FDI in developed economies accounted for 31.3% of the total, while emerging economies accounted for 68.7%, resulting in a record-high percentage for the latter. Developed economies' share shrank due to a significant year-on-year decline, while emerging economies' share exceeded 50% for three consecutive years since 2018.

Chart 1-6: Global Inward FDI by Region (Billion dollars %)

Region	2019			2020		
	Flow	YoY	Share	Flow	YoY	Share
World	1,530	6.5	100.0	999	-34.7	100.0
Developed economies	749	5.8	48.9	312	-58.3	31.3
Europe	363	5.3	23.7	73	-80.0	7.3
North America	309	18.2	20.2	180	-41.7	18.0
Developing economies	781	7.2	51.1	687	-12.1	68.7
Africa	47	3.9	3.1	40	-15.6	4.0
Asia	516	3.8	33.7	535	3.8	53.6
Latin America	160	6.9	10.5	88	-45.4	8.8

Note: "Developed economies" is as defined by UNCTAD. The amount of inflow to developing economies is computed by subtracting that of developed economies from that of the world.

Source: "World Investment Report 2021" (UNCTAD)

Among developed countries and regions, Europe fell 80.0% year on year to 73 billion dollars and North America fell 41.7% year on year to 180 billion dollars. By country and region, the U.S. remained the largest recipient of investment in 2020 but declined 40.2% from the previous year to 156 billion dollars (Chart 1-7). Regarding European countries, while Luxembourg (up 320.1% year-on-year) and Sweden (up 158.2% year-on-year) markedly exceeded the previous year's levels, in other major recipient countries, Germany fell by 34.1%, and Ireland fell by 58.8%. The Netherlands saw a new withdrawal. As a result, investment declined significantly in major countries from the previous year due to the decline in investment affected by COVID-19 and the financing of multinational companies.

Chart 1-7: Top Ten Countries and Regions of Inward FDI in 2020 (Billion dollars %)

Ranking in 2020	Country/Region	Change in Ranking	2019	2020	2020 YoY	2020 Share
1	United States	→	261	156	-40.2	15.6
2	China	→	141	149	5.7	15.0
3	Hong Kong, China	↗	74	119	61.7	11.9
4	Singapore	↘	114	91	-20.7	9.1
5	India	↗	51	64	26.7	6.4
6	Luxembourg	↗	15	62	320.1	6.2
7	Germany	↗	54	36	-34.1	3.6
8	Ireland	↘	81	33	-58.8	3.3
9	Mexico	↗	34	29	-14.7	2.9
10	Sweden	↗	10	26	158.2	2.6
20	Japan	↗	15	10	-29.5	1.0
—	Netherlands	↘	49	-115	-335.5	-11.5
—	World	—	1,530	999	-34.7	100.0

Note: "World" and the ranking exclude financial centers in the Caribbean.

Source: "World Investment Report 2021" (UNCTAD)

The decline in emerging countries and regions was smaller than that in developed countries and regions. Asia saw a 3.8% year-on-year increase, while Africa (-15.6%) and Latin America (-45.4%) experienced decrease. Some Asian countries and regions saw gains in investment amount, such as China (5.7% increase to \$149 billion), Hong Kong (61.7% increase to \$119 billion), and India (26.7% increase to \$64 billion). UNCTAD attributes the impact of multinational corporation's financial strategies and the relatively early containment of the spread of COVID-19 in Asia to the solid investment in China

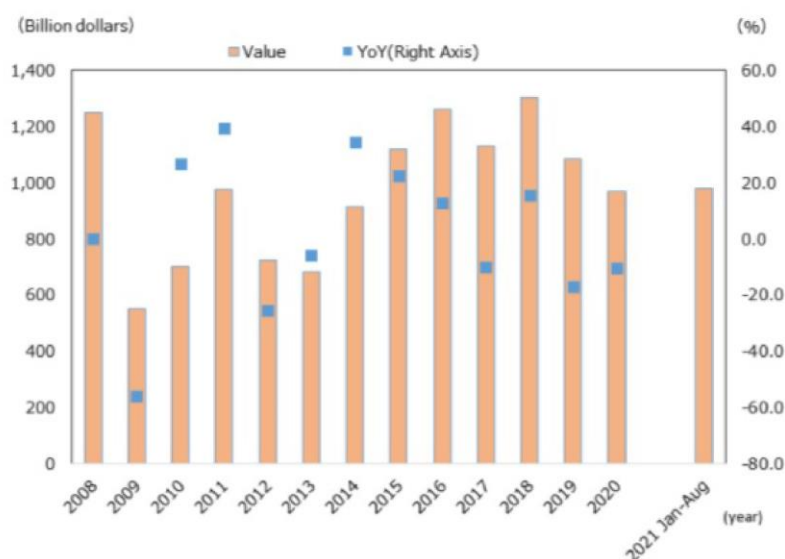
Number of global Greenfield investments declined for the second consecutive year



According to the fDi Markets (Financial Times), in 2020, the number of global Greenfield investments³ (based on the date of publication) was 11,781, down 30.2% from the previous year (Chart 1-8). Due to the impact of COVID-19, the number of Greenfield investments fell sharply, marking the second consecutive year-on-year decline from the record high in 2018. In January-August of 2021, the number of greenfield investments has been sluggish even compared to the same period of the most recent two years, suggesting that it will take time for the number of global greenfield investments to pick up.

³ Refers to a form of investment in which a corporation is newly established in the destination country

Chart 1-8: Trends in Global Greenfield Investment



[Source] "fDi Markets" (Financial Times) (as of Oct.11th, 2021)

Looking at the number of investment projects in 2020 by investor country and region, the U.S. accounted for the largest number at 2,446 cases, down 32.9% from the previous year, followed by the U.K. (1,138 cases, down 28.7%), and Germany (1,051 cases, down 28.6%) (Chart 1-9). Although investments from all the top 10 countries and regions decreased from the previous year, there was little change in the ranking of countries and regions. Except Japan and China (excluding Hong Kong), all countries were Western countries..

Chart 1-9: Number of Global Greenfield Investments by Investor Country and Region in 2020 (# of Project, %)

Ranking	Country/Region	Change in Ranking	# of Project	YoY	Share
1	US	→	2,446	-32.9	20.8
2	Uk	→	1,138	-28.7	9.7
3	Germany	→	1,051	-28.6	8.9
4	France	→	682	-27.8	5.8
5	Switzerland	↗	604	-25.2	5.1
6	Japan	↘	547	-34.7	4.6
7	China	→	394	-40.4	3.3
8	Netherlands	↗	386	-24.6	3.3
9	Spain	↘	340	-34.5	2.9
10	Sweden	↗	299	-7.7	2.5
—	World	—	11,781	-30.2	100.0

Source: "fDi Markets" (Financial Times) (as of Oct.11th, 2021)

In terms of recipient countries and regions of greenfield investments, the U.S. marked the largest number of 1,529 cases, down 20.7% from the previous year, followed by Germany (964 cases, down 17.5%), and the U.K. (873 cases, down 34.9%) (Chart 1-10). All of the top recipient countries and regions for greenfield investment saw a year-on-year decline.

Chart 1-10: Number of Global Greenfield Investments by Recipient Country and Region in 2020 (# of Project, %)

Ranking	Country/Region	Change in Ranking	# of Project	YoY	Share
1	US	→	1,529	-20.7	13.0
2	Germany	↗	964	-17.5	8.2
3	UK	↘	873	-34.9	7.4
4	France	↗	511	-29.9	4.3
5	Spain	↗	452	-33.8	3.8
6	Poland	↗	380	-1.0	3.2
7	India	→	373	-45.1	3.2
8	China	↘	358	-54.6	3.0
9	UAE	→	351	-13.8	3.0
10	Canada	↗	300	-15.7	2.5
18	Japan	→	197	-14.3	1.7
—	World	—	11,781	-30.2	100.0

Source: "fDi Markets" (Financial Times) (as of Oct. 11th, 2021)

Global Trends in Inward FDI part2



Global M&A deals declined both in number and value



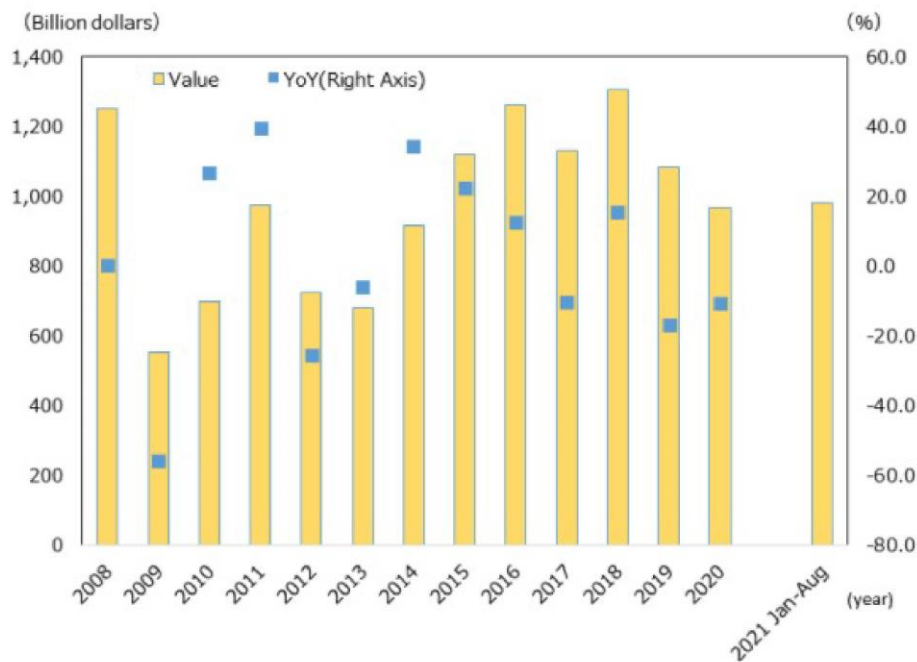
According to the Workspace(Refinitiv), in 2020, cross-border mergers and acquisitions (hereafter, M&A) declined for the second consecutive year following 2019, both in number and value. The number of deals fell 15.3% to 10,070 and the value decreased 10.6% to 969 billion dollars.(Chart 1-11) (Chart 1-12).

Chart 1-11: Number of M&A Deals in the World



Source: "Workspace" (Refinitiv) (as of Oct.11th, 2021)

Chart 1-12: Values of M&A Deals in the World



Source: "Workspace" (Refinitiv) (as of Oct.11th, 2021)

Looking at the monthly trends of M&A deals in 2020, there were 1,055 deals in January, about the same as in any other usual month (900 to 1100 deals). Then the monthly number dropped to 800s in February (822) and March (818), and further to 600s in April (669) and May (681), when the COVID-19 pandemic spread globally. Thereafter, the number gradually recovered, increasing to 950 in October and 1,067 in December. In 2021, the number of M&A deals has been robust; in the January-August period, the number of M&A deals was 39.6% higher than in the same period of the previous year.

Looking at global M&A activity in 2020 by acquirer country and region, the U.S. accounted for the largest number at 2,187 (down 4.6% from the previous year), followed by the U.K. (1,051, down 12.1%), Canada (547, down 6.5%), Germany (490, down 22.5%), and France (479, down 28.6%) (Chart 1-13).

Chart 1-13: Number of Global M&A Deals by Acquirer Country and Region (# of Projects, %)

Ranking	Country/Region	Change in Ranking	# of Projects	YoY	Share
1	US	→	2,187	-4.6	21.7
2	UK	→	1,051	-12.1	10.4
3	Canada	↗	547	-6.5	5.4
4	Germany	→	490	-22.5	4.9
5	France	↘	479	-28.6	4.8
6	Japan	→	376	-25.7	3.7
—	Total	—	11,896	-15.3	100

Source: "Workspace" (Refinitiv) (as of Oct.11th, 2021)

The number of deals by the top five countries, which accounted for about half of the total, were all down from the previous year.

On a value basis, the U.S. accounted for the largest amount at \$246 billion, up 19.2% from the previous year, followed by the U.K. (\$186 billion, up 43.0%), Germany (\$48 billion, down 0.3%), and Japan (\$48 billion, down 65.3%).

