

Chapter 3 Promoting inward direct investment

The expansion of inward direct investment will assist in improving productivity and creating employment in Japan, through inflows of management resources such as management know-how and techniques, as well as personnel. In particular, given the high level of technical skills in Japan, including among its SMEs, attracting foreign enterprises is extremely important from the perspective of promoting open innovation and revitalizing local economies. However, our nation's inward direct investment balance has experienced sluggish growth since peaking in 2008 and Japan's inward direct investment as a proportion of GDP compares very unfavorably with the figures achieved by major developed countries and emerging economies in Asia (Figures III-3-1-1 and III-3-1-2).

Internationally, the competition to attract foreign enterprises has intensified further in recent years, so to attract global enterprises, it is necessary for all parts of the government to work together to develop a business environment comparable with that of other countries, by endeavoring to enhance the investment environment for global enterprises, as well as improving the living environment for foreign nationals. To this end, the government has put together the new growth strategy, entitled "Japan Revitalization Strategy – JAPAN is BACK" (approved by the Cabinet on June 14, 2013), which contains three action plans. One of these, the Strategy of Global Outreach, which aims to ensure that Japan can tap into expanding international markets, stipulates that the government will activate inward direct investment. This strategy states that the government will promote thorough globalization throughout Japan and will aim to double the inward direct investment balance to ¥35 trillion (from ¥17.8 trillion at the end of 2012) by 2020, in order to create employment and innovation by attracting outstanding overseas personnel and technologies to Japan.

Accordingly, to draw more foreign money and technologies into Japan, the government will make effective use of the National Strategic Special Zones in developing the world's most user-friendly business environment for companies. Such environmental improvements will also help to bring back Japanese-affiliated companies that have relocated overseas. On May 1 this year, the government designated six National Strategic Special Zones and has just approved the policy for each zone. In the Tokyo and Kansai zones, which are extensive metropolitan zones, the government intends to implement comprehensive regulatory reform, turning them into centers for international business and innovation that will become hubs for attracting talent, capital, and technology from around the world. Moreover, the Niigata City, Yabu City (Hyogo Prefecture), and Fukuoka City zones will become centers for the reform of the bedrock of Japan's regulatory regime, in such fields as agriculture and employment, with the aim of turning them into gateways for promoting the liquidation of farmland and offering powerful support for startups and entrepreneurship. Furthermore, in these six National Strategic Special Zones, including Okinawa Prefecture, which has immense tourism resources, the national government, local governments, and the private sector will work in partnership to put together specific business plans.

To fundamentally strengthen government systems for attracting and supporting foreign enterprises, the government will bolster the industry specialist functions of the Japan External Trade Organization (hereinafter "JETRO") and develop support measures for global enterprises, aiming to identify and

attract promising foreign enterprises with reference to the management strategies of individual companies, adopting a mindset similar to that of executives from global enterprises (Figure III-3-1-4). In addition, the government will strengthen the comprehensive support system for foreign enterprises by having JETRO handle all queries regarding such matters as the systems and administrative procedures required when preparing plans for investing in Japan, as well as dealing with requests for regulatory reform. Under this system, JETRO will respond to queries and requests individually, working in collaboration with relevant ministries and agencies (Figure III-3-1-5).

Offering direct incentives to global enterprises is an effective means of improving Japan's appeal as a destination for investment. Accordingly, in FY2014, the government will implement the Subsidy Program for Projects Promoting Foreign Direct Investment, Site Location and Regional Development in Japan, which supports the development of bases by companies that are operating an actual business in multiple countries, including Japan, or which are based in Japan and are targeting overseas markets. In addition, under the Act on Special Measures to Promote Research and Development Business, etc. by Specified Multinational Enterprises (Act for Promotion of Japan as an Asian Business Center; entered into force in November 2012), the government will continue to take such measures as alleviating the corporation tax burden and reducing patent fees for global enterprises engaging in research and development business or supervisory business (Figure III-3-1-6).

