

# 3 Perception of the Business Environment in Japan among Foreign-affiliated Companies

From June to July 2019, JETRO conducted the "Survey on Japan's Investment Climate," targeting foreign-affiliated companies in Japan. The survey is designed to get opinions from foreign-affiliated companies about the attractiveness of the investment environment in Japan, obstacles for doing business in Japan, regulation reform requests, etc., for the purpose of further improving the business environment.

The results of the survey show that foreign-affiliated companies are positive about the open innovation with universities/research institutions

and Japanese companies, and that they place expectations on the "state-of-the-art technology and R&D." They are also highly motivated to make secondary investment/expansion in the future, and about 70% of target locations for those companies planning secondary investment were areas outside of Tokyo. With regard to the perceived attractiveness of doing business in Japan among foreign-affiliated companies, "Japanese Market" and "Stability of country and society" were highly rated for the second consecutive year.

## [Survey on Japan's Investment Climate: Overview]

### Summary of operation:

Online survey. Has been annually conducted since 2015.

Survey period: from June 18 to July 12, 2019

### Target companies:

About 2,100 companies, mainly consisting of foreign-affiliated companies supported by JETRO in their entry into and/or expansion in the Japanese market and member companies of foreign chambers of commerce in Japan.

Number of valid responses: 213

\*The parameter (n) in each chart is calculated by deducting the number of non-responses from the number of valid responses.

### Profile of the responding companies:

Chart 3-1 Country/region of the parent companies

Country/region	No. of Companies	Country/region	No. of Companies
US	37	Italy	4
Germany	32	Vietnam	4
China	23	Sweden	3
Korea	14	Hong Kong	3
UK	13	Spain	2
India	10	Thailand	2
Singapore	10	UAE	1
Switzerland	10	Austria	1
France	10	Denmark	1
Taiwan	8	Turkey	1
Australia	5	Hungary	1
Netherlands	5	Finland	1
Canada	5	Malaysia	1
Belgium	5	Latvia	1
		Total	213

Chart 3-2 Country/region of the parent companies (by region)

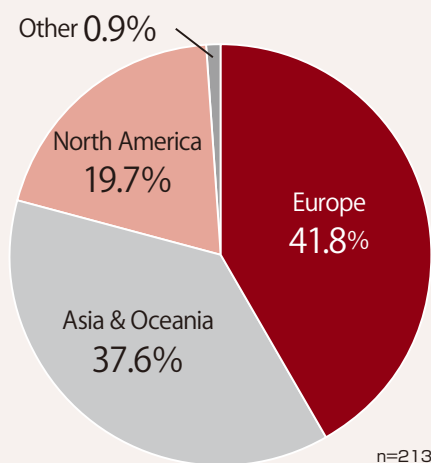


Chart 3-3 Number of years since establishment in Japan

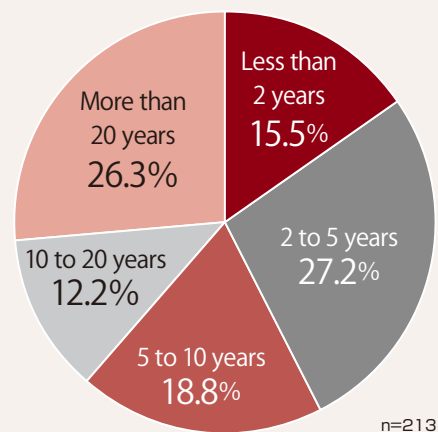
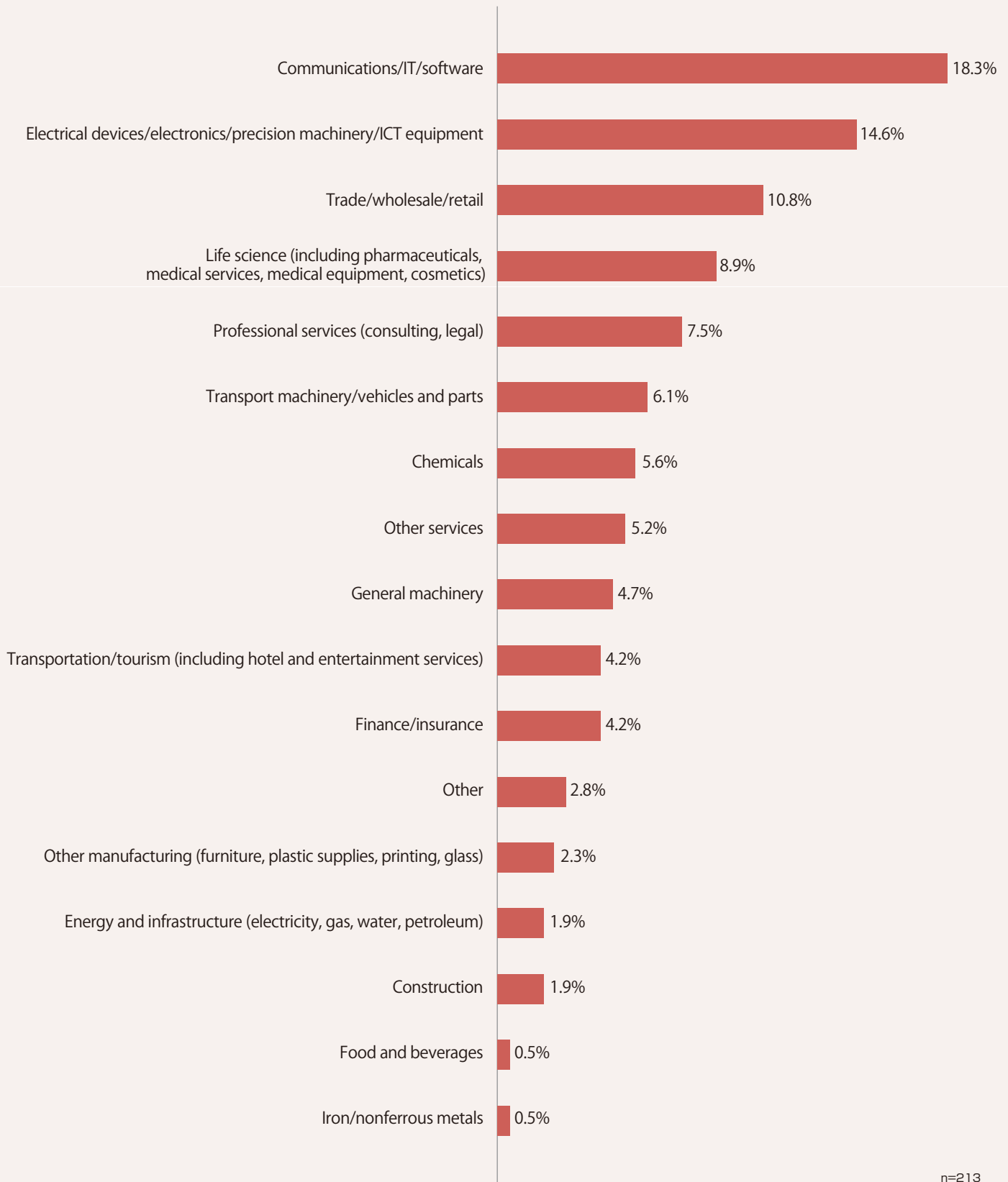


