Plan to double investment to Japan!

Promotion of direct investment from foreign companies is currently one of the important themes for the global strategy of Japan. The Japan Revitalization Strategy of the national government sets the goal of doubling the foreign direct investment stocks by 2020. How will the Japanese economy and companies change by achieving this goal?

Direct investment means international investment intended for participation in business management. Some examples include foreign companies opening plants and R&D bases in the investment destination country, of forming new companies by concluding partnerships with existing local companies. In fact, the acceptance of such direct investment is highly limited in Japan. The ratio of direct investment to GDP was 196th of 199 countries in the world as of the end of 2013.*

The reason the promotion of foreign direct investment is attracting significant attention is the positive effects such as job growth and an increase in productivity. Both are essential for the growth of Japan in the future. The chart below shows the changes in foreign direct investment stocks in Japan. In order to achieve the goal of the “doubling plan” by 2020, it will be important to rediscover the attractiveness and values of Japan anew.

Now, in the following pages, we interviewed two companies that recently started business in Japan, and asked them to tell us frankly how they are feeling about business development here. The interviews should reveal the potential of Japan expected by foreign companies.

* From the data of the United Nations Conference on Trade and Development (2014)
The nature of the market open to leading-edge technology is perfect also for research and development

“Demand response (DR)” is a technology to coordinate the supply- and-demand balance of electricity by limiting the amount of demand by the users of electricity, such as buildings, plants and residences. Comverge has been developing DR business for more than 40 years in the U.S., and is engaged in the manufacturing of devices, development of programs and the operation of systems. Its Japanese subsidiary, which started full-scale business in 2014, is now developing business for diverting the knowledge cultivated in the U.S. to be applied in Japan, by establishing a base for R&D.

Things with verifiable evidence can be accepted flexibly.

At first, there were four to five countries named as candidates for the place of developing DR business. The reason the overseas base was established in Japan, following South Africa, is that there was a wealth of potential for the growth of DR business, in addition to its large market size. Diffusion of innovative devices such as rechargeable batteries and electric vehicles is being advanced in Japan, so it is a perfect place for the development of next-generation DR, including photovoltaic power generation control. Further, when the deregulation of electricity retailing is realized as scheduled in 2016, it is expected that a new market will be created. The mechanism of DR, which optimizes the supply-demand balance of electricity, is precisely the technology that will become necessary in Japan in the future. We can realize the increase of need directly by talking to the personnel of electric power companies. Although people tend to think that Japan is a country developing business only among themselves, actually Japanese people have the flexibility to incorporate leading-edge ideas from abroad. However, verifiable evidence to back up the idea is essential. Even in the area of electricity, which is a part of social infrastructure, we believe that companies with valuable technology are accepted both in and outside Japan. Our initial goal is to establish an original mechanism of DR for Japan, and set it solidly in place. Then, we are looking forward to developing our company as a major base in Asia, and to diffuse the “made in Japan” DR throughout the world.

Making credit card payments available is an effective means to expand the customer base, but the installation costs of an exclusive device and monthly fixed costs, in addition to the commission can be a hurdle.

That’s why SQUARE, INC. developed a simple system that made credit-card transactions possible using smartphones and tablets. Following the U.S. and Canada, service in Japan started from May 2013. The market in Japan is large, with an established IT infrastructure and a credit-card transaction system. Although it is true that credit-card usage is smaller compared to markets like the U.S., one reason is because there are still a large number of stores which do not accept credit cards. Our company considered this situation as a “business opportunity” rather than a “hurdle.”

The knowledge obtained in Japan can be utilized for global development as well

Our company did not organize a sales team in Japan, but succeeded in acquiring tens of thousands of contracts in approximately 18 months from the launch of the service, mainly with SMEs and sole proprietors. Business owners in Japan see the value of the service. They also tend to maintain close networks with people in the same business and regional community, so once the service is accepted, it spreads very quickly. Its said Japan has different commercial practices, but dealing with different languages and legal structure is required in any country. There’s nothing special. Also, because people in Japan use the service thoroughly, our service here can work as a milestone towards future global development. There are many things we can learn from the experience, such as improving the service based on feedback, and to apply the knowledge acquired in the Japanese market into service development.

While inbound tourism is being promoted, there is an urgent need for globalization of the payment environment. We would like to continuously resolve the problems of the Japanese market, and to improve our services to offer further convenience to businesses in the future as well.

Japan’s demanding users will be a strong asset for the global development of business in the future.

What attracted the companies that started business in Japan?

Comverge Japan K.K.

Square, INC.

Credit-card payment can be made easily with a mobile terminal!

Credit-card payment becomes possible just by connecting an exclusive reader device, about 2.5 cm square in size, to your mobile device, and by downloading the free register application. It is beneficial especially for SMEs and sole proprietors as the funds are transferred to the bank account as early as the following business day.

Foreign companies exploring new areas in various countries in the world.

The reason we start business in Japan

Companies developing business globally are accelerating investments in various countries in the world.

What attracted the companies that started business in Japan?
**Japanese companies succeeding with investment alliances**

In 2014, METI published the “Case studies of Investment Alliances with Foreign Companies” based on the business survey. Here, we would like to explain the eight benefits brought about by partnerships with foreign companies.

1. **Sales routes that expand worldwide can be secured.**
   - Overseas expansion of the company’s non-product business can be facilitated through alliances with companies that have already established sales channels abroad. Developing new clients will also become possible by utilizing the brand power of the foreign partner company.