Furthermore, the government has gathered information about cases of Japanese SMEs that are successfully undertaking investment alliance with foreign companies, and has used this to compile a publication entitled "Case Studies of Investment Alliances" (Japanese companies' point of view), which describes advantages gained from investment alliance, such as expanding marketing channels both within Japan and overseas, as well as the risks that can arise from such alliance, including the loss of employees. It also details the key points and areas of caution to be borne in mind when engaging in investment alliance. The government is promoting the widespread use of this anthology of cases, in the hope that it will be of assistance to the proprietors of Japanese companies when they are formulating a new management strategy.

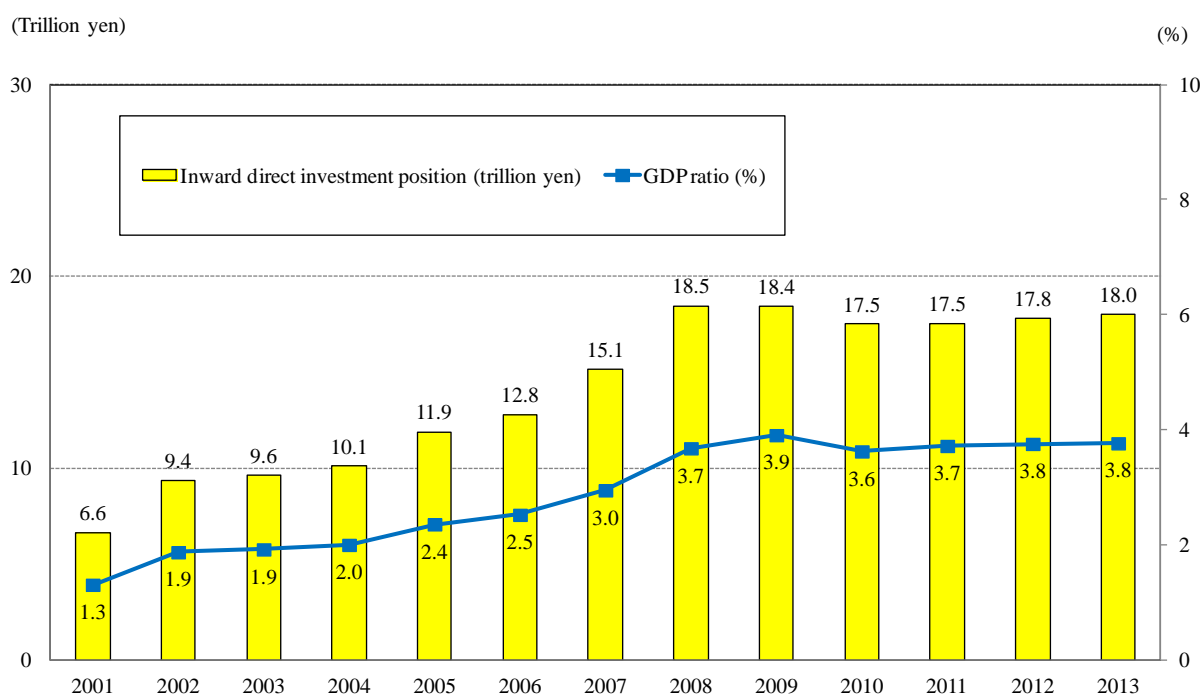
In addition to these measures, the Agenda for the Evolution of the Growth Strategy (approved by the Industrial Competitiveness Council on January 20 this year) states that, to assist in the realization of further specific measures aimed at improving the business environment, requests, etc. received from senior managers at foreign enterprises concerning institutional reforms for improving the investment/living environment in Japan will be addressed at the highest levels of government and a system for promoting efforts to manage progress in dealing with these issues will be established, to facilitate the implementation of concrete measures through government-wide initiatives. At the first meeting of the Council on Economic and Fiscal Policy (held on January 20 this year), the Prime Minister instructed the members of the Council to listen to the opinions of the managers of foreign enterprises and to summarize the challenges that must be overcome in order to encourage foreign direct investment in Japan. At the Expert Group Meeting on Foreign Direct Investment in Japan (hereinafter "the Expert Group Meeting") (five meetings held, starting on February 27 this year), which was organized in response, interviews with foreign enterprises took place and the issues they

faced were summarized.

