

# **A review of Japan's Business Environment and Investment Opportunities**

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## What is JETRO?

### Japan External Trade Organization

- A government-related organization that works to promote mutual trade and investment between Japan and the rest of the world.
- Originally established in 1958
- Worldwide network comprising:
  - JETRO headquarters in Tokyo
  - JETRO Osaka
  - Institute of Developing Economies (IDE)
  - Domestic offices 39
  - Overseas offices 73 (As of 2013 November)
- Employees: 1540 (800 domestic and 740 overseas)

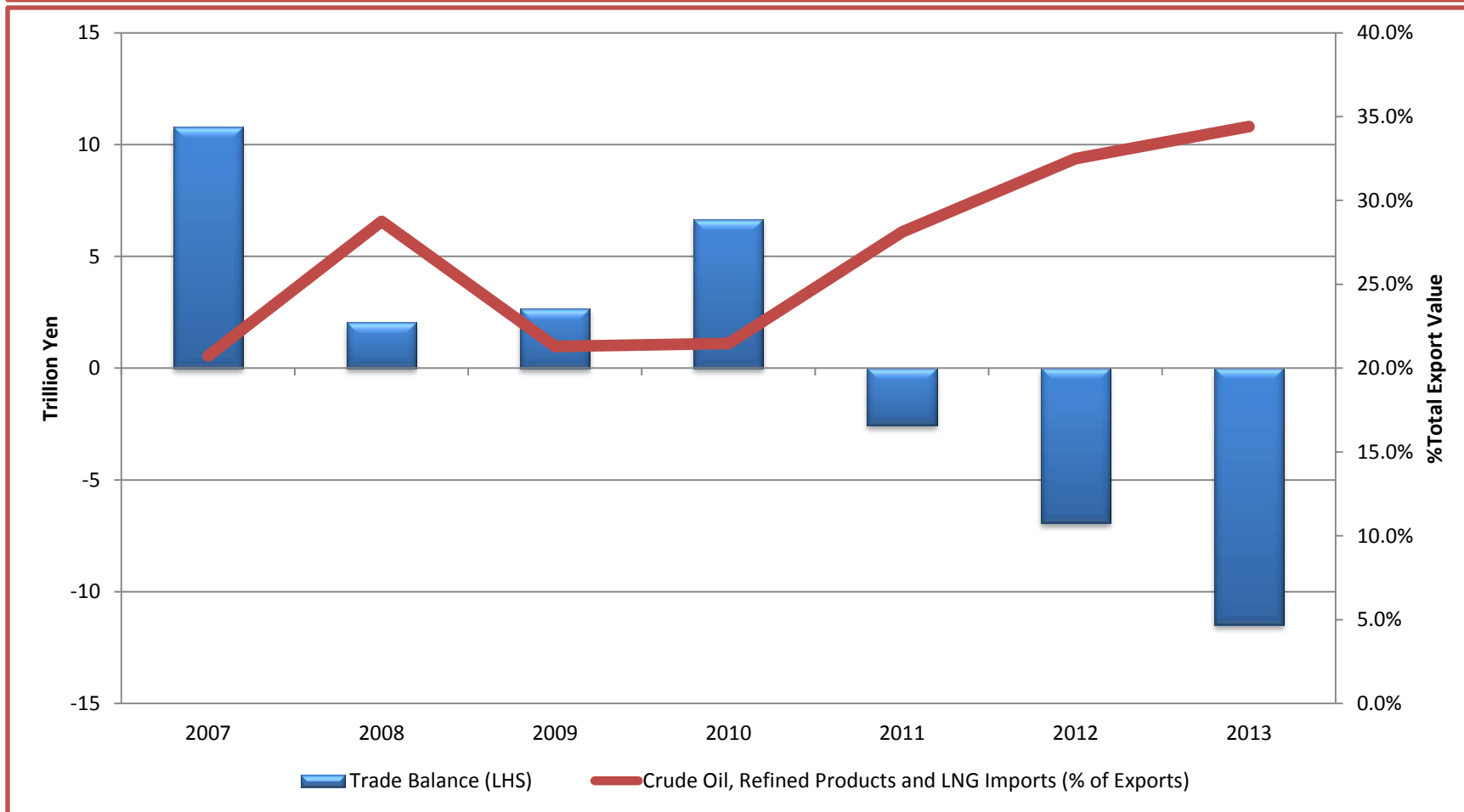
The logo for JETRO, featuring the word "JETRO" in a large, bold, serif font.