The U.S. and U.K. saw year-on-year increases (Chart 1-14). UNCTAD analyzes and attributes the year-on-year decline of Japan's M&A, both in the number and value, to the absence of large-scale deals in 2020, which had been observable in recent years.

Chart 1-14: Values of Global M&A Deals by Acquisition Country and Region (Billion dollars %)

Ranking	Country/Region	Change in Ranking	Value	YoY	Share
1	US	→	246	19.2	25.4
2	UK	↗	186	43.0	19.2
3	Germany	↗	48	-0.3	5.0
4	Japan	↘	48	-65.3	4.9
5	China	↗	37	-0.7	3.8
—	Total	—	969	-10.6	100.0

Source: "Workspace" (Refinitiv) (as of Oct.11th, 2021)

Looking at the acquisition target by countries and regions, the U.S. recorded the largest number with 1,686 deals, up 0.0% from the previous year, followed by the U.K. (941 deals, down 10.6%), and Germany (523 deals, down 25.3%) (Chart 1-15). While the overall number fell 15.3%, those in the top countries, including the U.S. and Canada, were almost unchanged.

Chart 1-15: Number of Global M&A Deals by Target Country and Region (# of of Projects, %)

Ranking	Country/Region	Change in Ranking	# of Projects	YoY	Share
1	US	→	1,686	0.0	16.7
2	UK	→	941	-10.6	9.3
3	Germany	→	523	-25.3	5.2
4	Canada	→	512	-1.0	5.1
5	France	→	415	-18.3	4.1
20	Japan	↘	135	11.6	1.3
—	Total	—	10,070	-15.3	100.0

Source: "Workspace" (Refinitiv) (as of Oct.11th, 2021)

Looking at the value, the U.S. registered 249 billion dollars, down 11.1% from the previous year. As with the number of deals, the U.S. recorded the highest figure amount all countries and regions. However, the amount declined year on year. The Netherlands (136 billion dollars, up 442.2%), and the U.K. (74 billion dollars, down 16.8%) followed (Chart 1-16).

Chart 1-16: Values of Global M&A Deals by Target Country and Region (Billion dollars %)

Ranking	Country/Region	Change in Ranking	Value	YoY	Share
1	US	→	249	-11.1	25.7
2	Netherlands	↘	136	442.2	14.0
3	UK	↘	74	-16.8	7.6
4	Germany	→	66	10.9	6.8
5	India	↘	40	43.6	4.1
21	Japan	↘	10	19.8	1.0
—	Total	—	969	-10.6	100.0

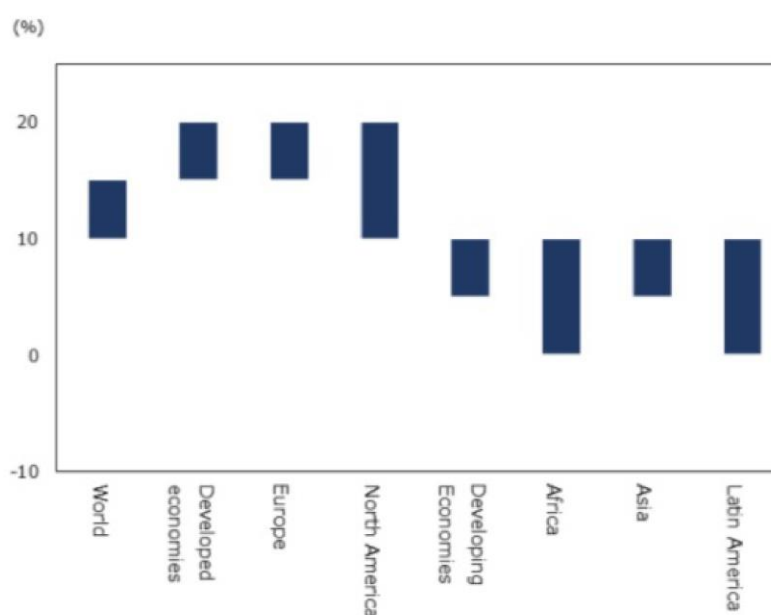
Source: "Workspace" (Refinitiv) (as of Oct.11th, 2021)

Growth forecasted for 2021, with uneven recovery across regions



UNCTAD projects global inward FDI in 2021 to increase by 10 to 15% from 2020 (Chart 1-17). While the number of greenfield investments has been sluggish, M&A has been active since the second half of 2020, and this trend continues in 2021. In addition to the Asian region, where investments were solid in 2020, UNCTAD expects investments in infrastructure, digital technologies, and environment, funded by the fiscal policies launched by the EU countries and the U.S. to respond to the economic impact of COVID-19, will contribute to increasing inward FDI.

Chart 1-17: FDI Growth Rate for 2021 (Forecast)



Note: Classification of each region is as defined by UNCTAD.
Source: "World Investment Report 2021" (UNCTAD)

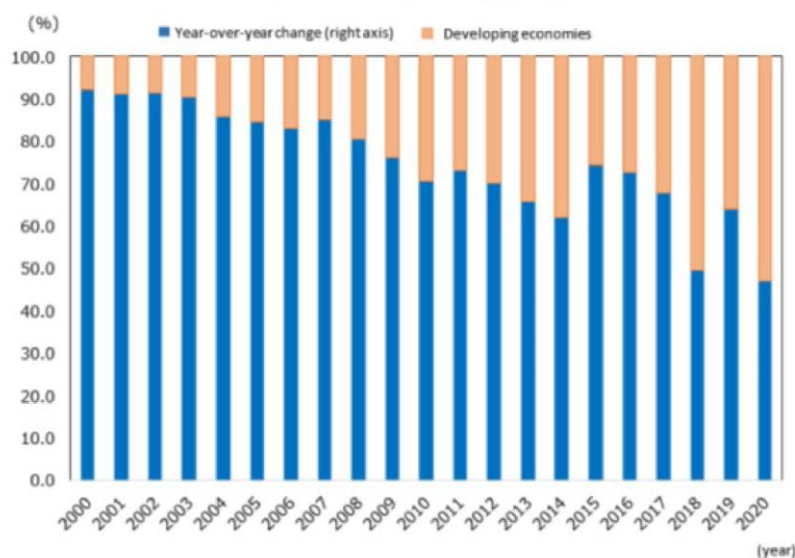
On the other hand, UNCTAD predicts that the recovery of inward FDI will be weak in Latin American and African countries, which will continue to be significantly affected by COVID-19. There are concerns that the impact of COVID-19 variants on the world's social and economic conditions in various parts of the world may affect the forecast of global Inward FDI.

Global Trends in Outward FDI



Looking at the global outward FDI (net flow; hereinafter outward FDI) by region in 2020, developed economies accounted for 46.9%, and developing economies 53.1% (Chart 1-18). Investment by developed countries and regions, in particular, fell sharply (Chart 1-19). The amount of outward FDI by Japan, the largest investor in 2018 and 2019, fell by 49.0% year on year, and there was a net withdrawal of investment by the Netherlands. The ratio of outward FDI from developed economies fell below 50% for the first time in two years, and that from developing economies (53.1% of the total) reached a record high.

Chart 1-18: Outward FDI by Region



Note: "Developed economies" is as defined by UNCTAD. The amount of inflow to developing economies is computed by subtracting that of developed economies from that of the world.

Source: "World Investment Report 2021" (UNCTAD)

Chart 1-19: Outward FDI: Top Ten Countries and Regions (Billion dollars %)

Ranking in 2020	Country/Region	Change in Ranking	2019	2020	2020 YoY	2020 Share
1	China	↗	137	133	-2.9	18.0
2	Luxembourg	↗	34	127	268.7	17.2
3	Japan	↘	227	116	-49.0	15.6
4	Hong Kong, China	↗	53	102	92.1	13.8
5	United States	↘	94	93	-0.8	12.5
6	Canada	→	79	49	-38.3	6.6
7	France	↗	39	44	14.3	6.0
8	Germany	↘	139	35	-74.9	4.7
9	Korea, Republic of	→	35	32	-7.8	4.4
10	Singapore	→	51	32	-36.0	4.4
—	World	—	1,220	740	-39.4	100.0

Note: "World" and the ranking exclude financial centers in the Caribbean.

Source: "World Investment Report 2021" (UNCTAD)

Turning eyes to other major countries and regions, China was the largest investor country at \$133 billion, down 2.9% from the previous year. According to UNCTAD, investment activities were particularly robust in countries and regions surrounding One Way One Road, despite tighter investment regulations in the U.S. and other countries. As for the share of global outward FDI by major countries and regions, the top five countries and regions accounted for approximately 80%, manifesting a concentration of investment sources in some areas.

Trends in Inward FDI to Japan part1



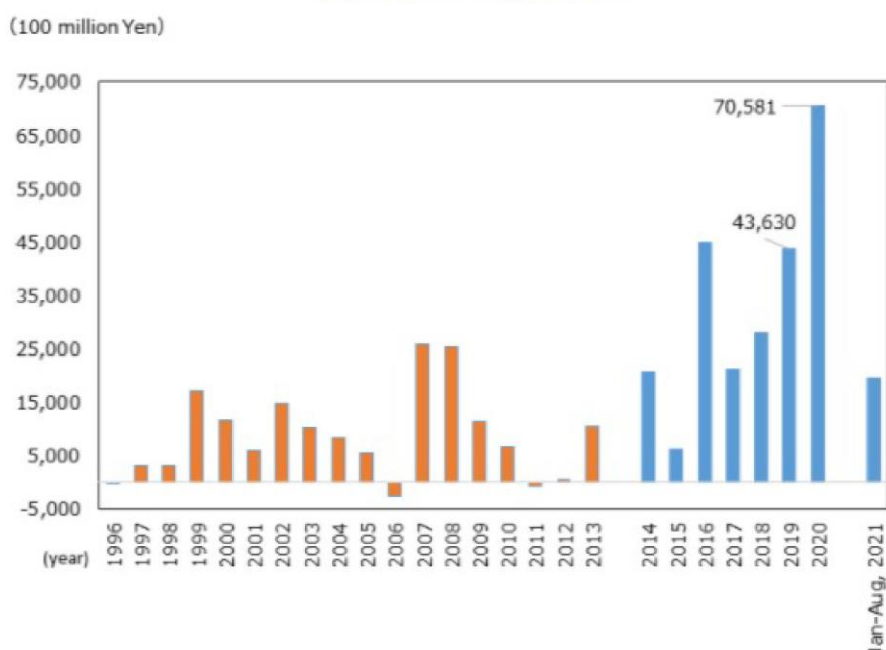
FDI Flow to Japan

Inward FDI to Japan rose to 7.1 trillion yen in 2020



In 2020, inward FDI to Japan (net, flow) was 7.1 trillion yen, up 61.8% from the previous year (Chart 1-20). This is the largest amount since 2014, for which comparable data is available, far exceeding the amount of 4.5 trillion yen in 2016.

Chart 1-20: FDI Flow to Japan



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

Breaking down FDI flow to Japan in 2020 (7.1 trillion yen) by forms of capital, equity capital^{*4} fell 49.8% year on year to 600 billion yen, reinvestment of earnings^{*5} decreased 2.6% to 1.4 trillion yen, while debt instrument^{*6} increased 183.7% to 5.1 trillion yen (Chart 1-21). Reflecting the economic and social impact of the global COVID-19 crisis, equity capital, which represents the trend of new investment and capital increase in Japan, halved compared to the record high in 2019. On the other hand, debt instrument, which include lending and borrowing between companies with capital ties, has increased significantly. This increase was the main factor behind increasing FDI flow to Japan in 2020. In particular, according to the announcement by the Ministry of Finance in June 2020^{*7}, when debt instrument rose significantly, the increase in debt instrument was attributable to "borrowings from overseas affiliates, etc." by Japanese companies. Because of the recording principle of these statistics (asset and liability principle^{*8}), borrowing by Japanese companies from their overseas subsidiaries, etc. is reflected in the amount of FDI flow to Japan, which has pushed up the overall amount.