Amid this situation, in response to an instruction from the Prime Minister at a joint meeting of the Council on Economic and Fiscal Policy and the Industrial Competitiveness Council (April 4 this year), approaches to foreign enterprises by the government as a whole – including JETRO, diplomatic missions overseas, and Cabinet ministers – were fundamentally strengthened. In addition, the Cabinet-level meeting “Council for Promotion of Foreign Direct Invest to Japan” was established to deal with institutional reforms that will help to expand investment in Japan, taking into account the needs of foreign enterprises. As well as serving as a control tower for efforts by JETRO and diplomatic missions overseas to identify prospects and attract them to Japan. Invest Japan will listen directly to the opinions of senior managers from foreign enterprises and encourage initiatives by relevant ministers and consultative bodies aimed at bringing the necessary institutional reforms to fruition.

Thus, aiming to create innovation through new stimuli, and to improve productivity and achieve regional economic revitalization, the government will undertake cross-cutting institutional reforms and conduct even more proactive efforts to identify prospects and attract them to Japan, working in partnership with JETRO, diplomatic missions overseas, and forward-thinking local governments. In addition, it will promote top-level sales pitches by the Prime Minister and Cabinet ministers to encourage foreign direct investment in Japan.

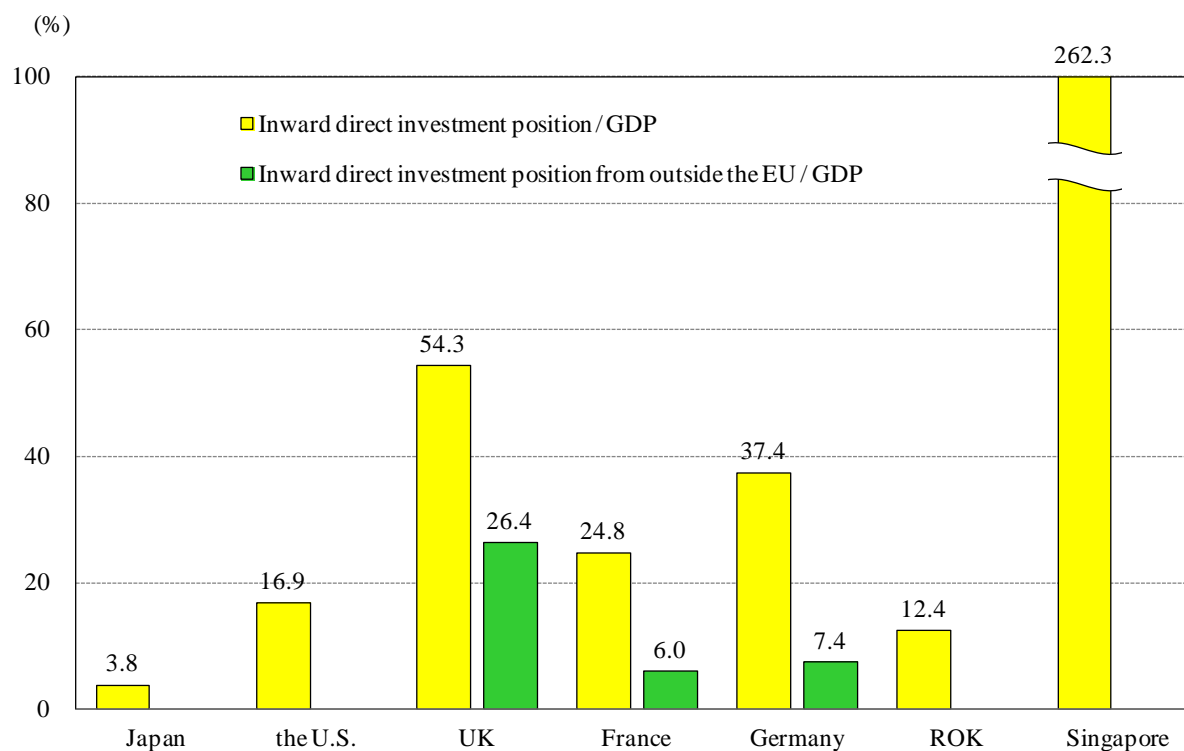
Figure III-3-1-1 Japan’s inward direct investment position and GDP ratio