Japan External Trade Organization

## Abenomics: A Turning Point

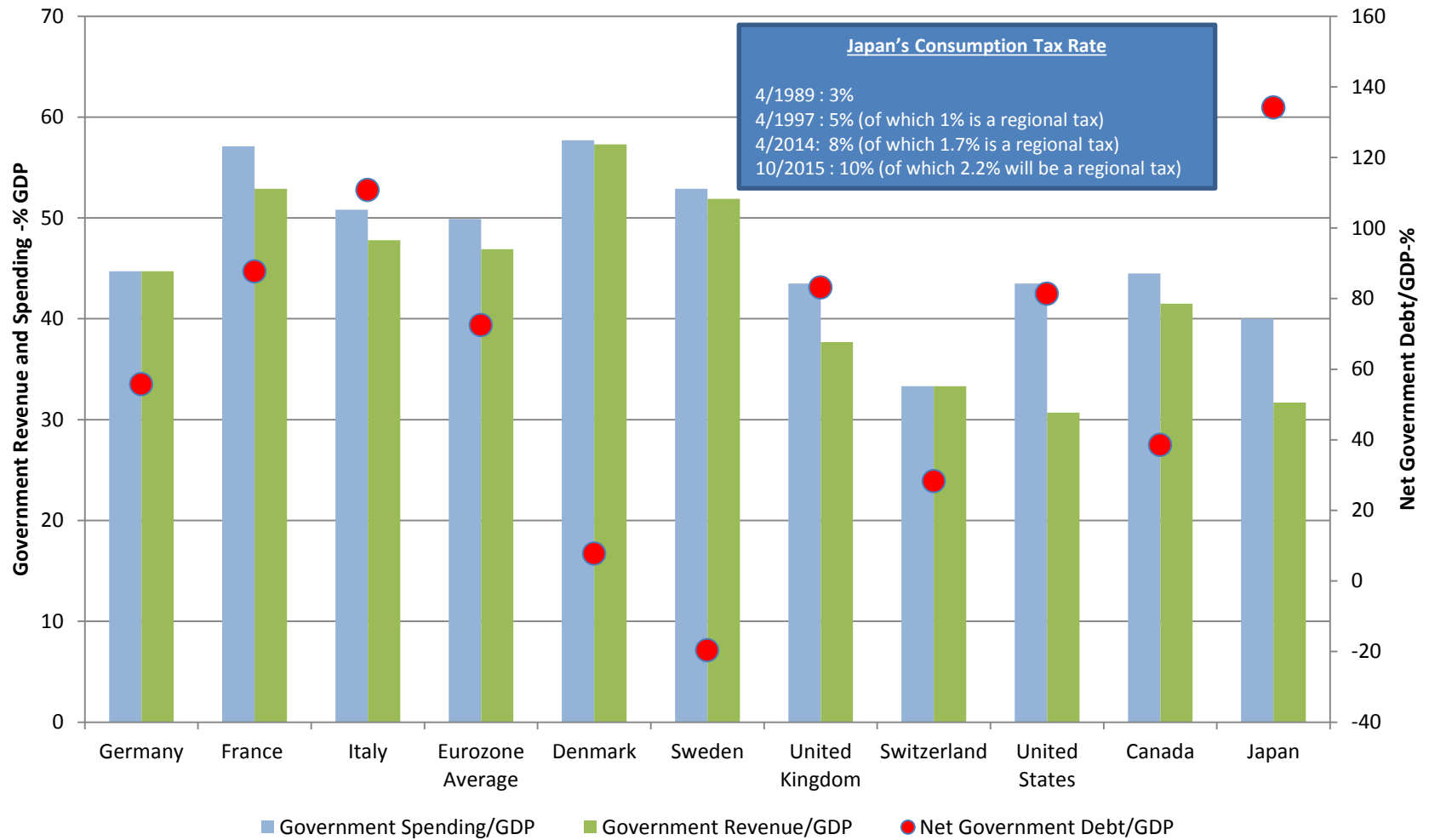
- Japan has been experiencing a major change in its trade balance and current account positions over the past 3 years and is likely to become a 'net capital importer' after being for several decades a 'net capital exporter'. Abenomics aims at reducing the dependence of domestic demand on a chronic budget deficit by resetting private demand actors' inflationary expectations on the one hand, and at preparing Japan to become a more attractive place for FDI on the other hand.
- Abenomics policies thus far:
  - **An aggressive monetary policy** targeting and importing consumer price inflation. By resetting inflationary expectations of major economic actors this policy is aiming at pushing household savings and corporate excess cash into consumption and investment while reflating domestic asset prices by pushing real interest rates into negative territory. The resulting weakness of the Yen also helps restoring Japan's competitiveness as a production base.
  - **Flexible Fiscal Policy and Tax reform:** At this point in time, Japan's fiscal policy remains highly accommodative and the country's budget deficit is still instrumental in neutralizing the domestic output-gap. Meanwhile, the government is pursuing its tax reform plans by gradually raising indirect tax revenue sources within overall fiscal revenues : A VAT hike was implemented in April 2014; One more hike is scheduled in October 2015; The effective corporate tax rate is being gradually lowered to provide a supply-side support to growth.
  - **Deregulation – Promoting free-trade and a shift towards renewable energies**
    - Thus far notable progress has been made in terms of deregulation in the field of renewable energy power generation.
    - Ongoing negotiations for broad participation in free-trade agreements should over time enhance the degree of integration of Japan in the global economy.
  - **Policies designed to attract foreign investments and accelerate Japan's integration into the global economy. Goal is to double (vs. 2011 level) the stock of inward FDI to 35 trillion JPY by 2020.**
  - **You can follow Abenomics news on the following website:** <http://japan.kantei.go.jp/ongoingtopics/abenomics.html>

