

## Main Policy Agenda for Promoting Foreign Direct Investment in Japan

– Compiled by Members of the Working Group for Creating Medium and Long-term Strategy to Promote Foreign Direct Investment in Japan –

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### Common Background Ideas

- Change the current stagnant situation under the COVID-19 by promoting inward FDI: it is necessary to move away from an inward-looking attitude and execute concrete measures to aggressively promote inward FDI that contributes to the normalization of economic and social activities, DX<sup>1</sup> and GX<sup>2</sup>, expeditiously.
- Promote inward FDI that contributes to realizing a New Form of Capitalism: strengthening “investment in human capital” is pursued to resolve the problems of lacking necessary staffs faced by foreign companies that are entering or considering to enter Japan. In addition, promoting further DX, GX, and start-ups requires utilizing foreign capitals, knowledge, and technology.
- Eliminate impediments: it is necessary to promptly improve business environment that is considered to make it difficult to conduct businesses in Japan from overseas.
- Expect spillover effects by promoting inward FDI, such as contributing to not only creating domestic jobs, but also enhancing international competitiveness and promoting innovation. Note that there is an aspect of revitalizing the Japanese economy which would lead to attract foreign direct investment in return. Overall, a virtuous cycle of both is expected.
- Based on the above, it is necessary to achieve our target of 80 trillion yen in foreign direct investment stocks in Japan by 2030 (40 trillion yen in 2020) by promoting initiatives in priority areas based on last year’s strategy (Strategy for Promoting Foreign Direct Investment in Japan).

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<sup>1</sup> Digital Transformation

<sup>2</sup> Green Transformation

- With regard to measures, it is necessary to examine their status, revise their KPIs as needed, create new ones and set more aggressive ones, etc., and manage the progress of each measure through visualization.

## Current Issues

- FDI stocks in Japan at the end of 2021 (preliminary estimate) was 43.5 trillion yen, up 3.8 trillion yen from the previous year. The annual average increase of 4 trillion yen required to reach the target of 80 trillion yen by 2030 was not achieved.
- Compared to other countries (OECD average: 67% as of end of 2021), the inward FDI stock as a percentage of GDP is 8.0% (as of end of 2021), which is at comparatively low level.
- By industry, the manufacturing and finance industries accounts for more than 80% of FDI stock. Compared to other countries, shares of service and other industries tend to be low and unbalanced among industries.
- In a survey of foreign companies in Japan conducted between June and July 2021, 70% responded that Japan's border control had a significant impact on their Japanese customers. While the gradual relaxation of border control is under way, it is necessary to improve the procedures for entering Japan so that cross-border business travels would become more smoothly, while dealing well with infection. The survey also highlighted difficulty in finding necessary staffs, the importance of introduction of the one-stop procedural system and digitization of labor and tax-related procedures.
- Predictability and transparency of the investment measures need to be improved.
- Significant difference in efforts of promoting FDI from region to region need to be improved.
- Since foreign companies tend to show strong interest in policies promoting DX and GX in Japan, more work needs to be done to respond to it.
- While Tokyo's ranking as global start-up ecosystem has risen (from 15th in 2020 to 9th in 2021) recently, it is seen as lacking in connectedness to foreign

investor networks.

#### Pillar 1: Strengthening “investment in human capital” through inward FDI

- In order to deal with difficulties in finding necessary personnel faced by foreign companies, develop human resources who can play an active role globally, such as those including foreign students as well as Japanese ones studying at universities in Japan, and also improve the matching of those students with foreign companies: e.g. measures to restore student exchange programs, ensure that as many foreign students who are willing to work in Japan as possible can find jobs in Japan.
- At the same time, send a message to the world that Japan has overcome the restrictive conditions under the COVID-19 once the situation allows. Specifically, disseminate the following information along with substantial review of border control related to business: e.g. budgets and systems that are available to foreign companies, our highly reliable business environment and flexible response to global and domestic changes, and our position in the global value chain (GVC).
- Enhance outreach activities through social media and other channels of administrative organizations, including JETRO, to inform foreign investors, relevant foreign institutions, and foreign students of various procedures and the progress in relevant regulatory regimes in Japan.

#### Pillar 2: Promotion of DX, GX, and start-ups through inward FDI

- Encourage foreign investment to promote DX and GX, and foster start-ups in Japan. Specifically, strengthen support for foreign companies as well as for domestic companies and local governments to improve the matching of foreign companies with their potential customers and business partners in Japan. Consider secondary investments by foreign companies in other regions in Japan as needed.
- Examine strategically important areas of inward FDI from the perspective of our country’s industrial policy, in which proactive support by relevant

ministries/agencies is provided.

- Provide further support for the formation of start-up ecosystem bases that involves cities and universities, thereby fundamentally strengthening entrepreneurship and accelerator functions. Provide support to connect start-ups of our country with foreign capitals.
- In order to increase predictability of investments, improve the system of prior inquiries about policies to related sections of the administrative body (no-action letter system) and also promote dissemination of the case examples that will help understand legal interpretations and administrative procedures.
- With a strong demand from foreigners, accelerate easy-to-understand English translation of laws and regulations (including ministerial notifications), administrative documents such as application guidelines for subsidies, and administrative procedures. Accelerate establishing a one-stop system and digitization of labor and tax-related procedures.
- In addition, examine and utilize cases where local ecosystem contributed to creating innovation, as well as those that took in better management methods of foreign companies leading to improving business performance, through cooperation with foreign companies and M&As. At the same time, strengthen our country's corporate governance and increasingly disseminate information internationally.

### **Pillar 3: Improving living environment of foreign nationals to promote FDI in Japan**

- Accelerate establishing the appropriate living environments for foreign nationals, including in the medical care and education areas. Specifically, increase the number of medical institutions where necessary services can be provided in foreign languages, as well as improve training programs for instructors so that foreign students can receive proper Japanese-language education.
- Strengthen information dissemination that would be helpful to the establishment of foreign nationals' livelihood and businesses, including those

about bank accounts, real estate, hospitals, and schools (including international schools). In addition, accelerate establishing and reforming the inquiry centers where foreign languages are available and one-stop consultations are possible in major regions of Japan.