Notes: The figures in 2013 are estimates.

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

Figure III-3-1-2 International comparison of inward direct investment position as a percentage of GDP for major countries (year-end 2012)



Notes: All figures for "Inward direct investment position / GDP" from outside the EU regions are actual results at the end of 2011.

Source: The following data

<FDI (book values)>

Japan: *International Investment Position* (Ministry of Finance)

UK, Germany, ROK, Singapore: *International Financial Statistics Yearbook 2013* (IMF)

US: *Survey of Current Business* (Bureau of Economic Analysis)

France: *The French Balance of Payments and International Investment Position* (Banque de France)

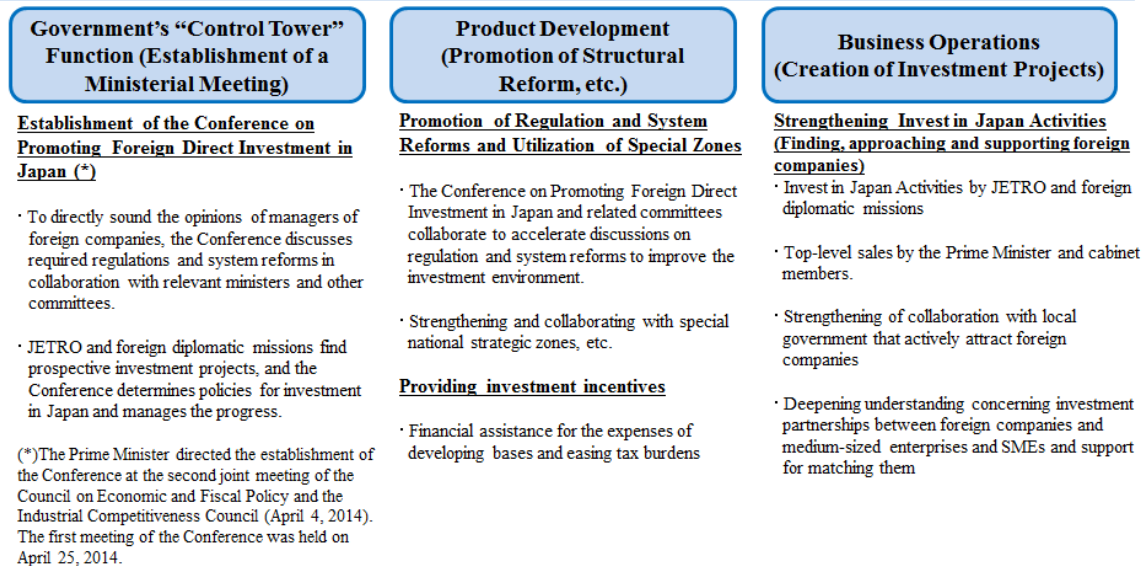
<GDP, rate>

Japan: Cabinet Office, (National Account of Japan)

The U.S., UK, France, Germany, ROK and Singapore : *International Financial Statistics Yearbook 2013* (IMF)