Chart 3-4 Type of industry



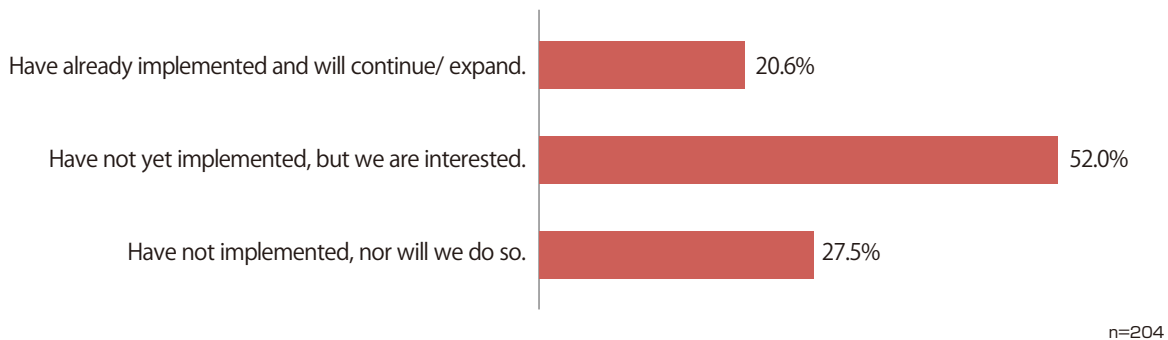
## 1. Positive about open innovation with universities, research institutions and Japanese companies, and placing expectations on “State-of-the-art technology and R&D”

As the international competition environment surrounding companies has been intensifying, attention is focused on open innovation<sup>1</sup> rather than closed innovation. In terms of efforts regarding open innovation with Japanese companies/universities, etc., more than 70% of