*4 Equity capital: share purchase or capital exchange with a value of at least 10% of voting rights, equity interest on investment to a branch and other capital expenditures by a foreign company is recorded.

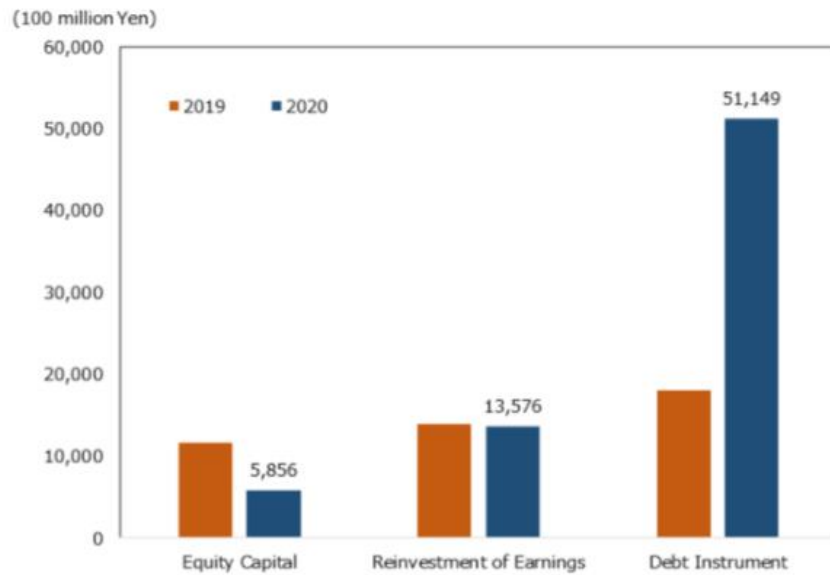
*5 Reinvestment of earnings: proportion of undistributed earnings from a Japanese business or local subsidiary with foreign ownership corresponding to the level of foreign investment is recorded.

*6 Debt instrument: cash loans exchanged between parent and subsidiary and acquisition/disposal of bonds are recorded.

*7 "Balance of Payments Statistics in June 2020 (Preliminary)." [Link](#)

*8 The asset and liability principle defines investments from Japan to foreign countries as assets (outward investments) and investments from foreign countries to Japan as liabilities (inward investments). [Link](#)

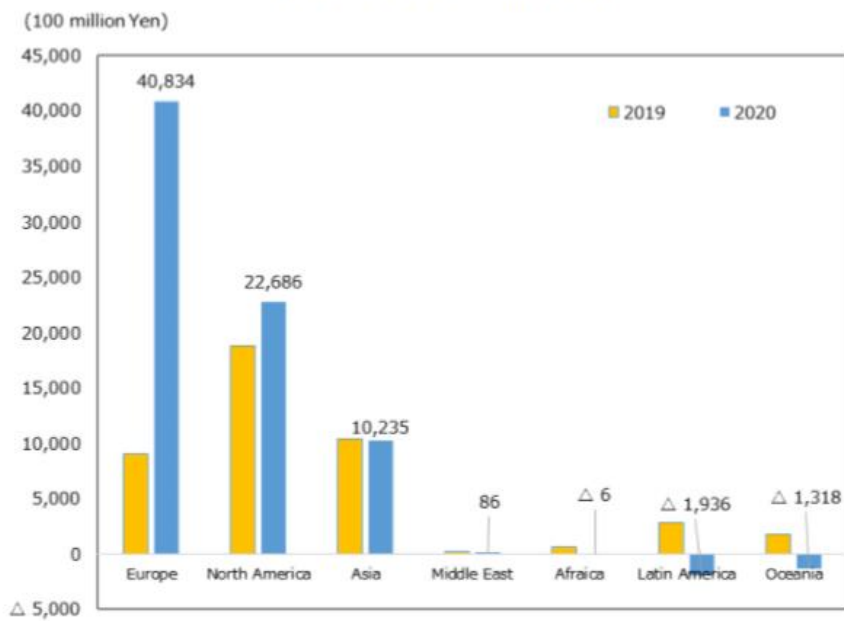
Chart1-21 FDI Flow to Japan by Form of Capital



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

By region, Europe accounted for the largest share of FDI flow to Japan in 2020 at 4.1 trillion yen, up 351.3% from the previous year, followed by North America at 2.3 trillion yen, up 20.6%, and Asia at 1 trillion yen, down 1.6% (Chart 1-22).

Chart1-22 FDI Flow to Japan by Region



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

Among Europe that accounted for the largest share of FDI flow to Japan, the U.K. invested the largest amount of all countries and regions at 3.3 trillion yen, up 969.9% from the previous year, and Switzerland the third largest at 800 billion yen, up 704.4%. The investment from these two countries accounted for the majority of the investment from Europe. The U.S., the second largest, invested 2.3 trillion yen, a 21.1% year-on-year increase. Looking at investments from the U.K., the U.S., and Switzerland, the top countries in the amount of FDI flow to Japan in 2020, debt instrument accounted for the largest portion.⁹

⁹ Statistics on the amount of FDI in Japan for a single year do not show data by types of capital for each investor country or region. See trends in the amount outstanding of FDI in Japan, for which statistics data are available by investor country/region and types of capital.

Chart 1-23: FDI Flow to Japan by Country and Region (100 million yen, %)

2020 Ranking	Investor Country/Region	Change in Ranking	2020	2020 YoY
1	UK	↗	32,674	969.9
2	US	↘	22,605	21.1
3	Switzerland	↗	7,610	704.4
4	Singapore	↘	5,462	98.3
5	China	→	1,434	-31.5
6	France	→	1,398	-19.5
7	Hong Kong	↘	1,239	-45.4
8	Netherlands	↗	1,215	—
9	Thailand	→	1,080	-4.8
10	Germany	↗	819	235.7
—	World	—	70,581	61.8

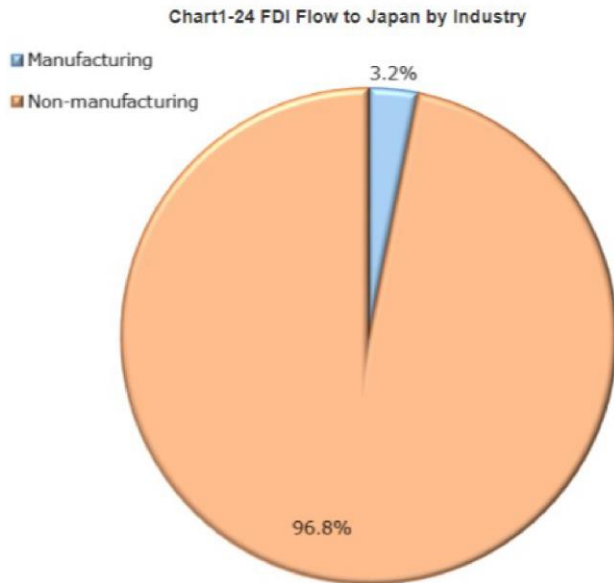
Source: "Balance of Payments" (MoF, BoJ)

As for Asia, where FDI to Japan has been on the rise in recent years, Singapore rose 98.3% year on year to 500 billion yen, but other major investor countries and regions saw declines across the board, including 31.5% down in China and 45.4% down in Hong Kong.

Non-manufacturing sector accounted for the majority of FDI flow to Japan by industry



According to the statistics for FDI by industry, FDI flow to Japan fell 26.8% from the previous year to 1.1 trillion yen in 2020, the first year-on-year decline in three years since 2017. The non-manufacturing sector accounted for the majority with 1.1 trillion yen (96.8% of the total), and the manufacturing sector with 0.03 trillion yen (3.2% of the total) (Chart 1-24).



Note: Based upon different principles from statistics for FDI by region.
Source: "Balance of Payments" (MoF, BoJ)

In terms of specific industries, the financial and insurance industry accounted for the largest share at 1.2 trillion yen, down 3.7% year on year, overwhelming other industries. It was about six times as much as the transportation equipment industry, which accounted for the next largest share (200 billion yen, down 18.4% YoY) (Chart 1-25). Looking at investment by country in the financial and insurance industry, the U.S. saw a 40.5% year-on-year decline to 700 billion yen, but Singapore nearly tripled its investment from the previous year to 400 billion yen. In addition, there was an increase in investment from European countries, resulting in an overall investment amount at the same level as the previous year. In the manufacturing industry, electrical machinery, which usually has a relatively large value, fell 90.4% year on year to 30 billion yen, and chemicals and pharmaceuticals saw a net withdrawal of 200 billion yen, constraining the overall figure.

Chart 1-25: FDI Flow to Japan: Top Ten Industries (100 million Yen, %)

Ranking	Change in Ranking	Sector	2020 YoY	Share
1		Finance&insurance	-3.7	113.7
2		Transportation Equipment	-18.4	18.2
3		Services	38.1	17.8
4		Electric machinery	-90.4	3.0
5		Transportation	11.5	2.3
6		General Machinery	—	2.3
7		Glass and ceramics	—	2.2
8		Petroleum	—	0.7
9		Teitile	44.8	0.4
10		Iron, non-ferrous&metals	-70.2	0.3
—		Chemistry, Pharmaceutical	—	—
—		Wholesale, retail business	—	—

Note: 1) Based upon different principles from statistics for FDI by region.

2) Negative amount indicates withdrawal exceeds flow.

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

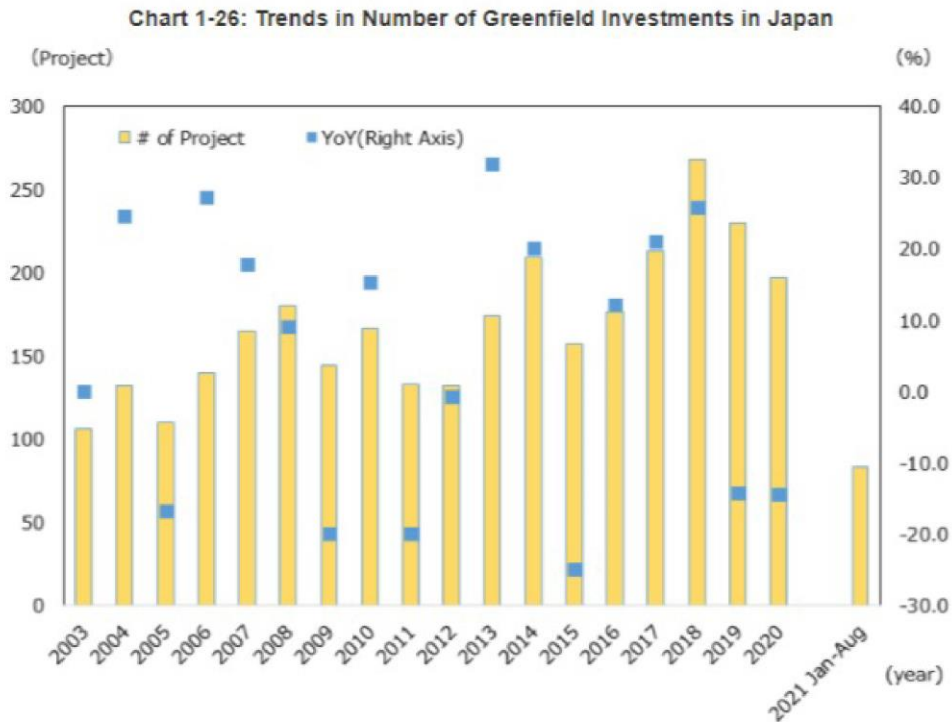
Trends in Inward FDI to Japan part2



Greenfield investment declined for the second consecutive year



The number of greenfield investments in Japan in 2020 (based on the date of publication) fell 14.3% from 2019 to 197, marking the second consecutive year-on-year decline (Chart 1-26).



Source: "fDi Markets" (Financial Times) (as of Oct. 5th, 2021)

By investor countries and regions, the U.S. recorded the highest number of 61 cases, more than three times as many as Singapore, which came in second. Although the U.S. far exceeded other countries and regions, its number decreased by nearly 30% from the previous year (Chart 1-27). Singapore more than doubled its number of investments from 8 in 2019 to 19, while Germany marked the same number as the previous year (17 cases), and France (13 cases, -50.0% YoY) and the U.K. (12 cases, -36.8% YoY) both saw declines.