Figure III-3-1-3 Promotion of inward foreign direct investment

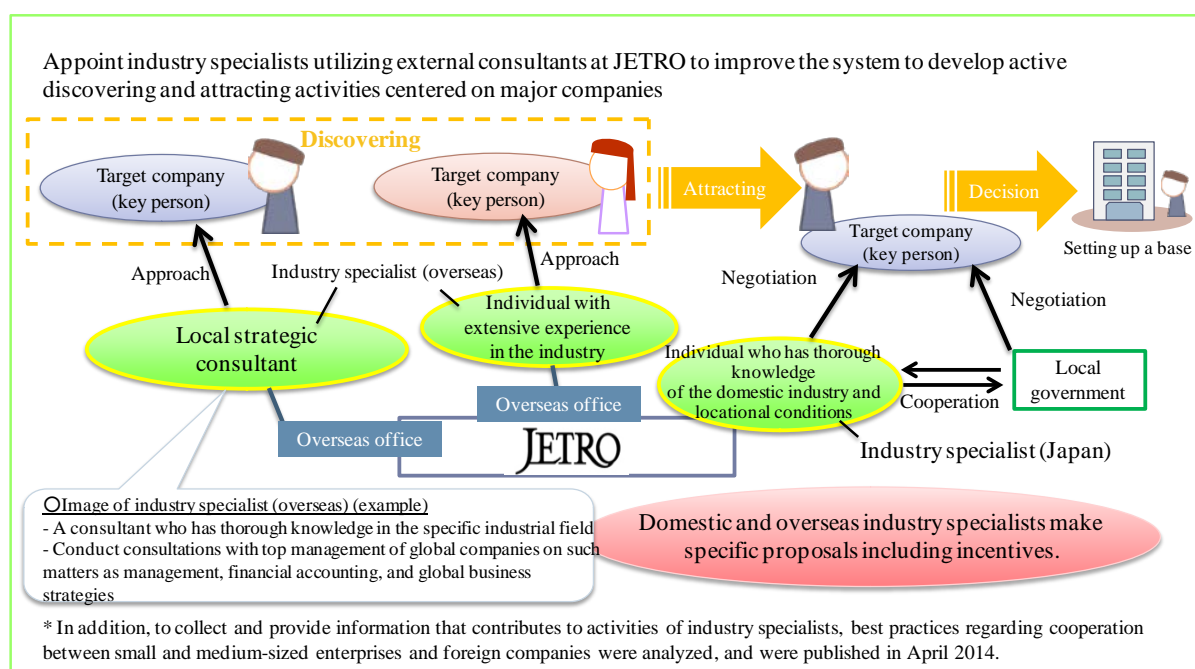
- Foreign direct investment position against GDP is 54.3% for the United Kingdom, 16.9% for the U.S. and 12.4% for ROK, and only 3.8% for Japan. Japan's foreign direct investment is extremely low by international standards.
- Competition for the business of foreign companies has intensified worldwide, and it is important for Japan to promote foreign direct investment, in which it lags behind other countries. Promoting inward direct investment would stimulate open innovation and also energize local economies.
- The Conference on Promoting Foreign Direct Investment in Japan takes the initiative in reforming regulations and systems based on the opinions of foreign companies and promotes to attract foreign companies in collaboration with JETRO, foreign diplomatic missions and forward-thinking local governments to achieve as much success as possible.