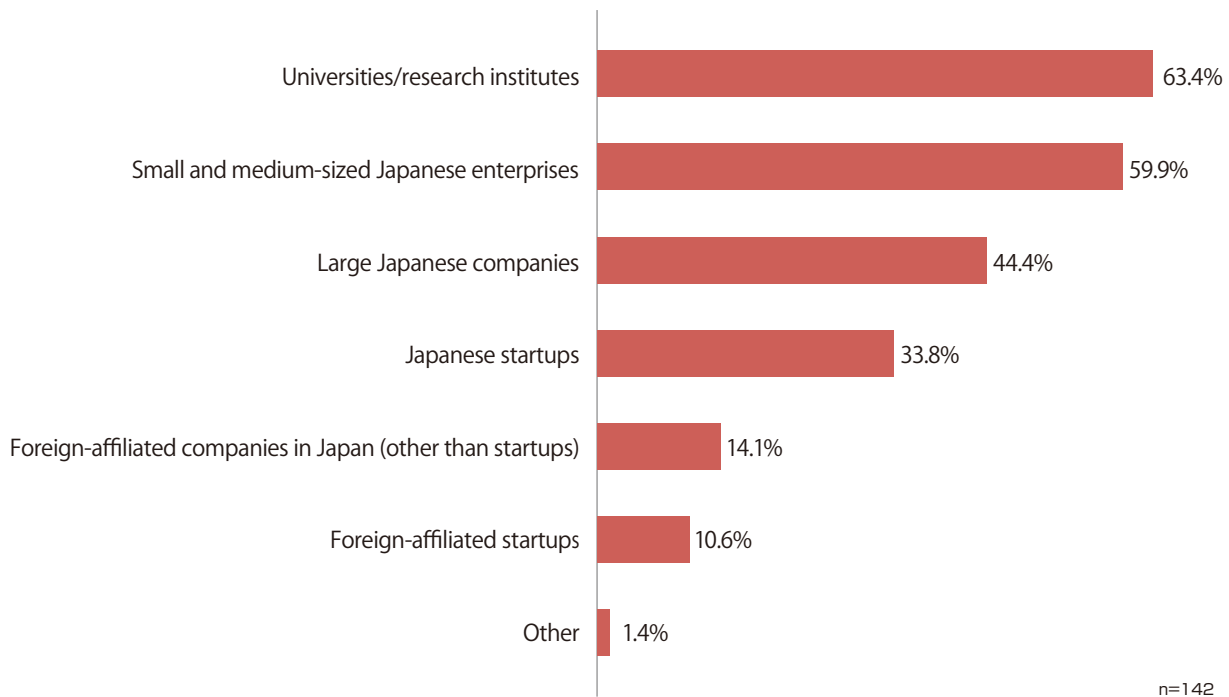
companies answered that “Efforts have already been implemented, and will continue/expand in the future” or “Efforts have not yet been implemented, but we are interested” (Chart 3-5). When looking at these figures by industry, interest tended to be high in the fields of communications/IT/software, electrical devices/electronics/precision machinery/ICT equipment, and life science.

With regard to partners for specific open innovation, “Universities/research institutes” and “Small and medium-sized Japanese enterprises” attracted interest from more than half of the responding companies,

**Chart 3-5 Your efforts regarding open innovation with Japanese companies/universities, etc.**



**Chart 3-6 The kinds of partners you are interested in (multiple answers)**



<sup>1</sup> According to the definition by Henry Chesbrough, former Assistant Professor at Harvard Business School, “Open innovation is the use of purposive inflows and outflows of knowledge to accelerate internal innovation, and expand the markets for external use of innovation, respectively.” (“Open Innovation White Paper 2nd Edition,” New Energy and Industrial Technology Development Organization (NEDO), June 2018)

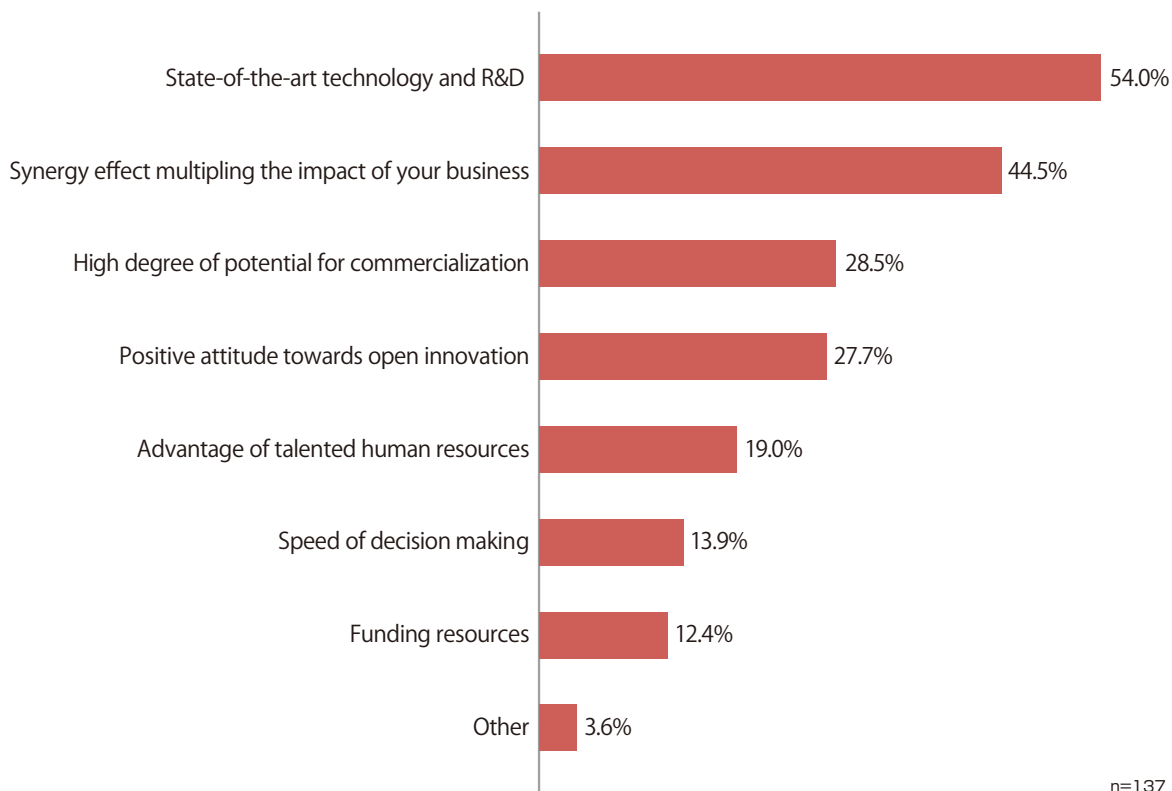
followed by “Large Japanese companies” and “Japanese startups” (Chart 3-6).