Chart 1-27: Number of Greenfield Investments in Japan in 2020 by investor country and region (# of Projects, %)

Ranking	Country/Region	Change in Ranking	# of Projects	YoY	Share
1	US	→	61	-29.9	31
2	Singapore	↗	19	137.5	9.6
3	Germany	↗	17	0	8.6
4	France	↘	13	-50	6.6
5	UK	↘	12	-36.8	6.1
—	Total	—	197	-14.3	100

Source: "fDi Markets" (Financial Times) (as of Oct.5th, 2021)

Looking at greenfield investment in Japan in 2020 by industry, as in previous years, software (63 cases) was the largest, but down 12.5% from the previous year. Real estate (19, up 5.6% YoY) and renewable energy (17, up 21.4% YoY) followed. While the overall number of investments declined, these two industries saw year-on-year increases.

Chart 1-28: Number of Greenfield Investments in Japan in 2020 by industry (# of Projects, %)

Ranking	Industry Sector	Change in Ranking	# of Projects	YoY	Share
1	Software & IT services	→	63	-12.5	32
2	Real estate	↗	19	5.6	9.6
3	Renewable energy	↗	17	21.4	8.6
4	Business services	↘	16	-30.4	8.1
5	Industrial equipment	↘	13	-7.1	6.6
—	Total	—	197	-14.3	100

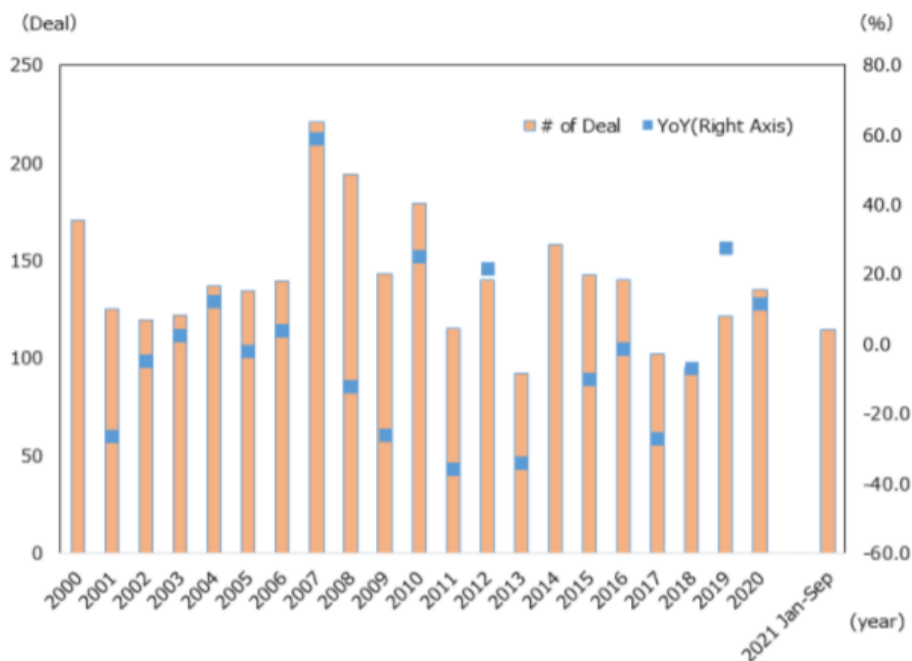
Source: "fDi Markets" (Financial Times) (as of Oct.5th, 2021)

Number of M&A deals in Japan in 2020 increased from the previous year



In 2020, the number of cross-border M&A deals to Japan (hereafter, M&A deals in Japan), based on the date of completion, increased 11.6% from the previous year to 135 (Chart 1-29). The number of M&A deals in Japan had declined year on year for four consecutive years until 2018, but increased year on year in 2019 and 2020, marking the second consecutive year of growth.

Chart 1-29: Trends in M&A Deals in Japan



Source: "Workspace" (Refinitiv) (as of Jun.3rd, 2021)

Looking at the number of M&A deals in Japan in 2020 by country and region, the U.S. claimed the largest number with 31 deals (23.0% of the total), followed by Hong Kong (12 deals, 8.9%) and Singapore (10 deals, 7.4%) (Chart 1-30). The top five countries and regions were all Asian countries except for the U.S. and Germany.

Chart 1-30: Number of M&A Deals in Japan in 2020 by Investor Country and Region (# of Project, %)

Ranking	Country/ Region	# of Project	YoY	Share
1	US	31	14.8	23
2	Hong Kong	12	-14.3	8.9
3	Singapore	10	0	7.4
4	South Korea	9	80	6.7
5	Germany	7	250	5.2
—	Total	135	15.4	100

Source: "Workspace" (Refinitiv) (as of Oct.5th, 2021)

Major M&A deals in Japan since 2020 include the acquisitions of UNIZO Holdings Company, Limited by Chitosea Investment Co., Ltd. (location of the ultimate parent company: Cayman Islands), and Takeda Consumer Healthcare Co., Ltd. by Oscar A-Co KK (location of the ultimate parent company: US) (Chart 1-31).

Chart 1-31: Major M&A Deals in Japan since 2020

Rank	Target Company	Target Company Industry	Acquirer	Acquirer Parent country/region	Acquirer Industry	Date(Completion)	Transaction value(1 million dollars)
1	UNIZO Holdings Company, Limited	Real Estate	Chitosea Investment Co., Ltd.	Cayman Isl.	Finance	June 2020	4,375
2	Takeda Consumer Healthcare Co., Ltd.	Healthcare	Oscar A-Co K.K.	US	Finance	March 2021	2,288
3	Shiseido Company, Limited - Personal Care Business	Wholesale and services	Oriental Beauty Holding Co., Ltd.	UK	Finance	July 2021	1,524
4	Showa Aircraft Industry Co., Ltd.	Industry	BCPE Planet Cayman LP	US	Finance	April 2020	851
5	Accordia Golf Asset	Media and entertainment	Accordia Golf Co., Ltd.	Spain	Media and entertainment	September 2020	618
6	Rakuten Group, Inc.	High-tech	Image Frame Investment (HK) Ltd.	China	Finance	March 2021	606
7	Aspen Japan K.K.	Healthcare	Sandoz International GmbH	Switzerland	Healthcare	January 2020	441
8	Takeda Pharmaceutical Company Limited-TachoSil Business	Healthcare	Corza Health, Inc.	US	Finance	February 2021	415
9	ESR Redwood Kuki Distribution Center	Industry	Logistics-related joint venture	France	Finance	August 2020	369
10	Hulic Co., Ltd. - Hewlett Packard Japan, G.K. Office Building (98.47%)	Real Estate	Tsubaki special-purpose company	Singapore	Finance	June 2021	353

Note: M&As with the top 10 transaction values between January 2020 and September 2021 are listed.

The nationality of the acquiring company is the location of the ultimate parent company. [Source] "Workspace" (Refinitiv) (as of October 5, 2021)

Sluggish FDI Flow to Japan in the first half of 2021



As mentioned earlier, in World Investment Report 2021 released in June 2021, UNCTAD predicted global inward FDI in 2021 to increase by around 10 to 15% over the previous year. The amount of inward FDI to Japan from January to August 2021 was sluggish compared to the same period of the previous year. In terms of trends in greenfield investment (based on the date of publication) that indicates the establishment and expansion of bases in Japan by foreign companies, the number of cases from January to August 2021 was 83, less than 60% of 144 during the previous year's same period. Regarding countermeasures against COVID-19, although Japan lagged behind other countries in starting vaccination, 65.8% of the total population has been fully vaccinated as of October 14, 2021, boding well for the country's future progress in economic activities. Also, if the easing of restrictions on travel from abroad progresses, it is expected to lead to the establishment of new bases and the expansion of existing bases by foreign companies, which have been sluggish since 2020.

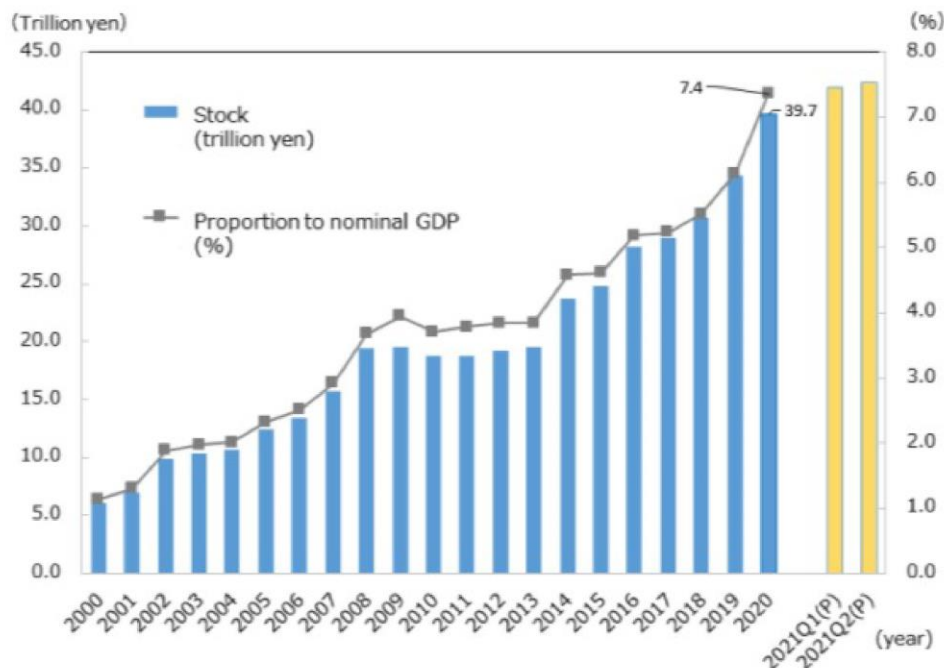
FDI Stock in Japan

FDI stock in Japan at the end of 2020 was 39.7 trillion yen



The outstanding balance of FDI in Japan at the end of 2020 reached a new high of 39.7 trillion yen, up 15.6% from the previous year, reflecting the large amount of inward FDI to Japan in the same year (Chart 1-32). The ratio of the balance to GDP increased from 6.1% to 7.4%.

Chart 1-32: FDI Stock in Japan

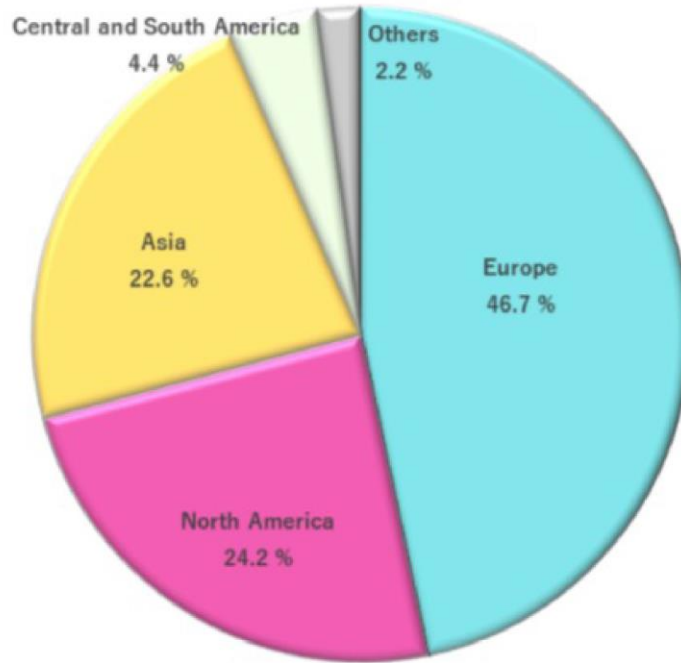


Source: "International Investment Position of Japan" (Ministry of Finance, Bank of Japan), "National Accounts of Japan" (Japan Cabinet Office)

Looking at the FDI stock at the year-end by forms of capital, equity capital increased 1.5% YoY to 19 trillion yen (46.9% of the total), debt instrument increased 63.1% YoY to 13 trillion yen (33.6%), and reinvestment of earnings decreased 1.1% YoY to 8 trillion yen (19.5%). As mentioned earlier, the share of debt instrument in the outstanding balance also increased to more than 30% from 23.8% at the end of 2019, reflecting the large inflow of debt instrument in FDI in 2020. As for the balance of debt instrument by country and region, the U.K. saw a 335.5% increase from the previous year to 4.4 trillion yen, the U.S. increased by 84.8% to 2.7 trillion yen, and the Swiss increased by 272.5% to 900 billion yen, evidencing significant inflow of debt instrument from these countries in 2020.