Source: Ministry of Economy, Trade and Industry

Figure III-3-1-4 Strengthen JETRO's industry specialist function

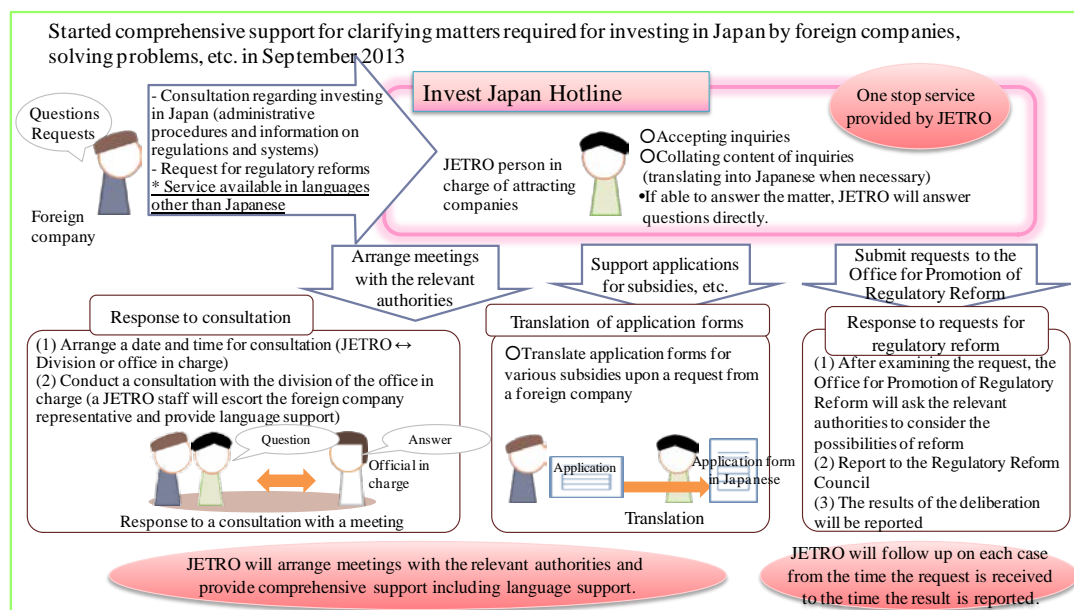
- Develop the system to make aggressive approaches to discover prospective foreign companies and attract them to Japan (strengthen JETRO's industry specialist function)



Source: Ministry of Economy, Trade and Industry

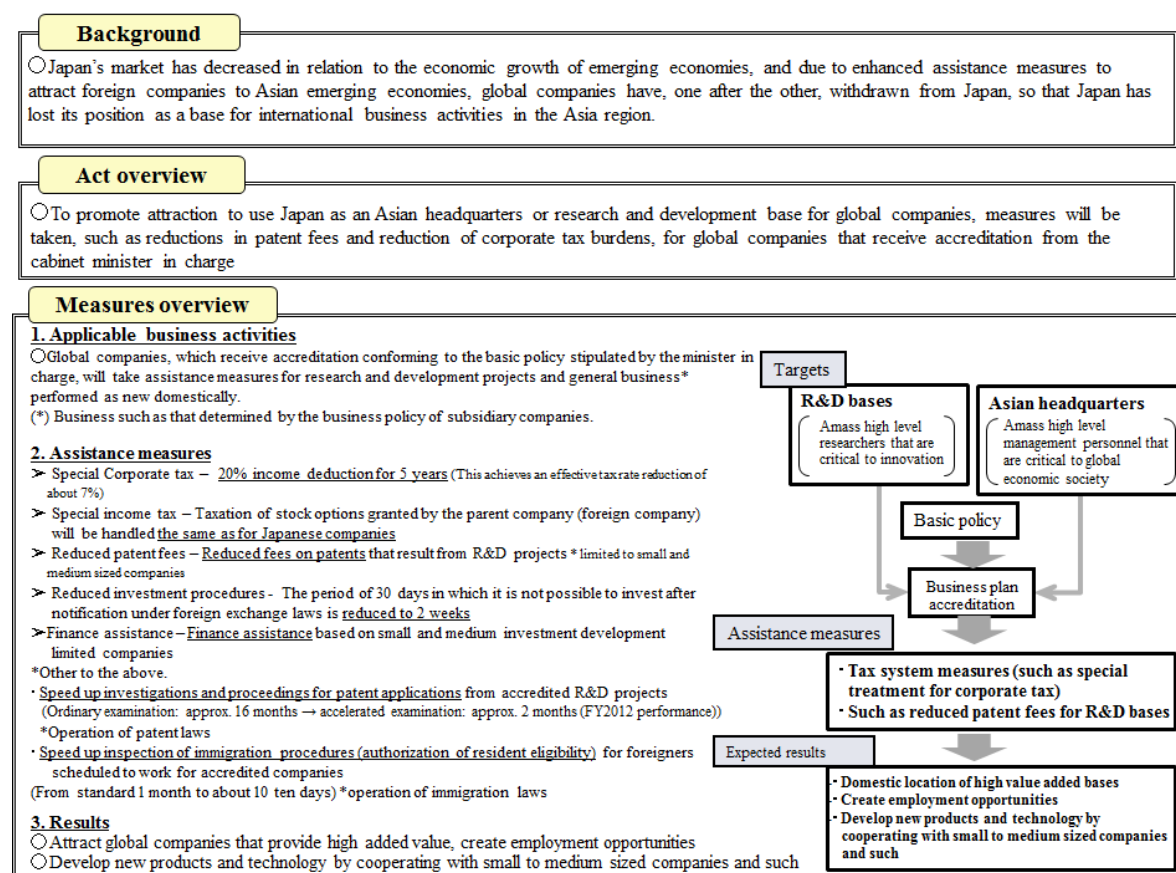
Figure III-3-1-5 Comprehensive support by JETRO