When asked about the reasons why they have chosen the partners, the most-cited reason was “State-of-the-art technology and R&D,” followed by “Synergy effect multiplying the impact of your business” and then by “High degree of potential for commercialization” (Chart 3-7). The results clearly show that foreign-affiliated companies are most interested in “State-of-the-art technology and R&D” of universities/ research institutions and Japanese companies in order to incorporate

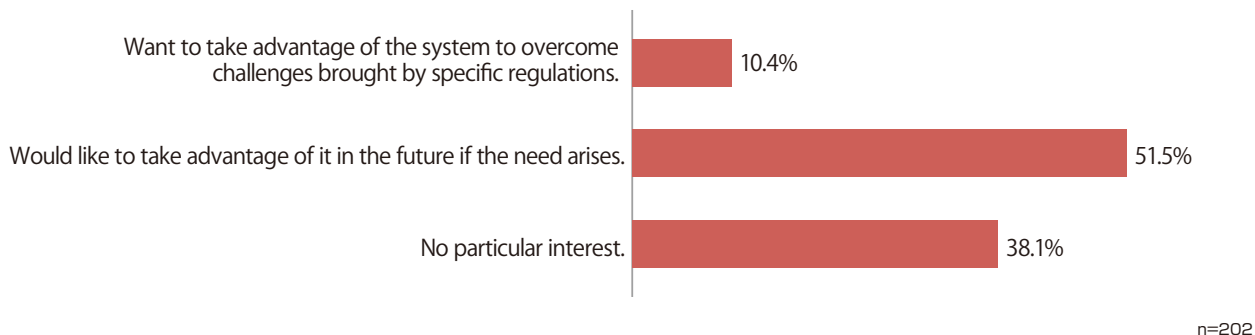
Japan’s outstanding technologies and knowhow into their own business operations, aiming for the creation of innovation.

Related to the creation of innovation in Japan, over 60% of companies expressed interest in the “Regulatory Sandbox” system (see p.10) as with last year (Chart 3-8). Foreign affiliated-companies, especially in the fields of communications/IT/software, electrical devices/electronics/precision machinery/ICT equipment, and life science, remain highly interested in this system.

**Char 3-7 The reasons why you have chosen the above partners (multiple answers)**



**Chart 3-8 Your interest in the “Regulatory Sandbox” system**

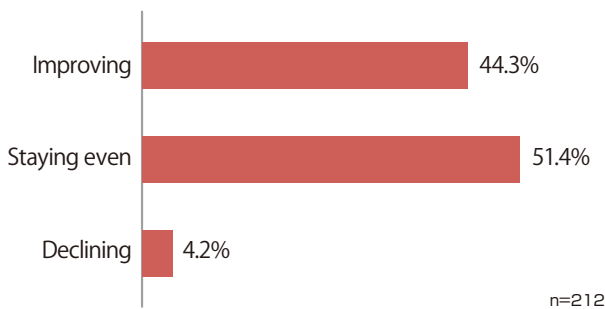


## 2. 70% of target locations for their secondary investment/expansion are areas outside of Tokyo

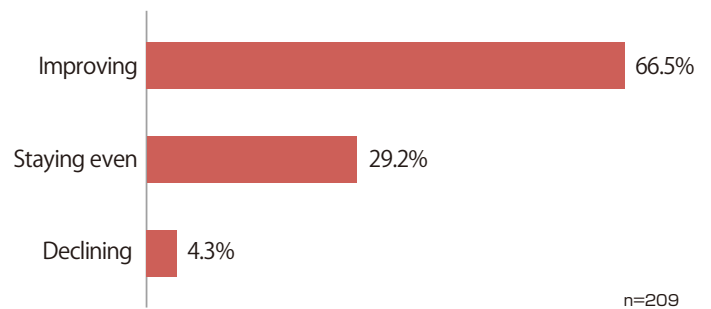
High level of business confidence has been confirmed among foreign-affiliated companies for the second consecutive year. Over 90% of the responding companies rated their current business conditions and future outlook for the next 1–2 years in Japan as “Improving” or “Staying even” (Chart 3-9 and Chart 3-10). When looking at these figures by

industry, many companies in the field of communications/IT/software rated their current business conditions as “Improving.” Regarding their investment plans within the next five years, around 70% of companies answered, “Expand business” (Chart 3-11). Taking into consideration their expectations on open innovation with universities/research institutes and Japanese companies, coupled with the relatively high level of business confidence among foreign-affiliated companies, such a high percentage of foreign-affiliated companies answering affirmatively suggests that they remain eager to expand their investments in the future. In terms of