As for the FDI stock in Japan by investor region, Europe had the largest share at 18.5 trillion yen (46.7% of the total), followed by North America at 9.6 trillion yen (24.2%), and Asia at 9 trillion yen (22.6%) (Chart 1-33). By country and region, the U.S. remained the largest at 9.4 trillion yen (23.7% of the total), followed by the U.K. at 5.8 trillion yen (14.7%) (Chart 1-34). The top 10 countries and regions accounted for 86.0% of the total FDI stock in Japan, which were mainly countries of Europe and Asia except for the U.S.

Chart1-33: FDI Stock in Japan by Region



Source: "International Investment Position of Japan" (Ministry of Finance, Bank of Japan)

Chart1-34: FDI Stock in Japan by Country and Region (Unit: Billion yen, %)

Rank	Country/region	Stock	Ratio
1	U.S.	9,405	23.7
2	U.K.	5,832	14.7
3	Singapore	4,294	10.8
4	Netherlands	4,228	10.7
5	France	3,320	8.4
6	Switzerland	2,337	5.9
7	Hong Kong	1,466	3.7
8	Cayman Isl.	1,285	3.2
9	Germany	997	2.5
10	South Korea	936	2.4
-	Others	5,565	14.0
-	Total	39,669	100

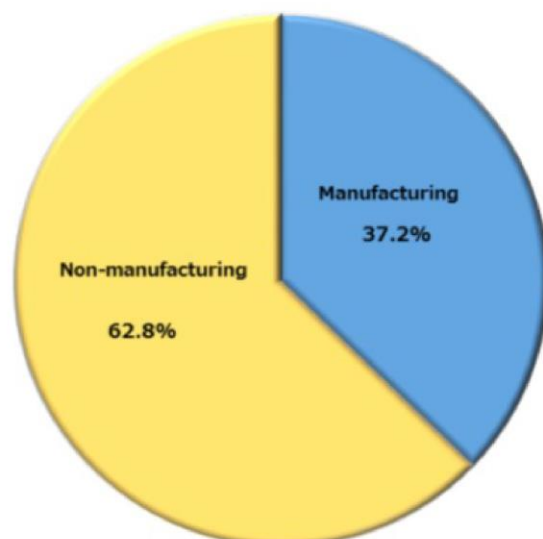
Source: "International Investment Position of Japan" (Ministry of Finance, Bank of Japan)

Non-manufacturing industry accounted for over 60% of FDI stock in Japan by industry at the end of 2020



The FDI stock in Japan by industry at the end of 2020 was 24.1 trillion yen, down 1.4% from the previous year. The manufacturing sector accounted for 37.2%, and the non-manufacturing sector accounted for 62.8% (Chart 1-35). The large proportion of FDI inflow into the non-manufacturing sector during 2020 increased the stock in this sector.

Chart1-35: FDI Stock in Japan by Industry



Note: Based upon different principles from statistics for FDI by region.
Source: "International Investment Position of Japan" (Ministry of Finance, Bank of Japan)

Looking at detailed industries, the stock of finance and insurance increased 41.6% year on year to 10 trillion yen, accounting for the largest share (41.6% of the total) due to substantial investments in 2020 (Chart 1-36). Transportation equipment, down 9.7% YoY to 3.3 trillion yen (13.6%), and electrical machinery, down 9.2% YoY to 2.3 trillion yen (9.5%), followed.

Chart 1-36: FDI Stock in Japan: Top Ten Industries (Billion yen, %)

Rank	Industry	Stock	Ratio
1	Finance and insurance	10,015	41.6
2	Transportation equipment	3,276	13.6
3	Electric machinery	2,290	9.5
4	Communications	2,045	8.5
5	Chemicals and pharmaceuticals	1,793	7.4
6	Services	1,363	5.7
7	Real estate	531	2.2
8	General machinery	495	2.1
9	Transportation	422	1.8
10	Glass and ceramics	372	1.5
-	Others	1,474	6.1
-	Total	24,075	100

Note: Based upon different principles from statistics for FDI by region.
Source: "International Investment Position of Japan" (Ministry of Finance and Bank of Japan)

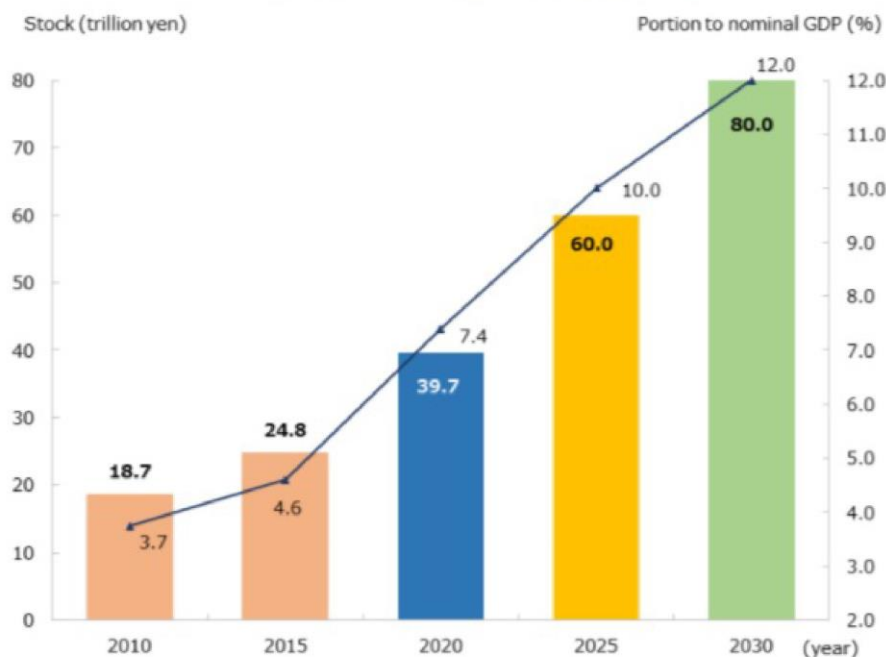
Chapter2. Japan's Business Environment and Foreign-Affiliated Companies

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)

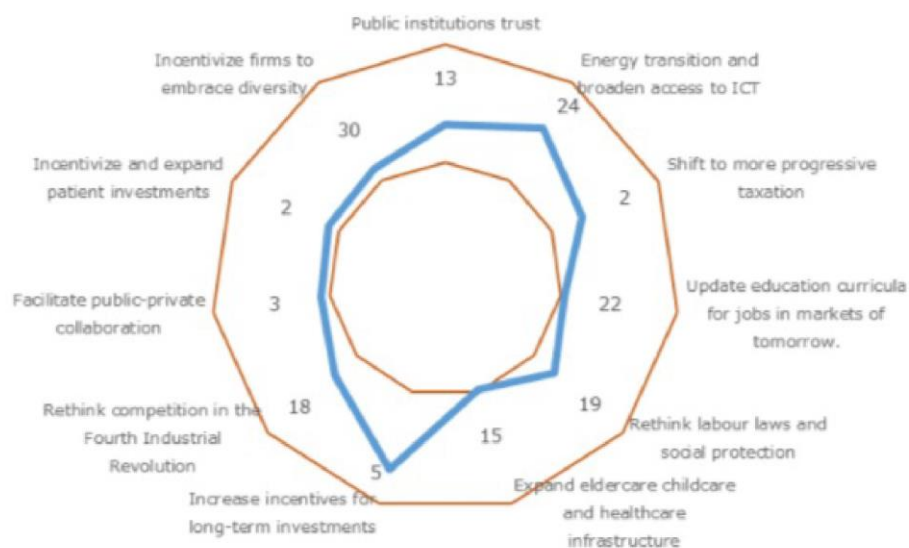
Indicators of business environment



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).

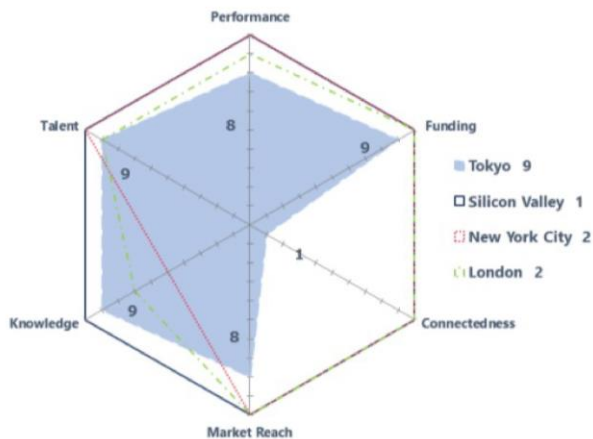
Chart 2-3: Top 20 Cities in GSER

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.

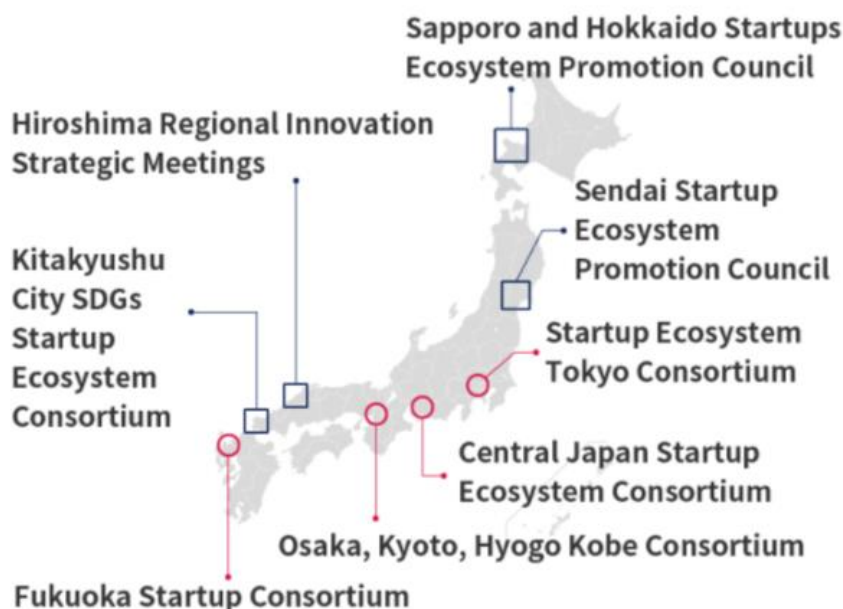
Specifically, the strategy states to create international innovation ecosystem cities that are internationally open, centered around the top universities in the region, and promote the accumulation of foreign startups, overseas human resources (teachers, researchers, entrepreneurs, etc.), and investors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

Section 3. Evaluation of Japan's Business Environment by Foreign-Affiliated Companies