## Trade Balance and Energy Imports



Source: Trade Statistics of Japan, Japan's Ministry of Finance

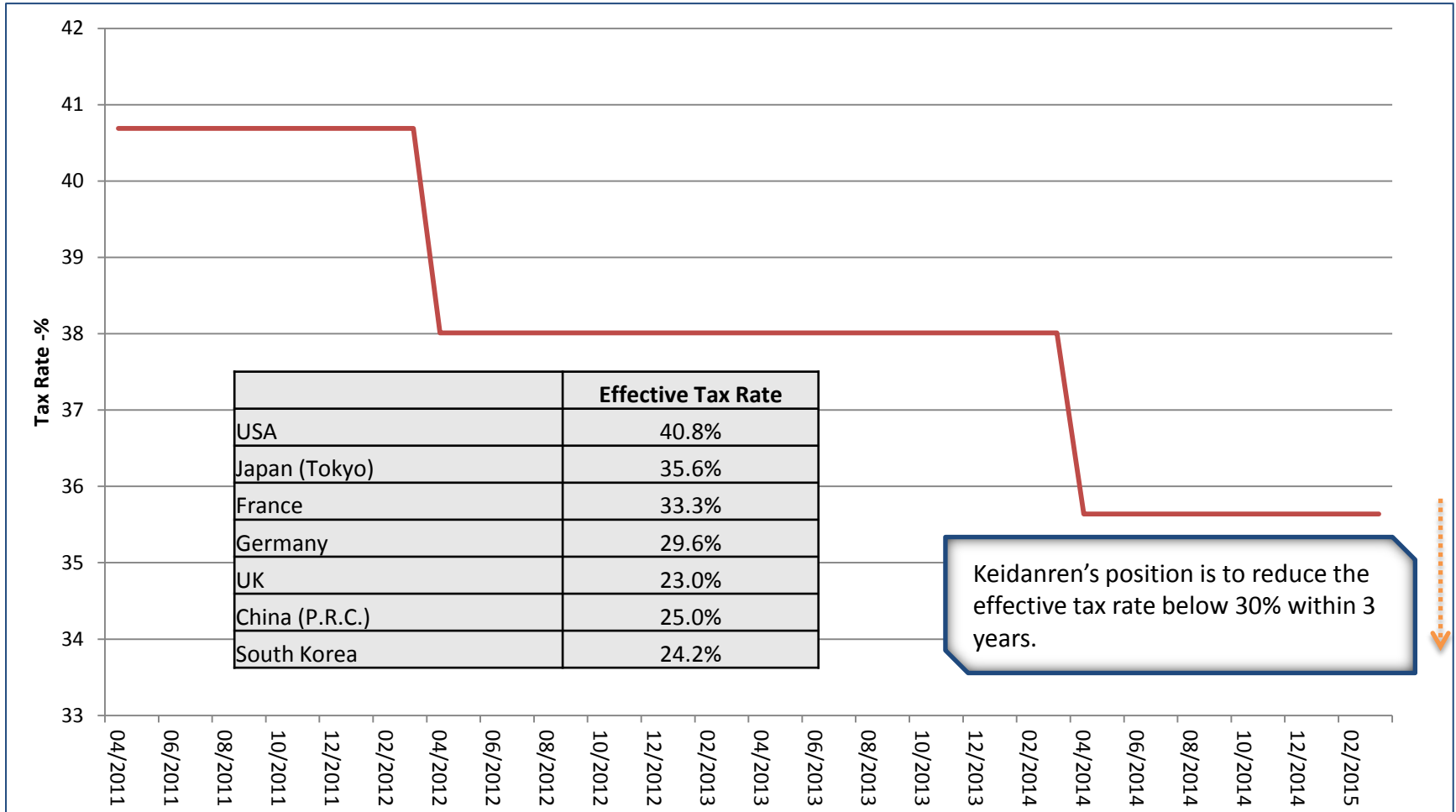
# Net Government Debt, Government Revenue and Spending