2. **Quality can be improved by absorbing technology and know-how.**
   - By obtaining the technology and know-how that are the strong points of the foreign partner company, or data accumulated by the company, further improvement of the quality of existing products and services can be targeted.

3. **Product lineup and services can be expanded.**
   - Products and services that the company did not handle in the past can be offered, which will improve the utilization rate of consumers. It will also open up ways towards new business areas.

4. **Speed of product provision and customer response can be accelerated.**
   - By utilizing the marketing bases and sales networks globally operated by the foreign partner company, it becomes possible to provide products and services to customers throughout the world in a more speedy and efficient way.

5. **Reduction of production, procurement and management costs can be realized.**
   - The scale of production and procurement can be expanded and efficiency can be improved with the joint procurement of raw materials, utilization of production bases overseas, and the introduction of advanced management systems.

6. **Problems of business succession caused by the lack of successors can be resolved.**
   - A partner company can be utilized by a partner company, which will resolve the problem of the lack of business successors. There are a series of examples where business succession was achieved under the initiative of a partner company after the retirement of the president of the original company.

7. **Business management can be improved in terms of HR and accounting.**
   - By introducing advanced methods such as accounting, IT systems and global personnel systems, which have been developed by the foreign partner company, further advanced business management can be realized.

8. **Growth of human resources can be achieved by raising their motivation.**
   - Coming into contact with international commercial practice and experiencing communication in foreign language will result in improved skills of human resources and will bring higher motivation among them.

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**UL Japan, Inc.**

Respecting another one opened the way for a business that was impossible in the past!

Our company is a third-party certification organization in relation to product safety, covering industrial equipment, machinery and other equipment. The company was founded in 2003 through a merger between UL, the Japanese subsidiary of Underwriters Laboratories Inc. (UL) in the U.S., and A-Pex International, a Japanese company.

The biggest benefit of founding UL Japan, Inc. was that the range of business expanded widely. It became possible to handle products with which testing and inspection could not be implemented in Japan before by utilizing the global network of UL. It also became possible to make suggestions on solutions to customers beyond the framework of product safety certification. In addition, sharing the technology and know-how of other group companies abroad is resulting in the upgrading of employees’ skills.

The key to achieving success in partnerships with foreign companies is to accept differences and respect one another. By being sensitive to environmental changes and taking prompt action with regard to the changes, I believe we can surely secure new business opportunities.

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**The Japanese government is also backing up attracting foreign direct investment with a wide variety of measures!**

**Polishing Japan’s attractiveness and showcasing it to the world.**

**Control tower of the National Government**

**Establishment of the Council for Promotion of Foreign Direct Investment in Japan**

A council serving as a control tower for activities such as promoting investment cases and attracting investments was established in 2014. The members of the council include the Minister of Economy, Trade and Industry, and the Minister of State for Regulatory Reform, the Minister of Economic Affairs, Fiscal and Public Policy, and the Minister of Foreign Affairs. Measures that have been in place include the enhancement of the quality of products, marketing bases in Japan, and other areas.

**Product development**

**Promotion of regulatory and institutional reform and the utilization of special zones**

Product development is now an even more attractive activity. By establishing laws that will promote the production of new products and services in Japan, we can attract new technologies and know-how of foreign companies. In order to do so, it is also important to convey the excellence and characteristics of Japan to foreign global companies as well as to gain their understanding of the advantages of investing in Japan.

**Strengthening of exploring and attracting inward foreign direct investment projects**

**Sales activities**

**Bridge between Japanese and foreign companies!**

We are using various kinds of products and services unconsciously in our daily life. These include many technologies and ideas that originated overseas, such as products like smartphones and new services like SNS.

Our job is to promote foreign countries that generate such new products and services to construct controlling bases and R&D facilities in Japan. Among foreign companies that already started business in Japan, many of them are achieving excellent revenues and high profit ratios.

The impact of the declining birth rate and aging population, and the falling number of businesses will be a significant shock to the Japanese economy. This is why we must now accept more than ever investments from foreign companies, and at the same time achieve the growth of Japan as a whole while incorporating the advanced technology and know-how of foreign companies. In order to do so, it is also important to convey the excellence and characteristics of Japan to foreign global companies as well as to gain their understanding of the advantages of investing in Japan.

From the perspective of foreign companies, Japan is only one of many candidates for making an investment. The Japanese government is promoting various efforts so that Japan can be selected among many candidates.

We would like to explain some of the specific activities here.

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**Voices from Staff Responsible at METI**

**Mr. Hidetaka Yamaji, VT Manager Director, UL Japan, Inc.**

After finishing a master’s course of Massachusetts Institute of Technology, Mr. Yamaji joined UL Japan at the manufacturer of jolt parts. He then served as the CEO of Elo Touch Solutions before assuming his current position in 2010.

This is the UL mark for Japan. The trustworthiness of UL certification is gaining recognition, and as UL, we make sure to certify high-level safety.

**Mr. Hitoshi Maruyama, Investment Exchange Planning Unit Chief**

Our Division is in charge of three types of work: mainly the promotion of foreign direct investment in Japan, international taxation and international cooperation. Especially in the area of direct investment in Japan, we are working to introduce new technologies and know-how from in Japan by attracting foreign companies and capital.

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