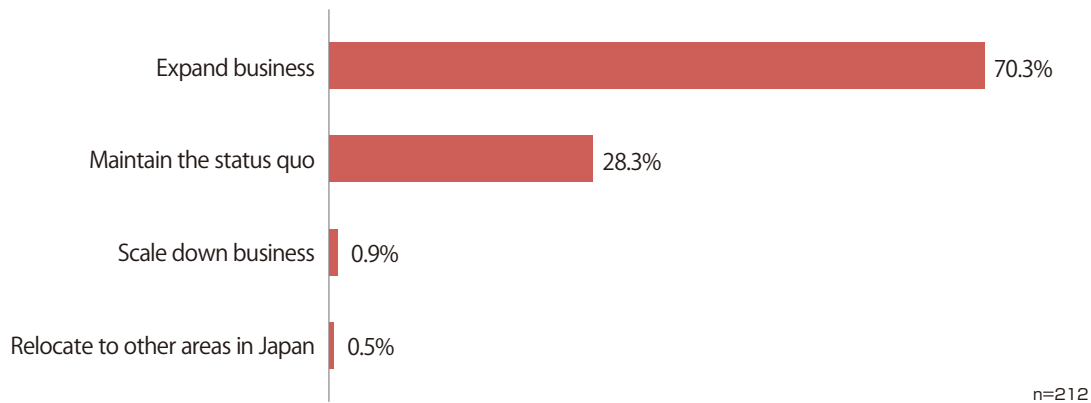
**Chart 3-9 Current business conditions in Japan**



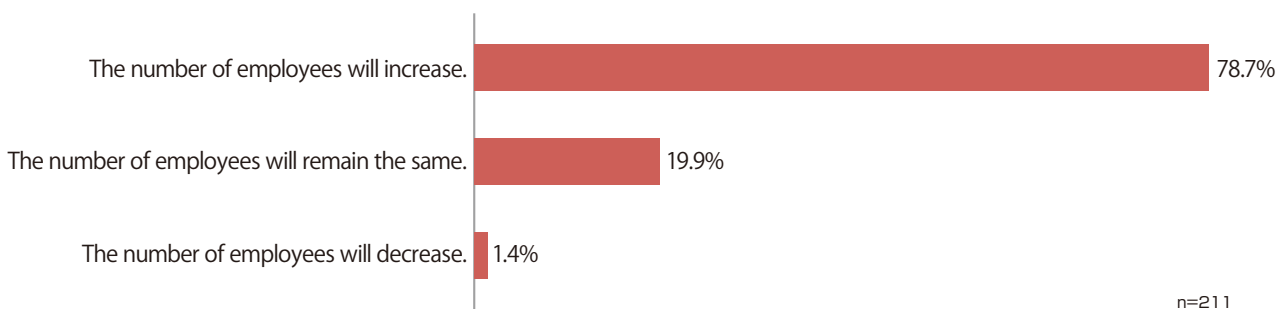
**Chart 3-10 Outlook of the business conditions in Japan (over the next one or two years)**



**Chart 3-11 Investment plans within the next 5 years**



**Chart 3-12 Projected number of employees in Japan (within the next 5 years)**

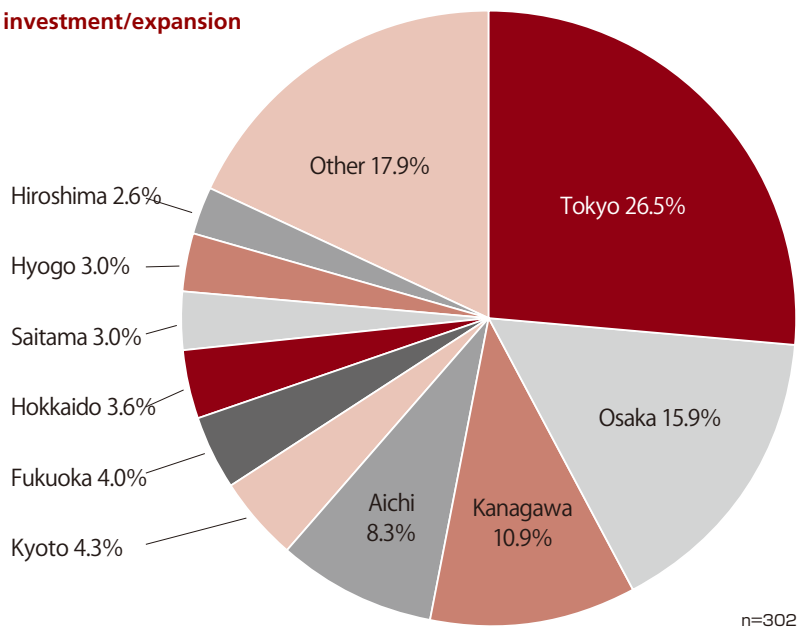


employment, nearly 80% of the responding companies answered, “The number of employees will increase” within the next five years, exceeding the level of the previous year (Chart 3-12).