# Yen/EUR (1990-2014)

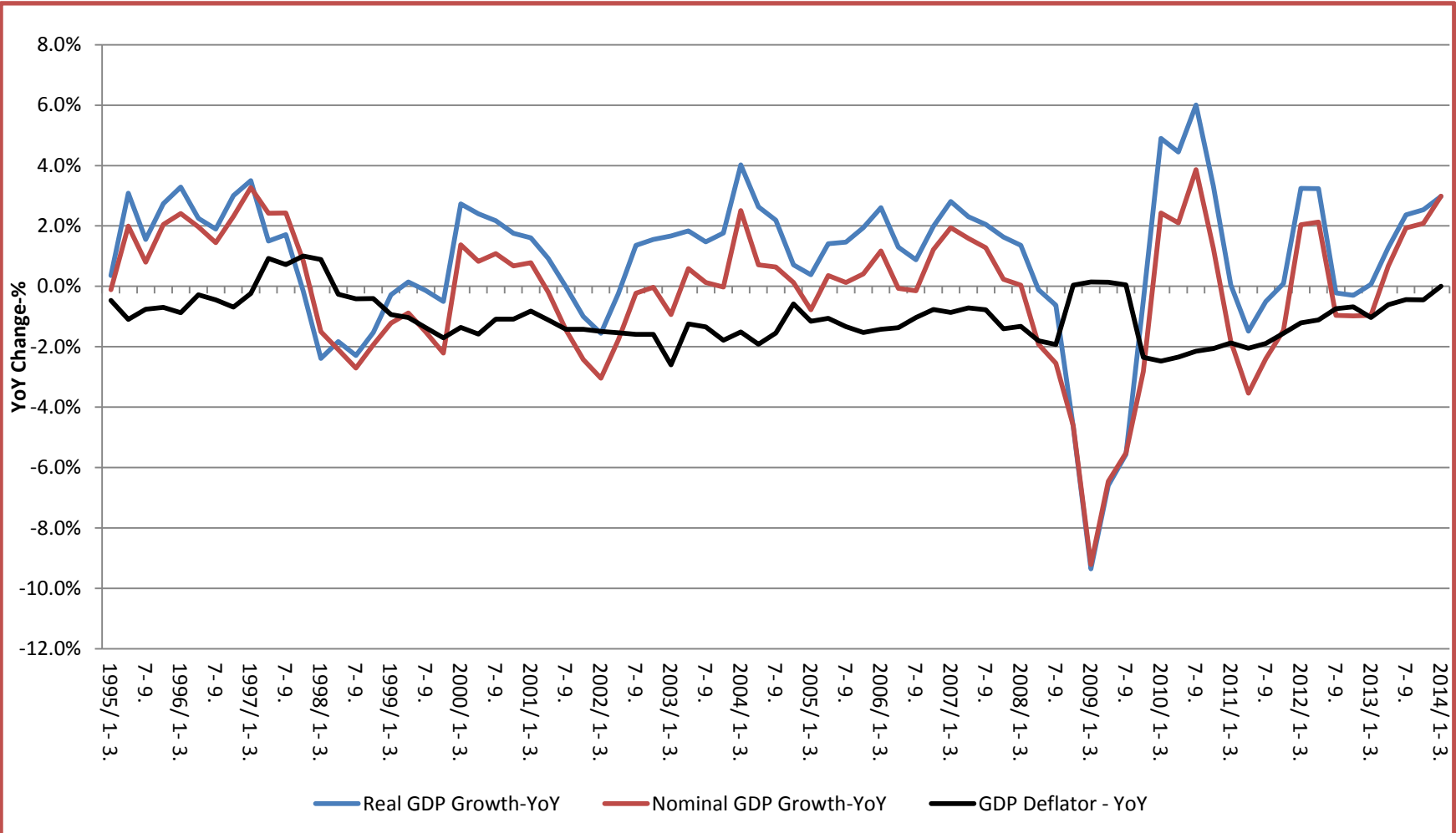


# Effective Corporate Tax Rate (Tokyo)



Source: Nikkei Newspaper (June 3<sup>rd</sup> 2014)

# Japan's Quarterly GDP Growth and GDP Deflator



Source: Based upon raw data from the Economic and Social Research Institute, Cabinet Office, Government of Japan