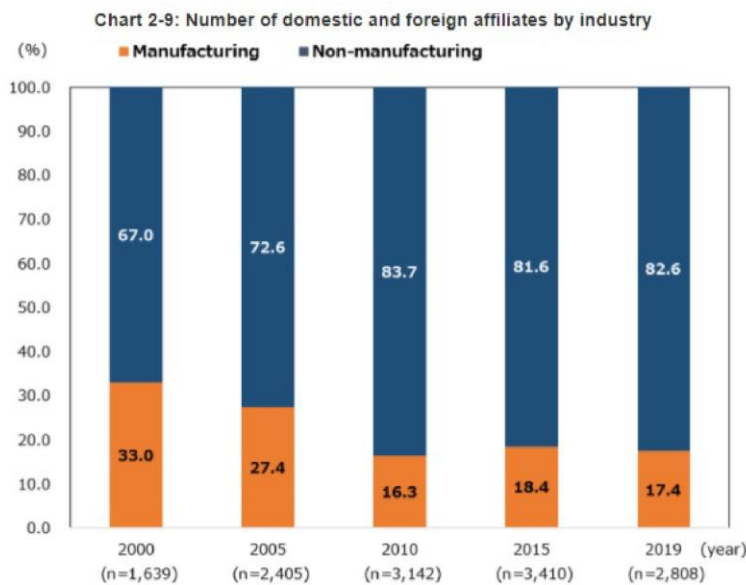


Survey of Trends in Business Activities of Foreign Affiliates



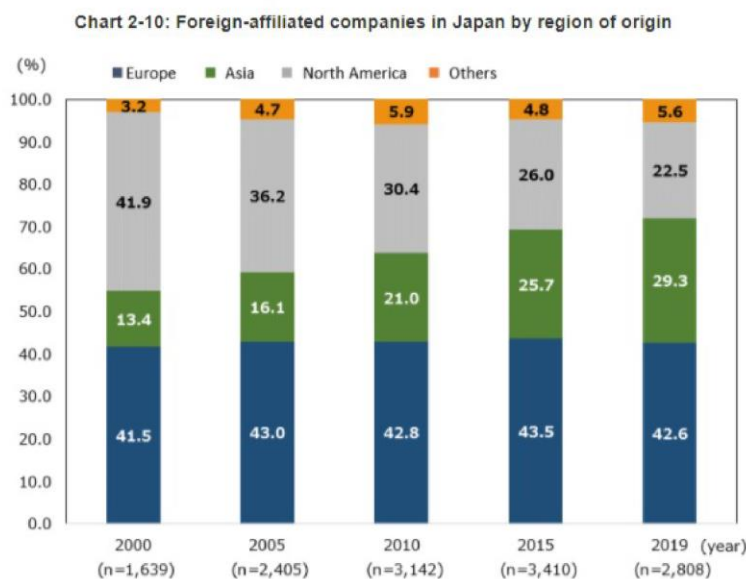
The Ministry of Economy, Trade and Industry has conducted the "Survey of Trends in Business Activities of Foreign Affiliates" (which ended in fiscal 2020), targeting companies meeting specific conditions such as the foreign ownership of one third or more. Based on the latest version of survey^{*5}, looking 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)

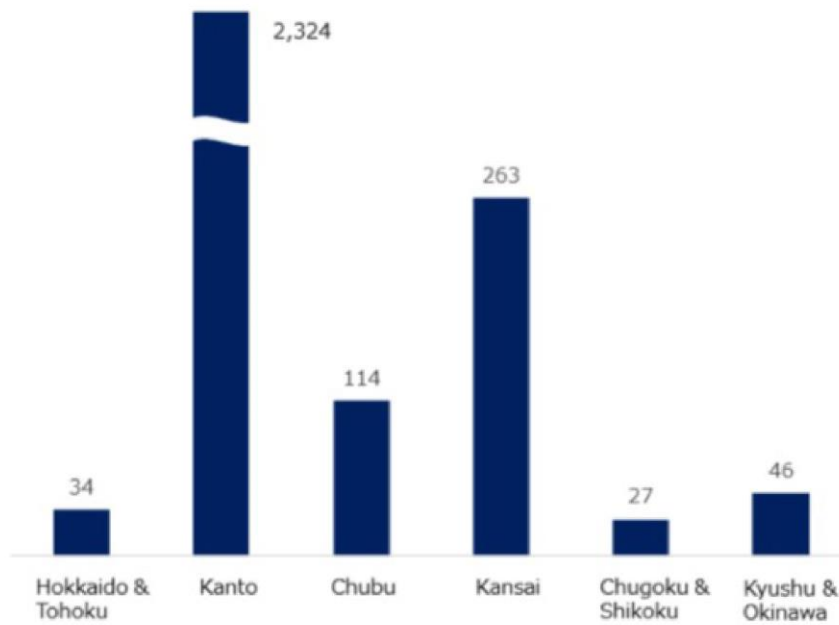
Looking at the foreign affiliates in Japan by the parent company's location, Europe had the largest share with 42.6%, followed by Asia with 29.3%, and North America with 22.5% (Chart 2-10). Many of them have their parent companies in Germany and France in Europe, and China and South Korea in Asia. It 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.

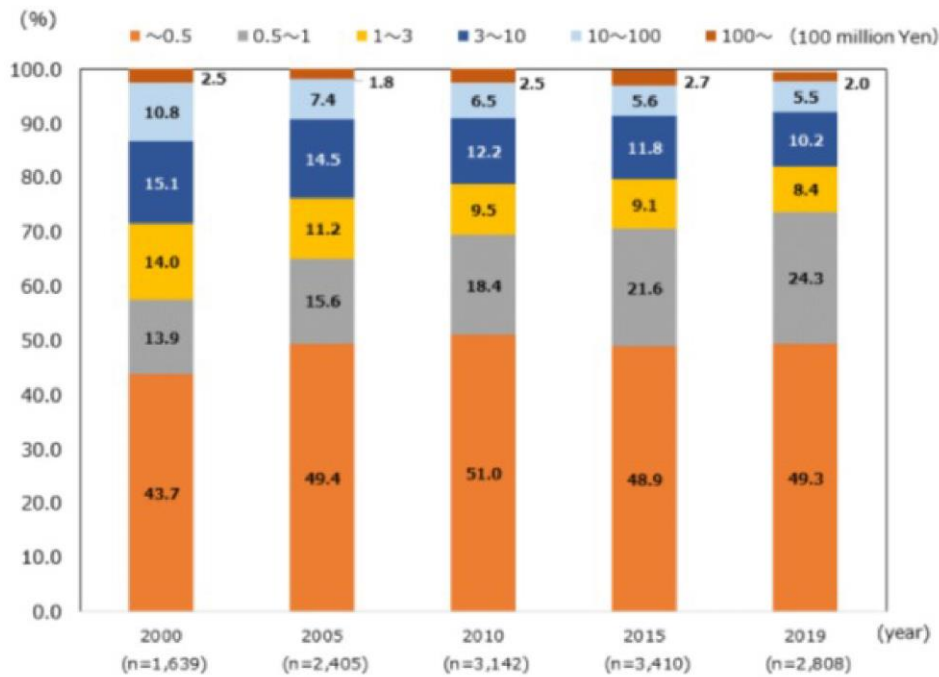
Chart 2-11: Number of foreign affiliates in Japan by



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%.

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%.

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.

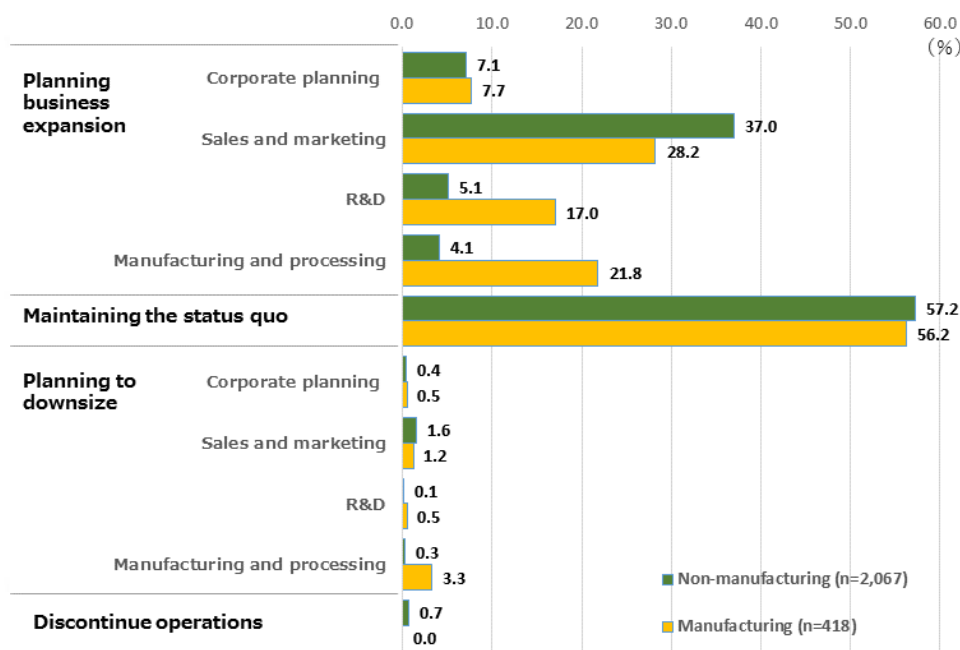
Source: "Survey of Trends in Business Activities of Foreign Affiliates" (METI)

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).

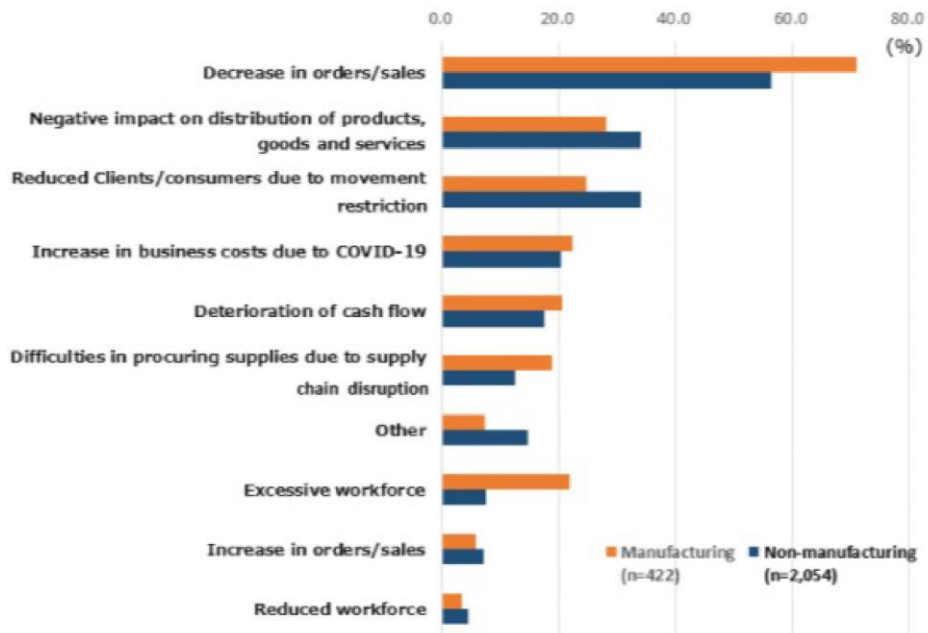
Chart 2-15: Future Business Expansion in Japan by industry



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

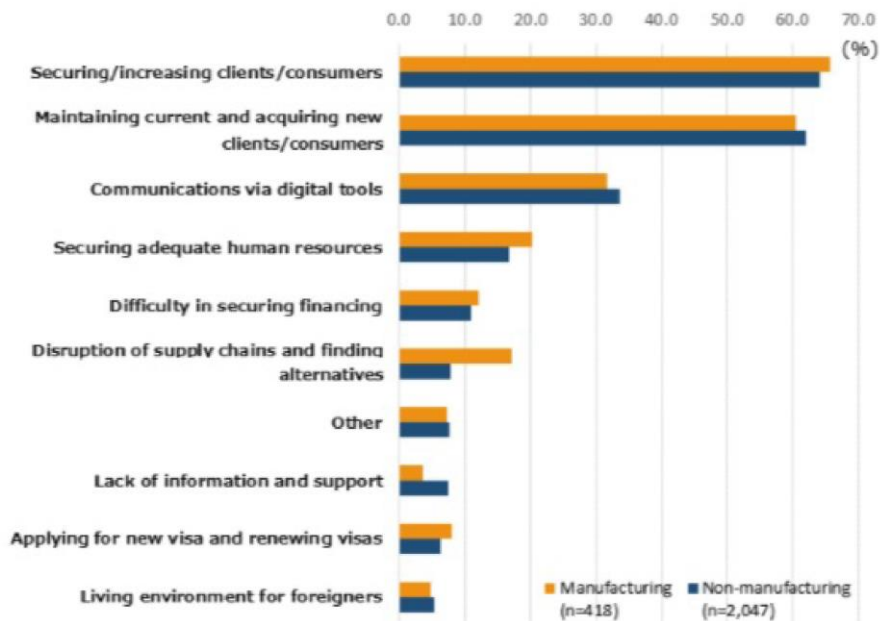
On the other hand, regarding the impact of COVID-19 on their business, "decrease in sales/orders" accounted for about 60% of the total (Chart 2-16), indicating that, in particular in manufacturing sites, there is a labor surplus due to the decline in orders. In addition, more than 30% of companies cited "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)

Section1. JETRO's Track Record of Supporting Foreign Companies



96 successful invitations in fiscal 2020



The "Basic Policies for Economic and Fiscal Management and Reform 2021" released by the Japanese government in June 2021 states that Japan will further promote foreign direct investment in Japan in order to attract advanced human resources, technologies and funds from overseas, and link them with Japan's technological and R&D capabilities, leading to the creation of innovation, and strengthening supply chains. The government continues to place importance on attracting foreign companies as it contributes to the development of the Japanese economy and society.