Chart 3-13 and Chart 3-14 set out specific locations (prefectures) for expanding investments, functions, and reasons for selecting these locations. Over 70% of considered locations are outside of Tokyo, with the top locations being Osaka Prefecture, Kanagawa Prefecture, Aichi Prefecture, Kyoto Prefecture, Fukuoka Prefecture, etc., largely the same as in previous years.

Regarding the reasons for selecting their secondary investment locations in the top-ranking ones, “Proximity to customers,” “Market size,” and “Existence of relevant industrial clusters” are generally among the most-cited reasons. In the case of Osaka Prefecture, “Relative positioning compared to other bases in Japan” was seen in the top three reasons, while “Preferential measures or incentives provided by local government” was one of the top three reasons for selecting Kyoto Prefecture and Hokkaido.

**Chart 3-13 Where to make secondary investment/expansion (multiple options)**



**Chart 3-14 Where to make secondary investment/expansion, the type of business, and the reasons (multiple options)**

Rank	Prefecture	No. of projects	Type of business (top 3)	Reason (top 3)
1	Tokyo	80	Sales/customer service	Proximity to customers
			Research & development	Market size
			Back office operations	Existence of relevant industrial clusters
2	Osaka	48	Sales/customer service	Market size
			Research & development	Proximity to customers
			Back office operations	Relative positioning compared to other bases in Japan
3	Kanagawa	33	Sales/customer service	Proximity to customers
			Research & development	Market size
			Manufacturing	Existence of relevant industrial clusters
4	Aichi	25	Sales/customer service	Proximity to customers
			Manufacturing	Market size
			Research & development, Regional head office function	Existence of relevant industrial clusters
5	Kyoto	13	Sales/customer service	Proximity to customers
			Research & development	Market size
			Back office operations, Liaison services/PR/collecting information, Other	Existence of relevant industrial clusters, Preferential measures or incentives provided by local government
6	Fukuoka	12	Sales/customer service	Proximity to customers
			Back office operations	Market size
			Liaison services/PR/collecting information	Existence of relevant industrial clusters
7	Hokkaido	11	Sales/customer service	Market size
			Back office operations	Proximity to customers
			Procurement	Existence of relevant industrial clusters, Preferential measures or incentives provided by local government, Low cost (land, personnel expenses)
	Other	80	—	—

### 3. Greatest appeal lies in the Japanese market, with the spotlight on its huge and stable market

With regard to the perceived attractiveness of doing business in Japan among foreign-affiliated companies, the top three answers given by companies are the same as the previous year's results: "Japanese market," "Existence of suitable partners (companies, universities, etc.) with outstanding technology or products," and "Stability of country and society," in this order (Chart 3-15). As the future of the world economy has become increasingly uncertain partly due to the ongoing US-China trade friction and the Brexit issue, the Japanese market and its stability

have been continuously valued.

When asked what is particularly appealing in "the Japanese market," which gets the highest score in this survey every year, the most-cited items are "Market size," "Mid- and long-term growth potential of our business field," and "Presence of sophisticated consumers" (Chart 3-16). Foreign-affiliated companies recognize the Japanese market as a huge and sophisticated market, while also valuing it from a mid- to long-term business perspective.

When asked to evaluate the Japanese market from the perspective of profitability, over 60% of the companies answered "Profitability is high" or "Profitability is somewhat high" (Chart 3-17).

**Chart 3-15 Attractiveness of doing business in Japan (select each from 1st to 3rd positions)**

n=213

Answer	Votes			Points
	1st	2nd	3rd	
Japanese market	133	12	8	431
Existence of suitable partners (companies, universities) with outstanding technology or products	24	37	23	169
Stability of country and society	13	42	44	167
Existence of renown global companies	17	33	15	132
High quality of R&D	15	25	15	110
Infrastructure (traffic, logistics, ICT, energy)	4	25	36	98
Potential for securing talented human resources	2	12	11	41
Japan's location (e.g. position as a gateway to Asia, advantage as a base for regional headquarters)	0	14	13	41
Well-maintained living environment	3	4	23	40
Expected increase in demand and sales toward the 2020 Tokyo Olympic and Paralympic Games	2	5	8	24
Well-structured legislation regarding intellectual property	0	4	7	15
Other	0	0	10	10

[Note] In regard to the 1st, 2nd and 3rd place answer selected by respondents, each is awarded points as follows: 1st=3 points, 2nd=2 points, 3rd=1 point, and are listed in order of answer with the highest points total.