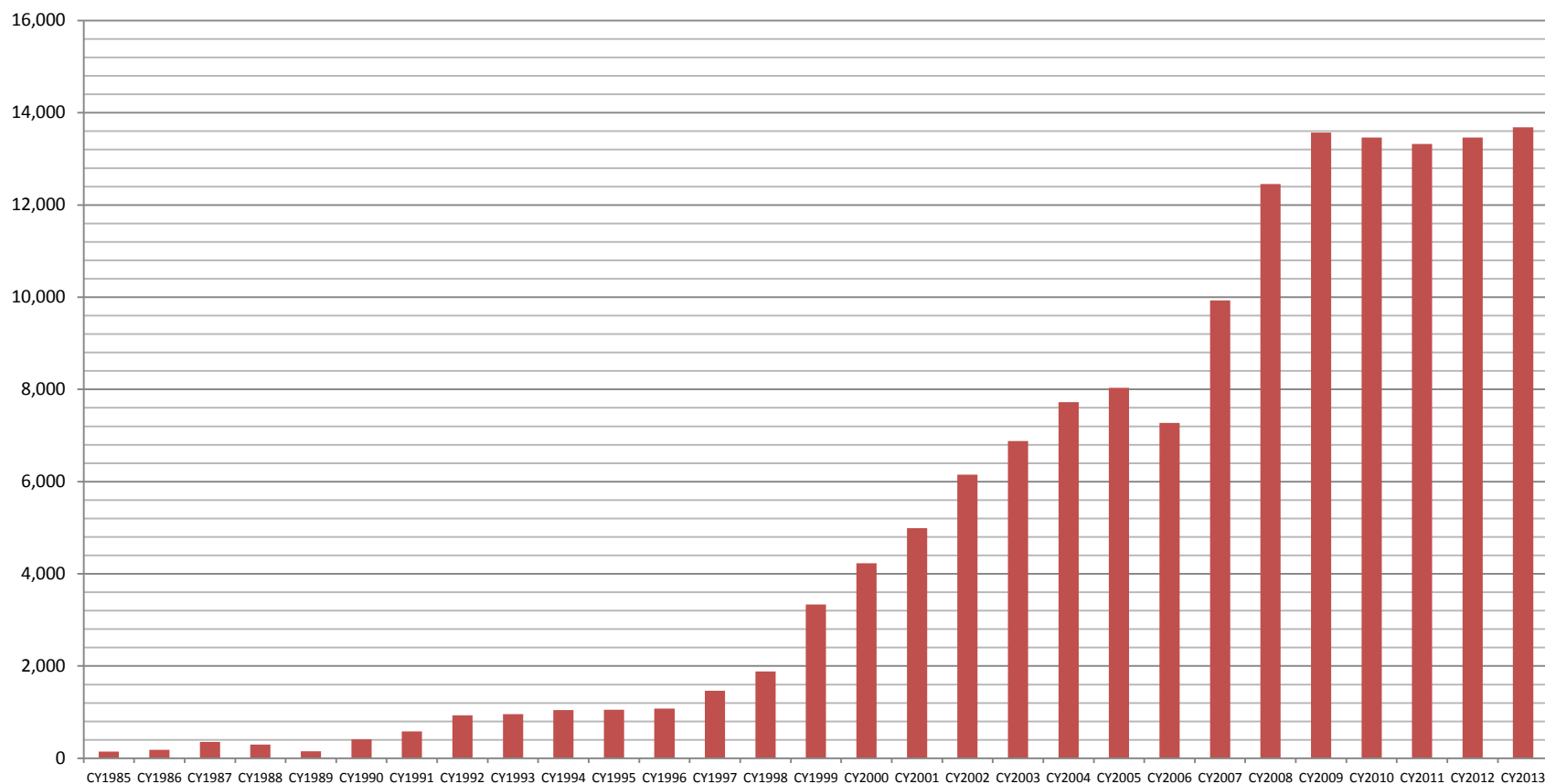


## Some positive signs

- Near-term, the main challenge for the Japanese economy will be the post-VAT hike private consumption fallback. Labor-market conditions are however becoming tight, suggesting that, over time, wage increases could absorb the increase in VAT.
- There are also visible signs of growing confidence by the corporate sector in the medium-term domestic economic outlook:
  - According to a Nikkei newspaper survey (published June 2<sup>nd</sup> 2014; sample of 1254 companies), **corporate capital expenditure plans for fiscal year 2014** (ending March 2015) point to a +7.6% YoY increase, following a +10.8% YoY increase in fiscal year 2013. A sub-survey (with a sample of 759 companies) shows that corporations plan to expand domestic capital expenditure by +15% YoY in FY2014, versus a planned +5.2% YoY increase overseas.
  - **Canon** is planning to increase the ratio of Japan-based production within its total production from the current level of 42% back towards the 50% line by the end of 2015. In the mid-2000s, Canon's domestic production ratio stood at around 60% before drifting below 45% in the past 4 years. With the weakness of the Yen Canon will boost back domestic production for high-end products such as multi-function printers and DSLR cameras.
  - **Asahi Kasei** is planning to raise production capacity for Cupro textile fiber for the first time in 40 years. Annual production capacity will be increased from 15000 tons to 16500 tons through a 3 billion JPY investment.
  - **Mitsui Fudosan** announced a capital increase (on May 27<sup>th</sup> 2014) of up to 324.5 billion JPY, its first capital increase in more than 32 years, that will be used to finance a large redevelopment project in the downtown Tokyo and Nihonbashi areas.
  - **Mori Building** is planning to spend 1 trillion JPY on 10 redevelopment projects in Tokyo over the upcoming 10 years (announced at a press conference held on June 4<sup>th</sup> 2014).
  - **The Hotel Okura** will be redeveloping its main building (built in 1962), seeking completion of brand-new 38-storey building by the spring of 2018, ahead of the 2020 Tokyo Olympics. The total investment for this project is estimated at around 100 billion JPY. The redevelopment project should start around August 2015.

## Foreign Direct Investments into Japan (Cumulative Net inflows)

(In Billion Yen)



Source: Japan's Ministry of Finance

## Incentives and Support for Foreign Investments

- **What makes Japan an attractive place to do business in?**
  - Not as costly as it used to be, at least in relative terms.
  - Huge consumer purchasing power.
  - A hub of innovation and trend-setting.
  - A highly qualified workforce.
  - A well-established legal system.
- **A proactive set of policies to attract foreign investment**
  - National government incentives and policies
  - Regional government incentives
  - Industry-based policies
  - Visa regulation policies
- **Support**
  - What JETRO can do for you.

## Cost of Living Index Ranking (Source: Expatistan)

Rank	City	Cost of Living Index
#1	Oslo, Norway	294
#2	Zurich, Switzerland	280
#3	London, United Kingdom	279
#4	Geneva, Switzerland	273
<b>#5</b>	<b>Singapore</b>	<b>246</b>
#6	Lausanne, Switzerland	244
#7	Basel, Switzerland	238
#8	New York City, USA	237
#9	Perth, Australia	236
#10	Sydney, Australia	231
<b>#11</b>	<b>Hong Kong</b>	<b>226</b>
#12	Paris, France	226
#13	Stockholm, Sweden	225
#14	Copenhagen, Denmark	221
#15	San Francisco, USA	220
#16	Brisbane, Australia	219
#17	The Hague, Netherlands	217
#18	Washington D.C., USA	213
#19	Helsinki, Finland	211
<b>#20</b>	<b>Tokyo, Japan</b>	<b>211</b>