○JETRO, as a pilot, conducts comprehensive support for foreign companies, supporting the business development of foreign companies in Japan.



Source: Ministry of Economy, Trade and Industry

Figure III-3-1-6 Overview of Act for Promotion of Japan as an Asian Business Center <Came into effect in November 2012>



Source: Ministry of Economy, Trade and Industry

Column 14 Initiatives to promote the acceptance of foreign human resources with advanced expertise

Foreign enterprises with bases in Japan face various issues, such as the status of residence of their foreign staff in Japan and the ability of the spouses of those employees to work here. Japan has a stock of around 200,000 foreign workers capable of working in specialist/technical fields, and the Japanese government has stipulated a policy of proactively accepting such personnel. Due in part to the impact of the Lehman Shock and the Great East Japan Earthquake, the number of new entrants had been declining in recent years, but began to increase once more in 2012.

Accordingly, in May 2012, Japan introduced a points-based system of the kind used in the UK, Canada, and Australia, as a means of promoting the acceptance of highly skilled foreign professionals, in order to encourage the acceptance and retention of foreign nationals who can bring innovation to Japan. Unlike the “entry-type” points-based systems used in the UK and Canada, which specify entry requirements, Japan’s points-based system grants preferential treatment in terms of immigration control to those foreign workers who already have a status of residence in a specialist/technical field that allows them to work and who score at least 70 points under a scoring system that assigns points for such factors as their academic background, work history, annual income. This preferential treatment includes reducing the number of years that they must have spent in the country before being eligible to apply for permanent residence, and permitting their spouses to work. In that sense, it is similar to ROK’s points-based system.

By May 2012, 11 months after the points-based system had been introduced, only around 430 foreign nationals had been recognized as highly skilled professionals, so the Ministry of Justice and other related ministries began working on revising the system as soon as possible. In addition, the targets in the Japan Revitalization Strategy published in June 2013 included “reconsider the income standards ...and...start the new system within the year.”

Based on these outcomes of the government’s deliberations, the revised points-based system began operating at the end of 2013 and the number of those recognized as highly skilled professionals is now much higher than it was when the system was first introduced, thanks to such changes as the relaxation of the income standards.

In addition, the Immigration Control and Refugee Recognition Act reform bill was submitted during the 186th session of the Diet, to implement the measures required to shorten the period for which highly skilled foreign professionals must stay before they can be granted permanent residence (a status of residence with an unlimited period of stay).