

Promotion of Japan as an Asian Business Center

August 2011

Ministry of Economy, Trade and Industry

Weakened Japan's location competitiveness

- > A survey of companies mainly operating outside Japan revealed that Japan is less competitive as an Asian business center in all aspects than it was in the same survey two years before.
- > Japan even lost the top position in competitiveness as a location for Asian regional headquarters and R&D facility, which are aspects Japan has traditionally had an edge in, showing Japan's weaker presence in Asia.

<Most attractive Asian country/region in each aspect>
(Data only for top six countries; those ranked No. 1 and No. 2 are highlighted.)

FY 2007 survey

FY 2009 survey

	Japan	China	India	Singapore	South Korea	Hong Kong
Asian headquarters	①23%	18%	8%	16%	4%	②20%
Production center	3%	①62%	②12%	2%	5%	5%
R&D center	①30%	②25%	16%	9%	4%	6%
Back office	②15%	①24%	②15%	12%	5%	②15%
Logistics center	11%	①41%	8%	9%	7%	②13%
Finance center	-	-	-	-	-	-
Marketing center	-	-	-	-	-	-

	Japan	China	India	Singapore	South Korea	Hong Kong
Asian headquarters	10%	①42%	10%	②16%	2%	13%
Production center	1%	①64%	②14%	2%	2%	2%
R&D center	②21%	①33%	20%	8%	4%	2%
Back office	8%	①39%	②19%	15%	2%	9%
Logistics center	3%	①63%	8%	②11%	2%	6%
Finance center	10%	①30%	9%	21%	4%	②23%
Marketing center	7%	①50%	7%	11%	4%	②13%

* Respondents chose one country/region for each function.

* Percentage figures are calculated based on 209 respondents (including 51 companies already operating in Japan), excluding those having returned no reply. (78 firms in Europe, 74 in North America, 57 in Asia)

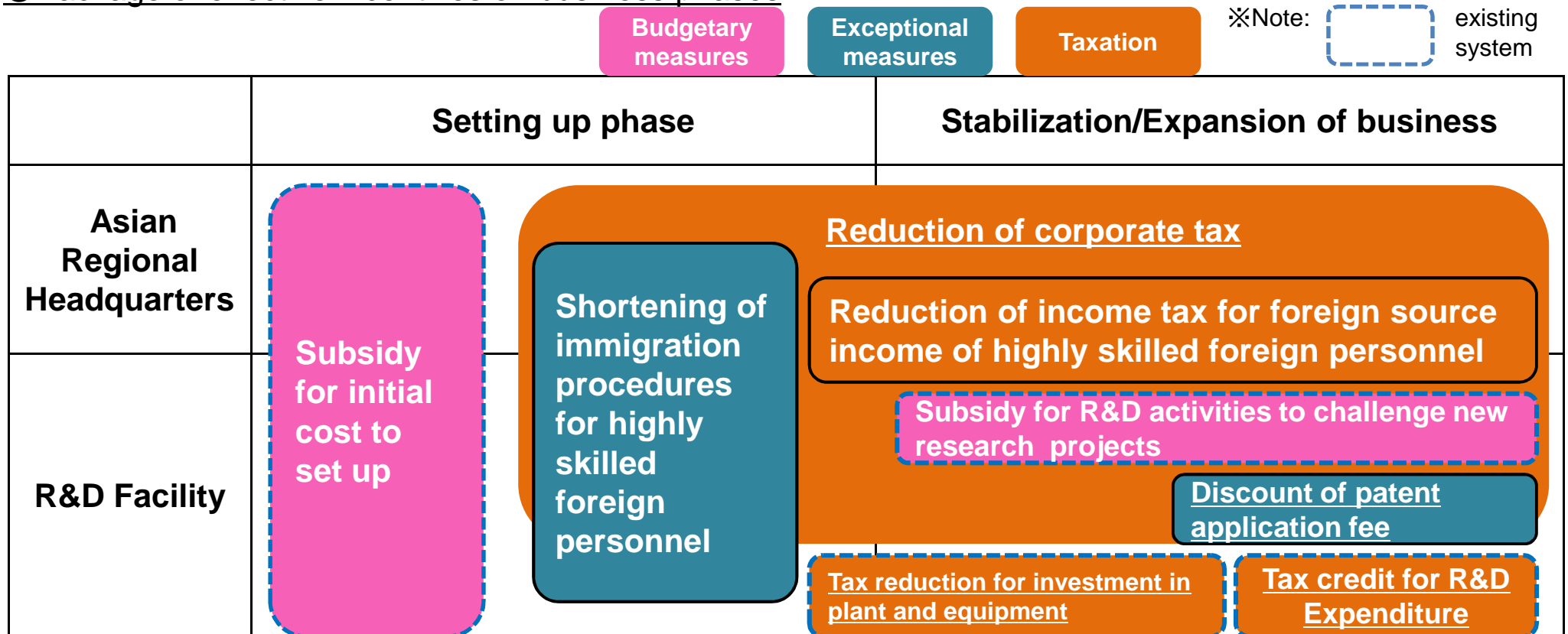
* Respondents chose one country/region for each function.