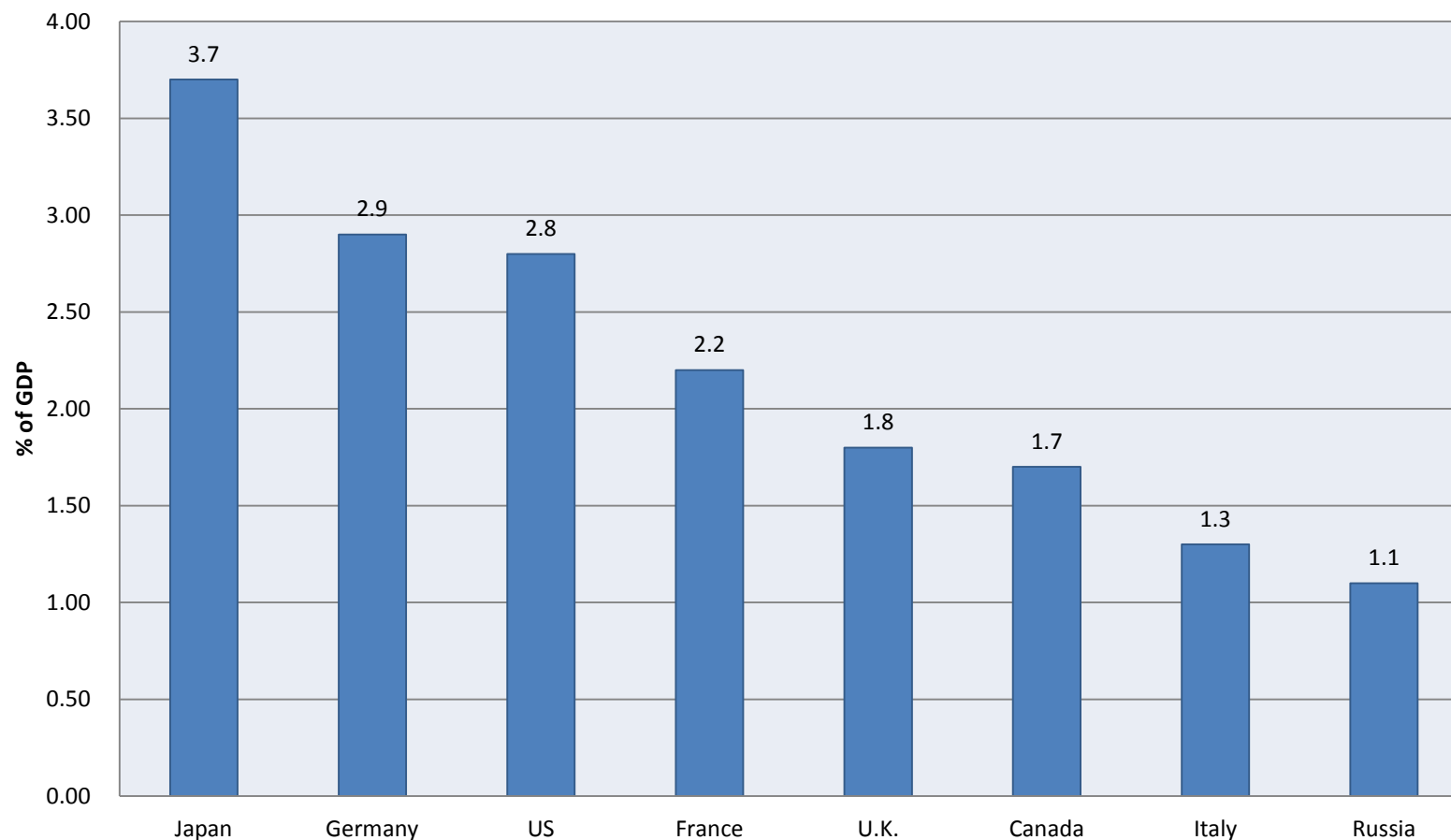
Note: Ranking as of the end of May 2014

## Number of Millionaires by Country and City – 2012 Ranking

Rank	Country	Number of Millionaires (2012)		Rank	City	Number of Millionaires (2012)
1	United States	5,231,000		<b>1</b>	<b>Tokyo</b>	<b>461,000</b>
<b>2</b>	<b>Japan</b>	<b>2,105,000</b>		2	NYC	389,000
3	Germany	1,326,000		3	London	281,000
4	China	1,280,000		4	Paris	219,000
5	UK	675,000		5	Frankfurt	217,000
6	France	555,000		6	Beijing	213,000
7	Canada	422,000		7	Osaka	190,000
8	Switzerland	298,000		8	HK	187,000
9	Australia	275,000		9	Shanghai	166,000
10	Italy	259,000		10	Singapore	157,000

Source: WealthInsight

## R&D Expenditures as a Percent of GDP



## PCT Patent Applications per Million Pop.

### Advanced Economies

Ranking	Country	Score
1	Sweden	302,7
2	Switzerland	290,1
3	Finland	283,3
<b>4</b>	<b>Japan</b>	<b>258,5</b>
5	Israel	218,8
6	Germany	214,6
7	Denmark	203,3
8	Netherlands	184,7
9	South Korea	183,4
10	Austria	157,7
12	USA	141,1
13	Singapore	124,4
14	Belgium	109,6

### Developing Asia

Ranking	Country	Score
1	Malaysia	12,1
2	China (PRC)	9,2
3	Brunei	3,1
4	India	1,4
5	Thailand	1,0
6	Sri Lanka	0,6
7	Bhutan	0,4
8	Philippines	0,3
9	Vietnam	0,2
10	Indonesia	0,1