**Chart 3-16 What is particularly appealing to you about the Japanese market? (top 2 options)**

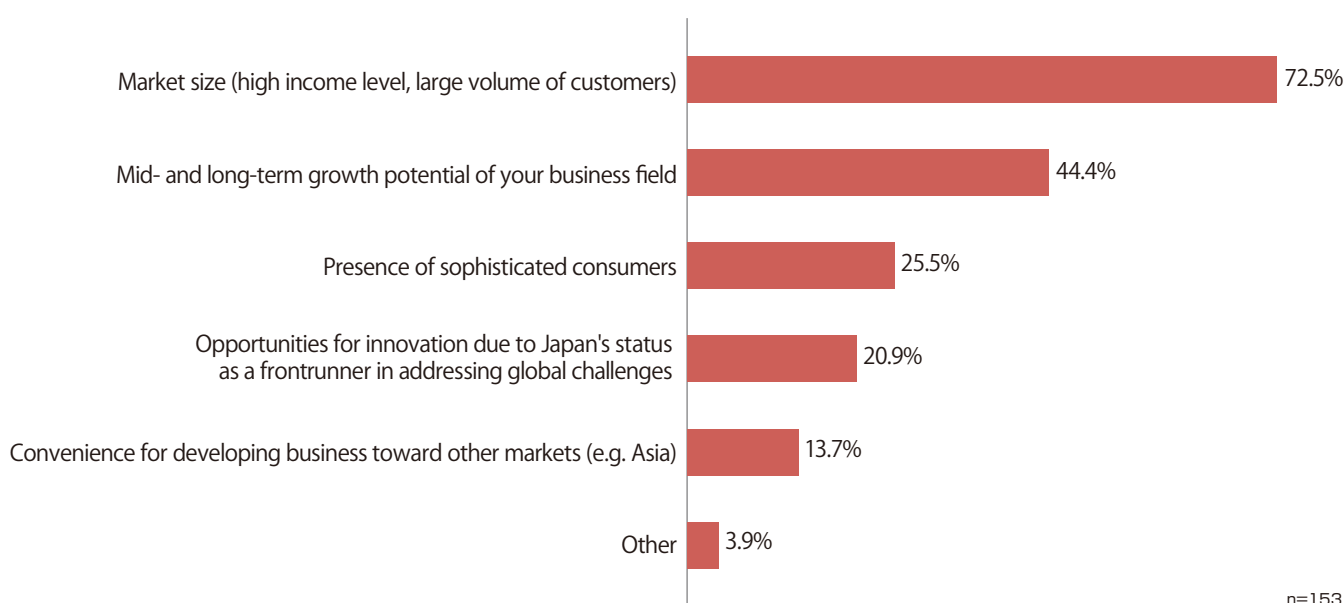
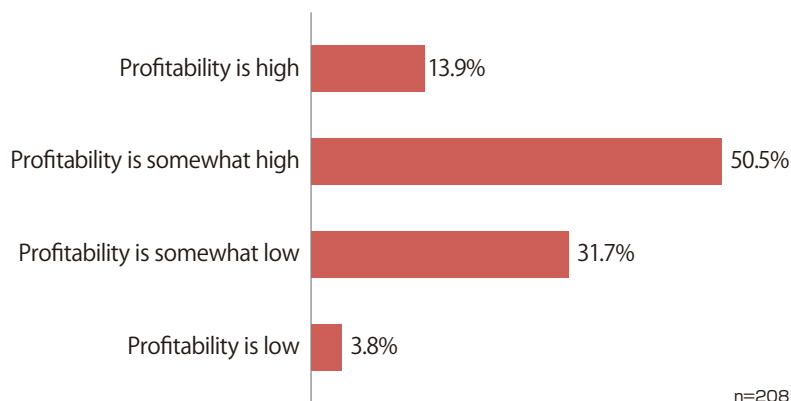


Chart 3-17 How do you evaluate the Japanese market in terms of profitability?



#### 4. Challenging issue of doing business is “difficulty in finding human resources”

The results of this survey show that the biggest obstacles to doing business in Japan are, as was the case last year, “Difficulty in finding human resources,” “Difficulty in communicating in non-Japanese languages,” “High business costs,” and “Complicated administrative procedures,” in this order (Chart 3-18). As the working-age population has been declining in Japan, domestic companies have been feeling the pain of a serious labor shortage. This survey has confirmed that foreign-affiliated companies are also in the same situation.

When asked about particularly troublesome issues in connection with “Difficulty in finding human resources,” nearly 60% of the responding companies pointed to “Lack of human resources with foreign language ability,” followed by “Difficulty in finding experts” (Chart 3-19). When looking at these figures by category of job, the most difficult to fill is

“Engineering” especially in the fields of electrical devices/electronics/precision machinery/ICT equipment and communications/IT/software (Chart 3-20). In light of these circumstances, the Japanese government is currently taking a range of measures, including “The promotion of active participation of foreign professionals” (see p.11).

In regard to “Complicated administrative procedures,” one of the top obstacles to doing business in Japan, many companies pointed to “Inconvenience caused by the lack of online procedures,” “Lack of English translation,” and “Excessive amount of time required to complete procedures,” especially with “Matters related to status of residence (visas),” “Tax matters,” and “Labor matters” (Chart 3-21). In order to rectify this situation, the Japanese government set a KPI (key performance indicator) in its growth strategy to cut costs associated with administrative procedures by 20% or more in key fields by March 2020, and it is currently taking measures such as initiating Online One-stop Business Registration (see p.11).