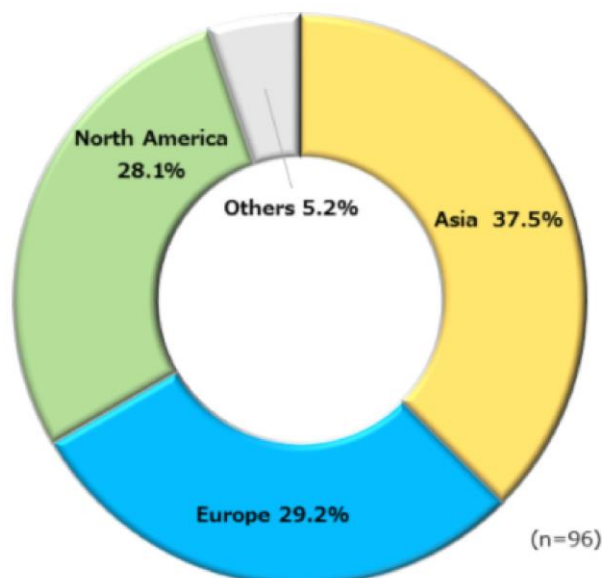
JETRO continues to support foreign companies in establishing bases in Japan, and developing business in the Japanese market. In fiscal 2020, JETRO provided support to 1,020 companies through its Japan Investment Promotion Project, and 96 of them established bases or expanded their business in Japan (Chart 3-1).

Chart 3-1: Investment Projects Supported and Successfully Attracted by JETRO in FY2020

Fiscal Year	2020
Successful Investment	96
Project Supported	1020

Looking at the number of successful cases in fiscal 2020 by region of origin of the parent company, the percentages were 37.5% in Asia, 29.2% in Europe, and 28.1% in North America (Chart 3-2).

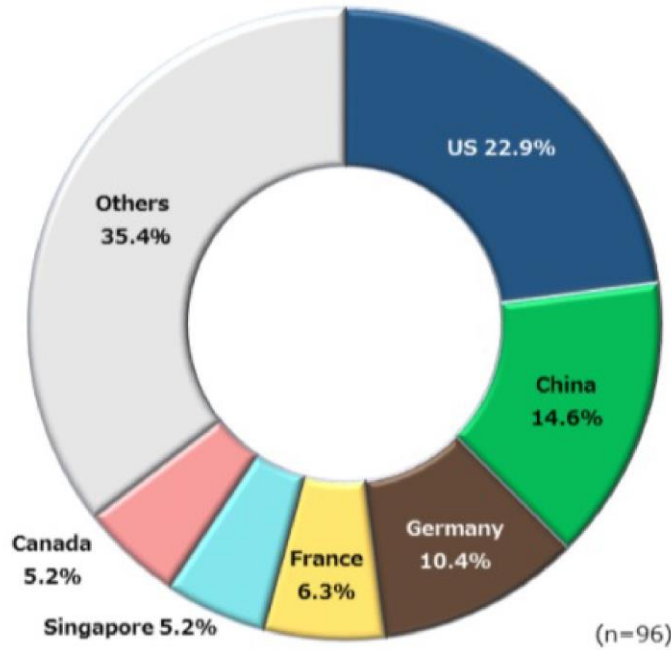
Chart 3-2: JETRO-attracted Investments by Region



<https://www.jetro.go.jp/invest/>

As in previous years, the U.S. accounted for the largest share of all countries with 22.9% (Chart 3-3). China was the second largest at 14.6% of the total, followed by Germany (10.4%), France (6.3%), and other European countries.

Chart 3-3: JETRO-attracted Investments by Country



Looking at successful projects by industry in fiscal 2020, as in fiscal 2019, ICT and telecommunications continued to be the largest (34.4% of the total), followed by electrical and electronic equipment and parts (13.5%), pharmaceuticals and medical equipment, and related services (11.5%) (Chart 3-4). A breakdown of successful projects in Japan shows 60.4% in Tokyo, 11.5% in Kanagawa, and 5.2% in Osaka (Chart 3-5).

Chart 3-4: JETRO-attracted Investments by Industry

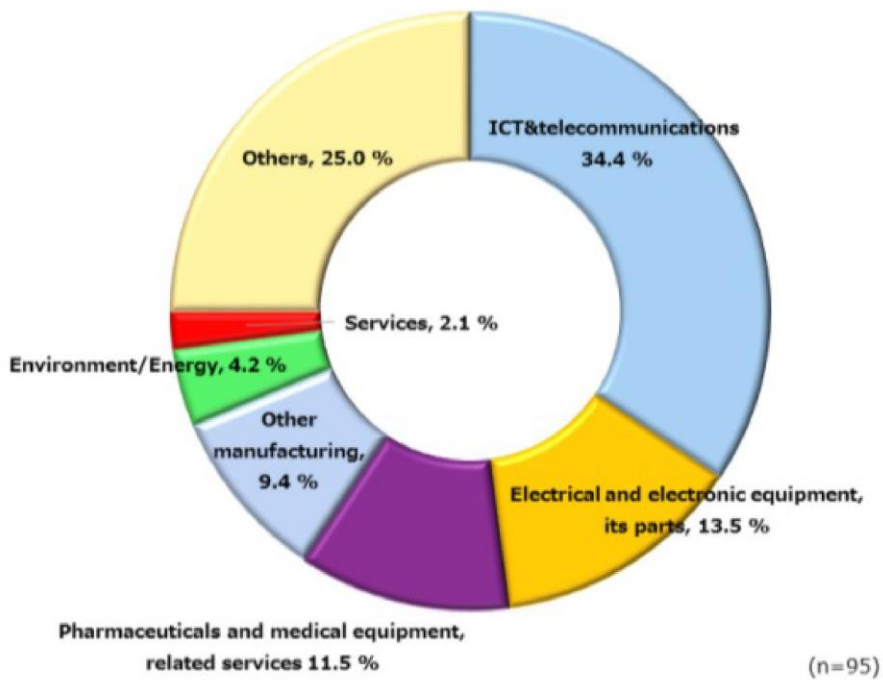
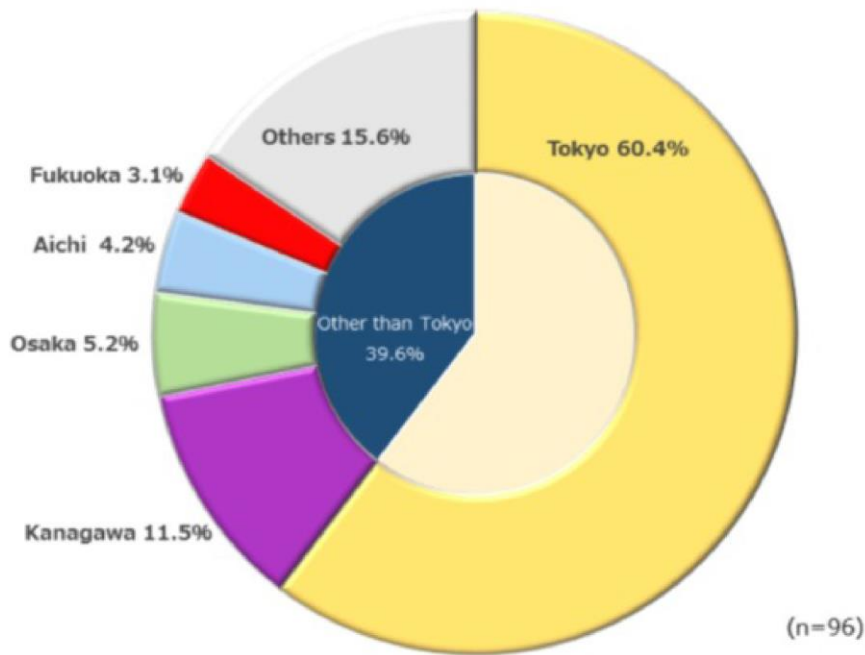


Chart 3-5: JETRO-attracted Investments by Prefecture



Since fiscal 2019, JETRO has strengthened its support for foreign companies, especially engaged in the following industries, in order to contribute to the creation of innovation in Japan through the attraction of foreign companies (Chart 3-6).

Chart 3-6: Target industries expected to generate innovation



Looking at the companies that have established bases with support from JETRO in 2020, there are companies that are active in the COVID-19 pandemic, including MiRXES, a Singapore company which has successfully mass-produced PCR test kits for COVID-19, and Schulke & Myer GmbH, a German company which manufactures and sells anti-infective products for medical institutions. In addition, Companies that help solve Japan's social issues, such as Exotec, a French company which develops and manufactures automation solutions for retail and manufacturing warehouses, have entered the Japanese market, in response to the demand for automation due to the declining birthrate and aging population, as well as regional disparities (Chart 3-7)

Chart 3-7: Foreign companies that have expanded into Japan with the support from JETRO

Corporate Name:	Nationality:	Overview:
MiRXES Japan Corporation	Singapore	<p>MiRXES (Singapore) is a biotech company that develops and expands the world's first testing tool for diagnostics of early-stage gastric cancer using microRNAs (miRNA) in the blood as biomarkers. In 2020, it succeeded in mass production of Fortitude Kit, a RT-PCR test kit for COVID-19, using this technology. The product, which has been tested and demonstrated in more than 80% of all Singapore hospitals, is deployed in more than 20 countries, including New Zealand, and Southeast Asian and Latin American countries.</p> <p>In January 2020, the company established MiRXES Japan Co., Ltd. in Chiyoda-ku, Tokyo. The company's innovative microRNA technologies and will enable simpler and more precise diagnostics for common cancers in Japan, such as gastric cancer. Upon establishing its Japanese base, JETRO's Invest Japan Business Support Center (IBSC) provided consultation (labor and registrations), information (regulatory affairs), introduction of service providers, and PR support.</p>
Schulke & Mayr GmbH	Germany	<p>Schulke & Mayr GmbH (Schulke & Mayr) is a German medical and hygiene company that manufactures and sells infectious disease control products for medical institutions. In 2015, as Air Liquide Japan's healthcare and hygiene business unit, the company took over hand disinfection products from Johnson & Johnson and provided infectious disease control products to medical institutions.</p> <p>With the outbreak of the novel coronavirus disease (COVID-19) worldwide, the study conducted by the German headquarters showed that mikrozid® Universal Wipes Premium, disinfection wipes with low alcohol content used mainly in medical facilities, and mikrozid® Sensitive Wipes, alcohol-free wipes primarily used in dental clinics and scientific research facilities, and both passed the European standards (EN14476) using the novel coronavirus (SARS-CoV-2). These two products, which are not subject to the Japanese pharmaceutical laws and regulations (categorized as miscellaneous products), are already sold in Japan, contributing to the prevention of infections, including COVID-19, at Japanese medical facilities.</p> <p>To accommodate the expanding business, the company established Schulke Japan LLC in Tokyo in June 2020. Upon establishing its Japanese base, JETRO's Invest Japan Business Support Center (IBSC) provided consulting (tax) and market information.</p>
EXOTEC	France	<p>Exotec is a French robotics manufacturer that develops and manufactures flexible automation solutions for warehouses of retailers, e-commerce players, and manufacturers. Founded in 2015, it has a total of 300 employees in Europe, United States, and in Japan. The company is developing its business in nine countries around the world with revenues expected to exceed 100 million dollars in 2021. In September 2020, the company raised 90 million dollars in a Series C round of investment.</p> <p>The company's automated picking robot system Skypod can move in three-dimensions up to a height of 12 meters at a speed of 4 meters/second with a loading capacity of 30kg. By effectively utilizing space to store inventory at a high density, the storage volume can be increased five times compared to the conventional shelf-type picking. In addition, it is possible to introduce additional shelves and robots quickly and in stages according to inventory volume and business flow without interrupting operations, which is one of the features of the system that allows client companies to invest in warehouses at the pace of their business expansion. The warehouse control system ASTAR manages the work plan, and tracks and records the positions of cases and robots in the warehouse in real time.</p> <p>In January 2020, the company established EXOTEC NIHON CO., LTD. in Tokyo with the aim of cultivating new customers and responding to existing customers. In Q1 of the same year, it established a warehouse in Kyoto Prefecture, and began full-scale activities in Japan. In 4Q of 2021, its Tokyo office will relocate to Minato Ward. Upon establishing its Japanese base, JETRO's Invest Japan Business Support Center (IBSC) provided regulatory and institutional information, introduced service providers and arranged meetings with them, and provided subsidies and incentives information, real estate property information, and also provided consultation (registration, visa, tax, and labor).</p>