## National Incentives and Policies

- **Act for the Promotion of Asian Business Centre.**
  - Under this scheme companies setting up R&D facilities and/or regional Asian headquarters in Japan can benefit from subsidies and tax breaks. When combined with regional tax reduction schemes the effective tax rate, which normally stands at around 35-36%, can be lowered towards 20%, i.e. a level comparable to those prevailing in Singapore or Hong Kong.
  - In order to facilitate securing qualified employees, an accelerated procedure to issue visas was also put in place, reducing the length of the procedure from 1 month to 10 days.
  - Similarly, an accelerated procedure for patent examination was also established, taking the length of the procedure from 22 months to around 2 months.
  - In 2013, BASF Japan, Comverge Japan, Nippon Busch and Siemens Japan were selected for that scheme.
- **Expansion of Participation in Free-Trade Agreements**
  - Japan is negotiating several free-trade agreements which are: a) The Regional Comprehensive Economic Partnership; b) The EU-Japan EPA; c) The Transpacific Partnership Agreement. If successfully implemented, these free-trade agreements will take the proportion of Japan's cross-border trade subject to free-trade from 19% to 70% by 2018, thereby contributing to making Japan an even more attractive place to export from.
- **Relaxed Visa Requirements for Foreign Workers in the Construction Industry**
  - For implementation from early 2015 up to FY2020. Visas will be issued for working periods ranging from 2 to 3 years.
- **Establishment of National Strategic Special Zones**
  - 6 zones (Tokyo, Kansai, Niigata, Yabu, Fukuoka, Okinawa) were designated on May 1st 2014, with relaxed regulatory frameworks designed to promote entrepreneurship. Concrete deregulation measures within the context of these strategic zones should be gradually take shape from summer 2014 onward.
- **Further Corporate Tax Rate Cut (Under discussion)**



## Regional Incentives (Examples)

### • Hiroshima Prefecture

- Seeking to develop a medical-related cluster with shipment value exceeding 100 billion Yen (715mn EUR) by 2020, representing a 10-fold increase over 2010 shipment value. Around 50 billion Yen of that target is to be met through the attraction of domestic and foreign companies under the supervision of the Hiroshima Medical Engineering Collaboration Innovation Promotion Council.
- The prefecture provides several incentives to companies seeking to establish themselves in the region; these include **subsidies for land, building and equipment acquisition applicable since April 2012 to companies involved in « Health and Medical » related field or in the « environmental cleanup » field.**
- Hiroshima offers relatively low wage cost (85-90% of Tokyo's average) and relatively affordable real estate.

### • Osaka Prefecture

- In December 2011, the prefecture launched the « Kansai Innovation Comprehensive Global Strategic Special Zone » initiative aiming at attracting investments in six areas: 1) Pharmaceuticals ; 2) Medical devices; 3) Advanced medical technologies; 4) Preemptive medicine; 5) Batteries; 6) Smart communities.
- Under that initiative, **the prefecture offers reduced local tax rates to companies involved in the fields of life sciences or new energy fields.**
- Based upon business plan achievement rates, those companies can also benefit from subsidies for land acquisition and/or office rental expenses.
- Osaka offers extensive infrastructure, including excellent international access through the Kansai International Airport.

### • Okinawa Prefecture

- Average salary is 20% the level of Tokyo. Compared to the rest of Japan the region also has younger demographics.
- The prefecture has a **subsidy scheme in place for the « Promotion of Okinawan Youth Employment » applicable for 2 years when employing a person under the age of 35.**
- The prefecture also has established a special economic zone: « The International Logistics Hub Industry Development Zone Uruma Area » where companies can benefit from a 40% reduction in corporate tax rate over a 10-year period, from subsidies for land acquisition as well as from subsidies for goods manufactured within the zone and shipped outside the prefecture.
- Okinawa prefecture is one of Japan's regions with the lowest occurrence of earthquakes.

### • Chiba City

- Since 2012, Chiba City has significantly enhanced its **subsidy programs to attract new investments while creating an « employment promotion system » and a « financing system to promote enterprise establishment ».**
- Chiba City offers many advantages as a location to conduct investments in Japan: 1) Relatively lower operating expenses versus Tokyo; 2) Proximity to the Narita Airport and consumer regions; 3) Relative ease to employ highly qualified staff.

## Industry-based Policies

### Promoting Investments in Renewable Power Sources

- **Measures to promote the development of photovoltaic power generation**
  - Feed-in-tariff scheme introduced in July 2012.
  - Revision of the « ordinance for enforcement of factory location Act » in May 2012.
  - Deregulation of the use of farmland for PV generation in April 2012.
  - Revision of the « ordinance for enforcement of the Electricity Business Act » in June 2012.
  - Deregulation to permit reverse power-flow through the distribution substation transformers in May 2013.
- **Measures promoting wind power generation**
  - Feed-in-tariff scheme introduced in 2012.
  - Special feed-in-tariff scheme set for off-shore wind power generation introduced in April 2014.

