Expanding Business Opportunities

Foreign businesses no longer view Japan as a land of high cost with low return on investment. We look at the latest developments in Japan's inward direct investment.

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LET us examine some of the developments observed in the statistical data pertaining to Japan's investment environment in recent years. Japan's foreign direct investment (FDI) stock remained flat from 2010 through 2013. However, at the end of 2014 it surpassed 20 trillion yen (US$180 billion) for the first time and reached 27.8 trillion yen (US$250 billion) at the end of fiscal 2016, a historic national record. From 2010 to 2013, the ratio of FDI in Japan to the GDP also remained flat (in other words, 3.5% for 2010, 3.6% for 2011, 3.6% for 2012 and 3.6% for 2013). At the end of 2014, it increased to 4.6% and rose to 5.2% at the end of fiscal 2016. However, it remains low by international standards, globally ranked 189th (as of the end of 2015) out of 198 countries and regions.

Given this situation, the government formulated an ambitious target to double inward FDI stock to 35 trillion yen (US$315 billion) by 2020 (17.8 trillion yen [US$160 billion] recorded at the end of 2012) in the Japan Revitalization Strategy —JAPAN is BACK, as decided by the Cabinet in June 2013.

Shigeki Maeda, Executive Vice President of Japan External Trade Organization (JETRO), pointed out the four reasons behind the recent changes in Japan's investment environment. He said, "From a macroeconomic perspective, Japan's investment environment has recovered, given that its economic stability and the weakening yen has attracted foreign investments in recent years. From a microeconomic perspective, the recent change in Japan's investment environment seems attributable to two factors. One is related to the policy package and activities aimed at improving the investment environment and attracting FDI by the central and local governments. The other factor is that Japanese companies have increasingly sought partnerships with foreign businesses in view of the globalization of the Japanese economy.

In other words, Japan's protracted economic downturn and the strengthening of the yen since the 1990s had led to a stereotypical view among foreign businesses that Japan was not a lucrative market. However, Maeda emphasized that recently there has been a noticeable change in this perspective. He said, "Japan has seen consistent economic growth since December 2012, achieving a better macroeconomic performance. There seems to be a growing view among global companies that Japan is no longer economically stagnant."

Meanwhile, some changes have also been seen in the microeconomics of Japan. One is related to the reduction of the effective corporate tax rate, which usually serves as one of the major criteria for a company to execute a direct business investment in a foreign country. Japan's standard effective corporate tax rate was lowered about 7% in three years, from 37.00% in fiscal 2013 to 29.97% in fiscal 2016. It has been pointed out that Tokyo's office rent is higher than in other major cities around the world, but this is no longer the case compared with Singapore or Hong Kong. Furthermore, the government has hammered out many policies, including the relaxation of visa requirements, introduction of the "Japanese-version green card" system for highly-skilled foreign professionals, which will offer one of the most quickly obtainable permanent residence permissions in the world, and activities to increase the number of Japanese laws and regulations translated into foreign languages.

Maeda explained initiatives to promote Japan's investment environment. "The government has

Shigeki Maeda, Executive Vice President of Japan External Trade Organization (JETRO)
Photo: Tasashi Aizawa

implemented a cutting-edge policy package, establishing the "Investment Advisor Assignment System," in which vice ministers act as advisors to foreign-affiliated companies that have made significant investments in Japan. Nine companies have been chosen for the new system. The vice minister assigned to each designated company serves as a government counterpart for the ministry under whose jurisdiction the company's main activities fall," he said.

This new system was originally proposed by JETRO with reference to similar examples that exist in other countries. The implementation of the program is based on the "Five Promises for Attracting Foreign Businesses to Japan," adopted by the Council for Promotion of Foreign Direct Investment in Japan, in a cabinet meeting in March 2015. As part of the "Five Promises," the government has implemented measures aimed at overcoming language barriers at retailers and restaurants and enhancing the educational environment for expatriate children.

In May 2016, the Council for Promotion of Foreign Direct Investment in Japan similarly adopted the "Policy Package for Promoting Foreign Direct Investment into Japan to Make Japan a Global Hub." Under this policy package, the government presented measures aimed at simplifying regulations and administrative procedures, introducing the "Japanese-version green card" system for highly-skilled foreign professionals, and promoting employment support for international students.

As a result of the initiatives mentioned above, JETRO successfully attracted 1,579 foreign companies from fiscal 2003 to fiscal 2016. Over the past five years, in particular, the number of corresponding investment projects supported by JETRO has more than doubled. Specifically, the growth is largely attributable to the increasing number of R&D facilities by pharmaceutical and medical equipment companies, given Japan's excellent research environment and the successful developments in deregulation with a sophisticated level of technology, abundant manpower in research and technology and a well-established intellectual property practice.

Maeda said, "The government has implemented a variety of measures to strengthen corporate governance and introduced Japan's Stewardship Code, which has been lauded by the overseas investment community. In part, this has driven the recent successful development."

Over the last few years, JETRO has taken active steps to significantly change its approach to embrace an "aggressive sales strategy" by globally expanding the number of staff and advisors aiming for the further growth of FDI in Japan. JETRO has also set up a country desk with six international staff members to support foreign companies with their business investments in Japan. The country desk advisors have experience facilitating investment into Japan at JETRO's overseas offices. Furthermore, JETRO has chosen 1,000 cases of potential foreign investment and assigned staff members to offer individual support for each company, providing a range of support services in terms of business and living requirements for employees.

The rate of returns on inward FDI [(Current direct investment income debit) / (Balance of inward direct investment during the period) x 100 (%)] for Japan was 4.9% in 2014 and 6.9% in 2015. It rose to 10.0% in 2016, which placed Japan third among OECD nations. Considering only the service sector (excluding finance and insurance services), Japan's rate of return at the end of 2016 stood at 17.8%.

This excellent rate of return demonstrates that foreign companies can achieve high returns on investments in Japan. It appears that Japan's promotion package for inward FDI is successfully expanding business opportunities in the Japanese market.