* Percentage figures are calculated based on 180 respondents (including 30 companies already operating in Japan), excluding those having returned no reply and those having chosen no country. (60 firms in Europe, 60 in North America, 60 in Asia)

Package of Incentives to Attract Asian Regional HQ and R&D bases to Japan

A company chooses a business location from a mid-long term viewpoint, examining the total business cost from setting up to expansion. A subsidy works in the setting up phase, and tax reduction works in stabilizing/expanding business.

○ Package of effective incentives on business phases



Cross cutting Improvement of business environment

- Improving the business and living environment for foreign-affiliated companies and those of expatriates.
- Promoting deregulation at a comprehensive global strategic special zone (creation of special zone which promotes Asia as an Asian Business Center), etc.

Location Subsidy

Asian Business Location Promotion Project Subsidy

FY 2010 Supplementary budget: ¥2.0 billion
FY 2011 budget: ¥0.5 billion

Project scheme

Japanese Government

Strategic Attraction of Businesses [Survey Project for Asian Business Location Promotion]

[Target]

Internationally operating global companies
> Regional Headquarters to gather **human resources excelling** in management, engineering, etc.
> R&D Facilities with the potential to leverage Japan's manufacturing capacity **for practical business**

Third-party Review

Select recipients based on potential economic benefits to Japan
<Eligibility/review criteria>
- Operations in at least 2 countries
- Engaged in business for at least 3 years
- Added value of planned operations

Decision

Initial Investment Subsidy for Global Companies Locating in Japan

Aggressive incentive comparable to those of other countries
> Subsidies for the cost of construction and equipment for the site
> Up to 50% subsidy rate
> Up to ¥1 billion per company

Expected Benefits

- Global business operations based in Japan
- Concentration of high-value-added functions in Japan
- Attraction of superior talent
- Creation of domestic employment



Five projects adopted under the Location Subsidies

Under the FY 2010 Location Subsidies for companies setting up Asian regional headquarters/R&D facility, METI examined project proposals submitted and decided to adopt five of them in April as follows.

No	Company Name	Country of Global HQ	Type of Project Site	Sector
1	Dou Yee International Private Ltd.	Singapore	R&D site	Liquid crystal displays
2	Dyesol Japan Co., Ltd.	Australia	R&D site	Next-generation photovoltaic cells
3	Eurocopter Japan Co., Ltd.	France	R&D site	Special-purpose helicopters
4	salesforce.com Co., Ltd.	United States	R&D site	IT services
5	Zydus Pharma Japan Co., Ltd	India	R&D site	Pharmaceuticals

Asian Business Location Bill

The Japanese government will take support measures for certified global companies, including tax breaks and patent fee exemption, in order to motivate global companies to locate their R&D facilities and regional headquarters in Japan.

Key measures

1. Eligible operations

- ◆ Global companies' **R&D and international headquarters operations*** at **new corporations established** in Japan

*Activities relating to decision-making on business strategy for two or more subsidiaries

2. Certification of plans

- ◆ A **global company** planning R&D or international headquarters operations in Japan may develop and submit a **business plan**.
- ◆ If the plan is determined to be appropriate under the basic policy, **the competent minister will approve it.**

3. Support measures

- ◆ **Certified companies** qualify for the following support.
 - **Tax incentives (corporate tax & personal income tax breaks)**
 - **Patent fee exemption** for R&D sites
- ◆ Foreigners expected to work for certified companies are eligible for **expedited visa examination** (about 10 days, compared with the normal examination period of one month).

Target

RHQ
Regional headquarters to gather management professionals essential to globalized economy & society

R&D
R&D facilities to gather superior researchers indispensable for innovation

Basic Policy

Business plan Certification

Incentives

- ◆ **Tax incentives** [corporate tax & personal income tax breaks]
- ◆ **Patent fee exemption** for R&D sites, etc.

Expected Benefits

- ◆ **Domestic job creation and investments**
- ◆ **High-value-added global business operations**
- ◆ **Attracting superior foreign talent**

Tax Incentive Programs

- > To motivate global companies to locate in Japan, the government will provide very limited certified companies with bold incentives in corporate and personal income taxes, which are particularly influential on location decisions.
- > The government will also provide more taxpayer-friendly systems and eliminate double taxation for all corporations, including existing Japanese ones, in order to comprehensively improve the business environment in Japan.

FY 2011 tax reform

Exceptions in favor of certified companies (new)

Corporate tax

- 20% deduction from income for certified companies for five years
20% deduction for newly established Japanese operations of global companies for five years from the date of certification

Personal income tax

- Tax deferment for stock options held by individuals at certified companies
Inclusion of share warrants given to a certified company's executives from its foreign parent company in the scope of stock option tax system

Taxpayer-friendly systems

- Improved tax cost predictability
Improvement of the advance tax ruling system to (1) set up a system to verbally provide information within about one month and (2) extend the non-disclosure period for the answers from 180 days to one year

No double taxation

- Eliminate the risk of double taxation on the income of foreign companies' officers
Reform of the foreign tax credit system to exclude the income of foreign companies' officers, which is taxable by home country under tax convention, from income subject to domestic withholding tax