## Feed-in-Tariffs for Renewable Energy

### FY2014 Purchase Prices for Newcomers and Duration

Energy Source		Solar PV		Wind power			Geothermal power		Small- and- medium scale hydraulic power		
Procurement Category		10 kW or more (Industrial)	Less than 10 kW (Residential)	20 kW or more	Less than 20 kW	Off-Shore Wind Power	15 MW or more	Less than 15 MW	Between 1MW and 30 MW	200 kW to 1MW	Less than 200 kW
Equipment Cost Estimates (as of 3/2014)	Installation cost	275,000 Yen/ kW [1,964 EUR/kW]	385,000 Yen/ kW [2,750 EUR/ kW]	300,000 Yen/ kW [2,142 EUR/ kW]	1,250,000 Yen/ kW [8,928 EUR/ kW]	565,000 Yen/ kW [4,035 EUR/ kW]	790,000 Yen/ kW [5,642 EUR/ kW]	1,230,000 Yen/kw [8,785 EUR/ kW]	425,000 Yen/ kW [3,035 EUR/ kW]	400,000 Yen/ kW [2,857 EUR/ kW]	500,000 Yen/ kW [3,571 EUR/ kW]
	Annual maintenance cost	4,000 Yen/kw [57 EUR/ kW]	3,600 Yen/kw [26 EUR/ kW]	6,000 Yen/ kW [43 EUR/ kW]	-	22,500 Yen/ kW [160 EUR/ kW]	33,000 Yen/ kW [235 EUR/ kW]	48,000 Yen/ kW [342 EUR/ kW]	9,500 Yen/ kW [68 EUR/ kW]	69,000 Yen/ kW [492 EUR/ kW]	75,000 Yen/ kW [535 EUR/ kW]
Pre-tax IRR [Assumed average utilization ratio]		6.0% [13%]	3.2% [12%]	8.0%	1.8%	10% [30%]	13.0%		7.0%		
FY2014 Tariff (Euros per kWh)	Tax exclusive	32 Yen/ kWh [0.22 EUR/ kWh]	37 Yen/ kWh [0.26 EUR/ kWh]	22 Yen/ kWh [0.15 EUR/ kWh]	55 Yen/ kWh [0.39 EUR/ kWh]	36 Yen/ kWh [0.25 EUR/ kWh]	26 Yen/ kWh [0.18 EUR/ kWh]	40 Yen/ kWh [0.28 EUR/ kWh]	14 Yen/ kWh [0.10 EUR/ kWh]	21 Yen/ kWh [0.15 EUR/ kWh]	25 Yen/ kWh [0.17 EUR/ kWh]
Duration		20 years	10 years	20 years	20 years	20 Years	15 years	15 years	20 years		

Source: Ministry of Economy, Trade and Industry

Note: All currency conversions were made on the basis of a EURO/Yen exchange rate of 140 Yen/EUR

## Other Industry-Based Deregulation

- **Electricity System Reform**
  - Expand use of the nationwide grid (by 2015).
  - Liberalization of the retail electricity sector (by 2016).
  - Establish a legal separation between electricity generators and distributors and abolish retail price regulation (between 2018 and 2020).
- **Deregulation of Online Sales of Non-Prescription Drugs**
  - The number of drug items available for sale online expanded from 2950 items to nearly 11,000 items following the enactment of the revised Pharmaceutical Affairs Act during the extraordinary session of the Diet held in autumn 2013.
- **Promotion of the Consolidation of Farm Land.**
- **Promotion of Tourism to Japan through relaxed visa requirements for short stays.**

## Japan's Long-Term Population Projections

In Thousand People	2010	2015	2020	2030	2040	2050	2060
<b>Total</b>	<b>128,057</b>	<b>126,597</b>	<b>124,100</b>	<b>116,618</b>	<b>107,276</b>	<b>97,076</b>	<b>86,737</b>
<i>Annual %Change</i>		-0.2%	-0.4%	-0.6%	-0.8%	-1.0%	-1.1%
<b>0-14 Year-old</b>	<b>16,803</b>	<b>15,827</b>	<b>14,568</b>	<b>12,039</b>	<b>10,732</b>	<b>9,387</b>	<b>7,912</b>
<i>Annual %Change</i>		-1.2%	-1.6%	-1.9%	-1.1%	-1.3%	-1.7%
<i>%Total Population</i>	13.1%	12.5%	11.7%	10.3%	10.0%	9.7%	9.1%
<b>15-64 Year-old</b>	<b>81,032</b>	<b>76,818</b>	<b>73,408</b>	<b>67,729</b>	<b>57,866</b>	<b>50,013</b>	<b>44,183</b>
<i>Annual %Change</i>		-1.1%	-0.9%	-0.8%	-1.6%	-1.4%	-1.2%
<i>%Total Population</i>	63.3%	60.7%	59.2%	58.1%	53.9%	51.5%	50.9%
<b>Above 65 Year-old</b>	<b>29,245</b>	<b>33,952</b>	<b>36,124</b>	<b>36,850</b>	<b>38,679</b>	<b>37,675</b>	<b>34,641</b>
<i>Annual %Change</i>		3.0%	1.2%	0.2%	0.5%	-0.3%	-0.8%
<i>%Total Population</i>	22.8%	26.8%	29.1%	31.6%	36.1%	38.8%	39.9%

Source: Projections from the Ministry of Internal Affairs and Communications of Japan

# JETRO Japan External Trade Organization

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