

**Review of the Inward Investment Regulations under the Foreign Exchange and Foreign Trade Law  
(September 4 Cabinet Decision on the Cabinet Order Amendment Proposal)**

September 2007

Ministry of Economy, Trade and Industry

<Main Points>

- (i) With a view to appropriately preventing the outflow of technology important for national security, we have expanded the scope of the inward investment regulations to include not only industries directly related to defense but also industries making general-use products which have a high probability of being diverted to use in weapons of mass destruction, etc. (carbon fiber, titanium alloy, robots, machine tools, batteries, etc.)
- (ii) Furthermore, we reviewed the scope of regulated transactions taking into account recent investment conditions. For example, in cases in which regulated businesses are conducted by a subsidiary, the subsidiary is now required under the regulations to give notification of investment in the parent company.

**1. Intent of the Review of the Regulations**

Japan regulates inward direct investment in some industries in order to ensure national security. It does so within the framework of international rules (the OECD Code of Liberalisation of Capital Movements), and based on Japan's Foreign Exchange and Foreign Trade Law.

- If a foreign investor plans to acquire 10 percent or more of the stock of a Japanese listed company they have to give advance notification.
- In cases in which the results of an examination are necessary, the Minister of Finance and the minister having jurisdiction over the business can recommend or order a change in the investment content or the cancelation of the investment after evaluating the opinion of the Council on Customs, Tariff, Foreign Exchange and Other Transactions.

In recent years the environment surrounding inward investment has changed substantially. For example, international investment activities have expanded and there have been changes in the national security environment (the proliferation of weapons of mass destruction, the diversion of cutting-edge commercial technologies to military use).

For this reason, we conducted a review of the regulations that were necessary in order to appropriately prevent the outflow of important technology related to weapons of mass destruction, and damage to Japan's defense production and technology infrastructure.

### **(Reference) Studies on the Issue to Date**

April 26: Interim report by the Study Group on the International Investment Climate in a Globalized Economy, the Ministry of Economy, Trade and Industry

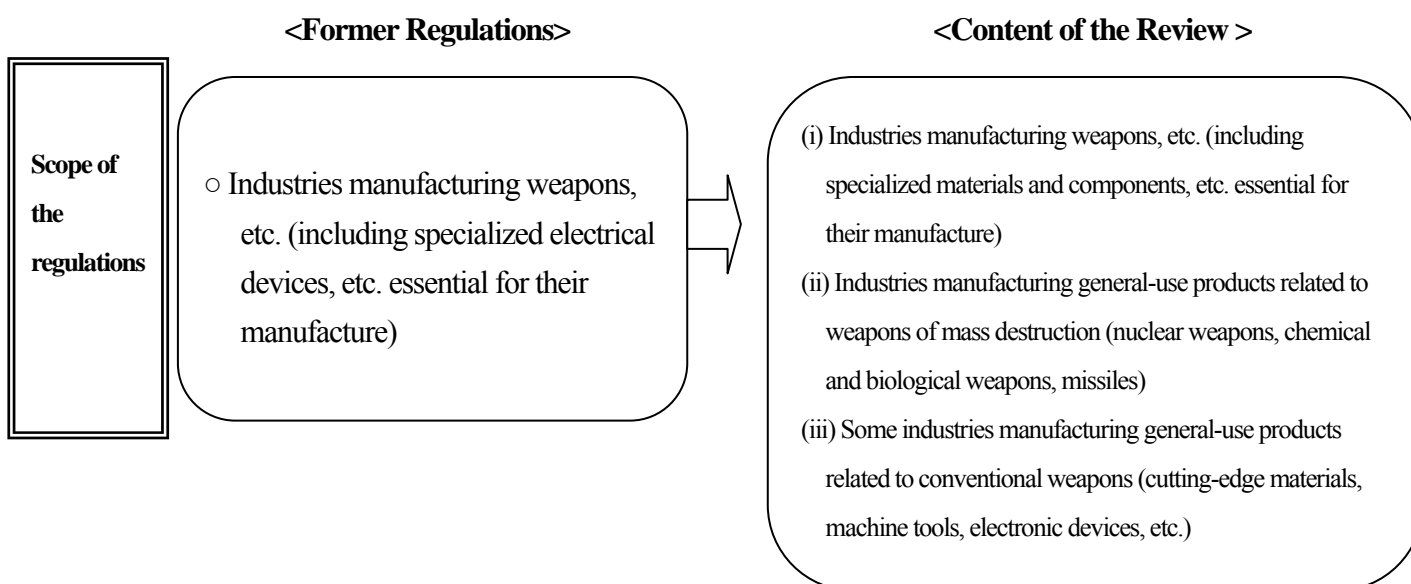
June 18: The Council on Customs, Tariff, Foreign Exchange and Other Transactions approves the direction of the regulations review

June 29: The Liberal Democratic Party's Research Commission on International Market Competitiveness recommends a review of the regulations

July 29: Ending of public comment on the proposed amendment to the Ministerial Ordinance, Cabinet Order, and Notification

## **2. Review of the Business Types Required to Make Notifications (Amendment of the Notification)**

In order to appropriately prevent the outflow of technology important to national security, in addition to weapons, etc., general-use products which have a high probability of being diverted to military use are now regulated.



## **3. Review of the Regulated Transactions (Amendment of the Ministerial Ordinance and Cabinet Order)**

### **(1) Types of Transactions Added to the Scope of the Regulations**

- (i) In cases in which regulated businesses are conducted by a consolidated subsidiary, inward direct investment to the parent company which controls that subsidiary has been added to the scope of the regulations.

- (ii) If multiple foreign investors agree to jointly exercise their shareholder voting rights, the number of shares held by the foreign investors in question is added up to calculate total share.

## **(2) Types of Transactions Removed from the Scope of the Regulations**

- Listed companies in which more than 50 percent of the shareholder voting rights are held by foreign nationals, in which 10 percent or more of the shares have not been acquired by a specific foreign investor, are removed from the scope of the regulations.

## **4. Schedule**

Meeting of the Vice-Ministers, etc.: September 3, 2007 (Monday)

Cabinet Meeting: September 4, 2007 (Tuesday)

Date of Promulgation: September 7, 2007 (Friday)

Date of Enforcement: September 28, 2007 (Friday)