Source: JETRO website

Section2. JETRO's Support for FDI in Japan



Comprehensive support for market entry and business expansion in Japan



JETRO, as Japan's only public organization promoting foreign direct investment to Japan, provides a full range of services, from the dissemination of information on Japan's business environment to the discovery of companies interested in investing in Japan, support for establishing bases, and support for expanding business in the country (Chart 3-8). In addition, in order to encourage foreign companies to expand their business not only in urban areas but also throughout Japan, JETRO also provides support to local governments to attract foreign companies to their communities, and urge the Japanese government to further improve its business environment.

Chart 3-8: JETRO's Efforts to Promote Investment in Japan



1) Promotion of Open Innovation between Japanese Companies and Overseas Startup Companies

JETRO launched the business platform "Japan Innovation Bridge (J-Bridge)" in February 2021 with the aim of promoting open innovation through cooperation and collaboration between Japanese companies and overseas startup companies. The goal is to encourage collaboration between companies in Japan and abroad in the fields of digital and green, and to attract the vitality of foreign companies, thereby increasing foreign investment in Japan.

Specifically, in addition to dissemination of information through on-line seminars and pitch events, the J-Bridge provides J-Bridge members, which are Japanese companies, with services such as introduction of promising overseas companies, arrangement of interviews, consultations by experts, and integrated support consisting of mentoring and matching. As of November 2021, about 500 companies and 600 people are registered as J-Bridge members. In addition, venture capital firms, banks, and other entities participate in J-Bridge as partners, with the aim of providing support to Japanese companies through concerted efforts of related parties with a variety of expertise, such as finance and inter-company negotiations.

2) Dissemination of information by JETRO

JETRO provides information to foreign and foreign-affiliated companies in the company through websites and online events. JETRO's website for foreign investment in Japan, which was fully revised in 2021, disseminates a variety of information in seven languages including Japanese (Chart 3-9). As an overview of Japan's investment environment, "Promising Industries for Foreign Investment in Japan" that focuses on particularly promising markets in Japan, and "Why Japan?" that conveys the attractiveness of the Japanese market and society, gives you a grasp of the characteristics of the market, and "How to Set up Business in Japan" provides a wide range of information required for incorporation, including company registration, visas, tax systems, and labor management. The website also post videos explaining how to enter Japan, how to establish a base, and how to obtain a work visa. In addition, "Navigation system for investing in Japan's local regions" is an information portal where visitors can acquire various information from basic economic and social data to that on industries, infrastructure, and incentives of prefectures and major cities. "Businesses Expanding" and "Success Stories" present case studies of companies that have entered the Japanese market, attracting many visitors including foreign companies that are interested in Japan.

Chart 3-9: JETRO Japan Investment Website



In addition to disseminating information on its website, JETRO holds a variety of online events during the COVID-19 crisis and promotes Japan's attractiveness overseas. In conjunction with the Tokyo Olympics and Paralympics, JETRO held NET ZERO Leaders Summit (Japan Business Conference 2021), a larger online event, from July 28 to September 10, 2021 (Chart 3-10). At the event, experts from around the world took the stage and to discuss carbon neutrality, which is attracting attention of countries and regions around the world, including Japan. Furthermore, visitors were able to visit, as online avatars, the booths of JETRO, Japanese companies and local governments prepared in a virtual space, and communicated with exhibitors in real time using the chat function, etc. The event took advantage of online, despite the difficulty of holding a physical event due to COVID-19.

Charts 3-10: Lobbies at 3D Virtual Places



3) Hands-on support for foreign companies

JETRO's Personal Advisor (PA) System for Foreign Companies is a core service of JETRO's support for foreign companies as to FDI in Japan. Under the PA system, JETRO's staff in charge of attracting foreign companies will work closely with foreign companies and provide detailed support by addressing the regulations and administrative procedures necessary for establishing corporations and conducting business activities in Japan, together with foreign companies. It also provides flexible support tailored to each company's needs, including consulting on tax, labor, and legal matters, provision of market and regulatory information, and participation in business events.

JETRO provides temporary offices (free of charge up to 50 business days) available to foreign companies to prepare for their establishment in Japan at its Invest Japan Business Support Center (IBSC), which operate at six JETRO offices (Tokyo, Yokohama, Nagoya, Osaka, Kobe, and Fukuoka) and other locations. Various supports by staff and experts are provided to tenant companies at IBSC of JETRO domestic offices. IBSC within JETRO Tokyo Headquarters is adjacent to Tokyo One Stop Business Establishment Center (TOSBEC), which provides a single point of contact for all necessary procedures for establishing a corporation in Tokyo (operated by: Japanese government and the Tokyo Metropolitan Government). In addition, JETRO is promoting "Digital IBSC" to accept consultations from anywhere in the world, and supports foreign and foreign-affiliated companies' expansion into Japan and business expansion online. JETRO also provide various information and consulting online.

In addition to the above-mentioned conventional services, JETRO will collaborate with domestic universities to hold events that connect foreign-affiliated companies with domestic students in order to support the business expansion of foreign-affiliated companies in Japan. The Career Discovery, scheduled to be held in November 2021, will be an event where 600 students, including foreign students attending 14 universities nationwide, students who have studied abroad, and students interested in foreign-affiliated companies will be able to interact online with about 30 foreign-affiliated companies supported by JETRO. Further, from October 2021 to the end of January 2022, special courses will be held at five universities in Japan with lecturers from JETRO and foreign-affiliated companies to give lectures to the students of the listed universities on the activities of foreign-affiliated companies in Japan and their careers at the companies. Securing appropriate human resources has long been a major issue for foreign companies expanding their business in Japan, and JETRO's new service is expected to resolve this issue.

4) Support for attracting investment in Japan to local communities

In addition to supporting foreign and foreign-affiliated companies, JETRO also provides various types of support to local governments that invite these companies, from capacity building to matching with foreign companies, based on the knowledge and resources that JETRO has accumulated over the years (Chart 3-11).

Chart 3-11: Major Assistances in Support Programs

Subject	Support items	Outline of support
1. Provision of know-how	Basic training	Basic training sessions for staff to attract foreign companies
	Advanced training	Advanced training sessions to improve the skills in invitation activities
	Dispatch of experts and consultants	Experts and consultants visit the relevant regions to hold training and study meetings on various topics, such as the formulation of strategies to attract foreign companies.
2. PR and promotion support	Online Seminars for overseas	Field-specific online seminars for JETRO overseas offices and overseas companies
	Support for strengthening regional branding	With the aim of further improving the brand power of local governments overseas, support will be provided to review the attraction strategies and PR materials from an overseas perspective through overseas consultants.
3. Matching and inviting foreign companies	Regional Business Conference (RBC)	Inviting foreign companies and local governments that want to participate in the programs planned by JETRO
	Targeted recruiting	Promoting business opportunities in the region to foreign companies with a high probability of being attracted to the region, and conduct matching with local companies..
4. Other	(for JETRO project companies) Temporary office for local market	Providing free temporary office space to JETRO project companies wishing to establish a business base in municipalities covered by the support project. (50 business days in principle)

As mentioned above, the "Navigation system for investing in Japan's local regions" on JETRO's website delivers information on each local government to foreign companies in a searchable format. JETRO staff and experts provide participating municipalities with invitation know-how through the "Support Program for Foreign Direct Investment in Japan for Local Communities (hereafter, the Support Program), which was launched in FY2018. In terms of overseas PR support, which is extremely important in attracting foreign companies, seminars will be held where participating municipalities can directly communicate their attractiveness to foreign companies online, utilizing JETRO's overseas network. Furthermore, JETRO launched a new project to strengthen regional branding for selected municipalities in order to enhance their ability to communicate the attractiveness of the region. In July 2021, Fukuoka City was selected as the first target region. The support is being expanded to maximize publicity of the attractiveness of the target region and to communicate it to foreign companies.

JETRO will also provide online matching with foreign companies to some of the municipalities participating in the support program. The matching support will be given focusing on three areas that are attracting a lot of attention from foreign companies and in which participating municipalities can demonstrate their strengths: HealthTech, which is expected to see further innovation as a result of COVID-19; FactoryTech, which will make a significant contribution to industrial sophistication; and TravelTech, which is expected to see increased demand after the COVID-19 pandemic. In cases where specific collaborations are expected, it plan to invite foreign companies and provide them with opportunities for inspection in the future.

5) Efforts toward improvement of the business environment

In order to improve the business environment in Japan, JETRO listens to requests for improvements in regulations and other matters from foreign and foreign-affiliated companies, and work with the government and related ministries and agencies. JETRO also serves as a bridge between the Japanese government and foreign companies. It acts as a contact point for foreign/foreign-affiliated companies under the "Invest Japan Hotline," which accepts requests from companies and holds interviews with relevant ministries and agencies, and the "Regulatory Sandbox System" launched by the Japanese government in 2018. Furthermore, in the "Investment Advisor Assignment System" in which deputy Minister consults with foreign companies making important investments in Japan, JETRO supports the business development of foreign-affiliated companies in Japan through arranging interviews with state ministers of concerned ministries. In June 2020, in light of the COVID-19 infection, the "Helpline for Foreign Companies" was established to provide foreign companies and foreign-affiliated companies in Japan with consultation services related to business in Japan.

In addition, JETRO is a member of the Council for the Promotion of Foreign Direct Investment in Japan, which is organized by relevant ministries and agencies to realize institutional reforms, and also served as the deputy chairman of the Working Group on Medium-to Long-Term Strategies for the Promotion of Foreign Direct Investment in Japan, which was met from October 2020 to May 2021. In this way, JETRO is working to improve the business environment in Japan in cooperation with relevant ministries and agencies.

Based on strategy to promote direct investment in Japan, JETRO, together with the Cabinet Office and the Ministry of Economy, Trade and Industry, will further strengthen its efforts to improve the business environment in Japan. As part of the efforts to strengthen our activities, we conducted the "Survey on Foreign-affiliated Companies in Japan" during the period of September to October 2021, to collect information on the business outlines of foreign affiliates nationwide and their opinions on the business environment in Japan. The questionnaire will be compiled and published on JETRO's website and other media in the spring of 2022 or later.

[Author] Invest Japan Department
Chapter1. Yuta Nagasaki, Kaoru Yoshida, Fumiko Nakayama
Chapter2. Kaoru Yoshida, Fumiko Nakayama
Chapter3. Yuta Nagasaki, Kaoru Yoshida

<https://www.jetro.go.jp/en/invest>

JETRO

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

December 2021