Chart 3-18 Obstacles to doing business in Japan (select each from 1st to 3rd positions)

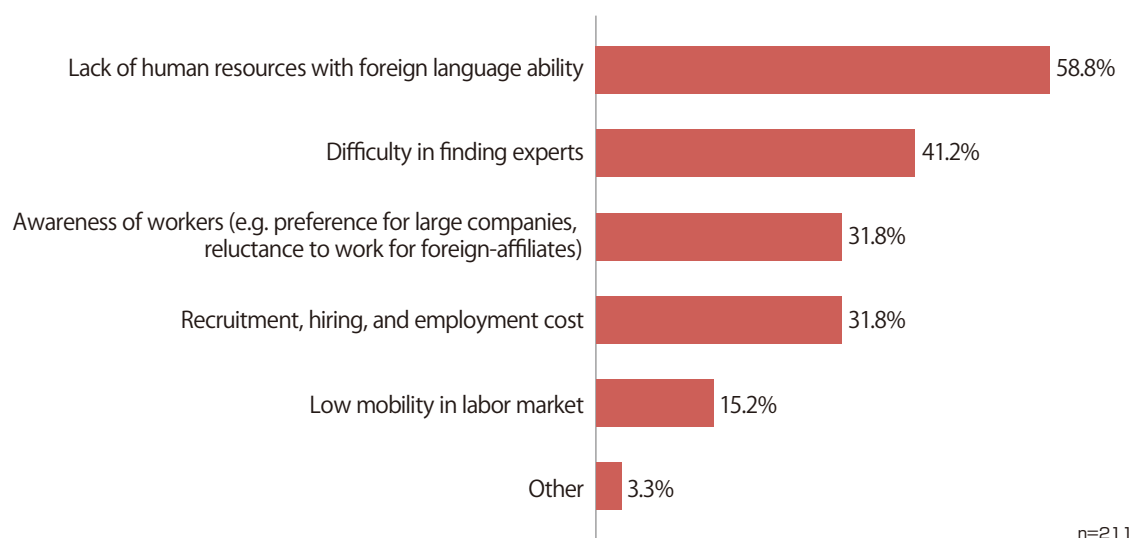
Answer	Votes			Points
	1st	2nd	3rd	
Difficulty in finding human resources	70	33	26	302
Difficulty in communicating in non-Japanese languages	49	47	31	272
High business costs	20	44	43	191
Complicated administrative procedures	23	25	29	148
Rigid regulations	19	33	19	142
Difficulty in finding business partners	21	11	16	101
Difficulty in financing	5	7	14	43
Immigration control system	5	5	16	41
Difficulty in living conditions for foreigners	0	6	3	15
Other	1	2	16	23

n=213

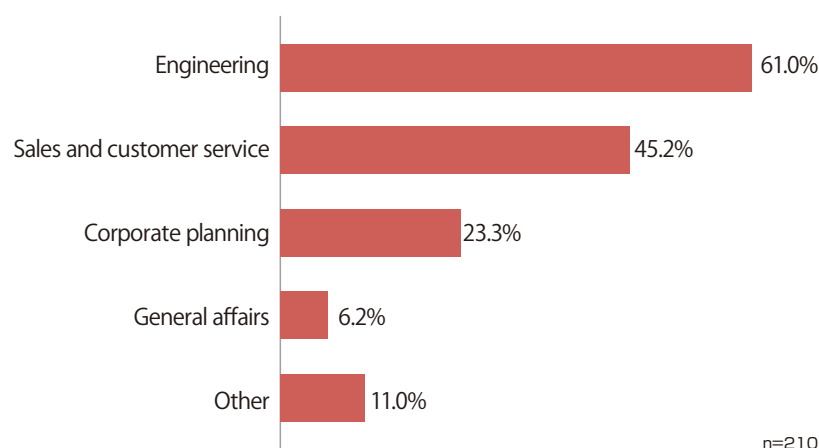
[Note] In regard to the 1st, 2nd and 3rd place answer selected by respondents, each is awarded points as follows: 1st=3 points, 2nd=2 points, 3rd=1 point, and are listed in order of answer with the highest points total.



**Chart 3-19 Regarding securing human resources, what difficulties in particular have you encountered? (top 2 options)**



**Chart 3-20 Regarding securing human resources, which categories of jobs are most difficult to fill? (multiple answers)**



**Chart 3-21 Administrative procedures felt to be in need of most improvement and specific issues currently experienced by companies**

Administrative procedures that need improvement the most	Issues necessary to be improved the most								
	Excessive points of contact (lack of consolidation)	Excessive amount of required documents	Inconvenience caused by the lack of online procedures	Lack of English translation	Excessive amount of time required to complete procedures	High cost of applications and procedures	Other	Unselected	Total
Company registration	2	5	1	4	2	1	1	0	16
Tax matters	1	9	10	8	9	4	1	0	42
Social insurance	5	5	5	6	2	0	0	0	23
Labor matters	1	3	5	11	3	1	4	0	28
Matters related to status of residence (visas)	4	7	10	1	22	2	3	1	50
Intellectual property	1	0	1	1	4	1	0	0	8
Trade	2	5	1	0	4	4	0	0	16
Other	2	2	4	2	4	0	8	1	23
Unselected	0	0	1	0	0	0	0	6	7
Total	18	36	38	33	50	13	17	8	213

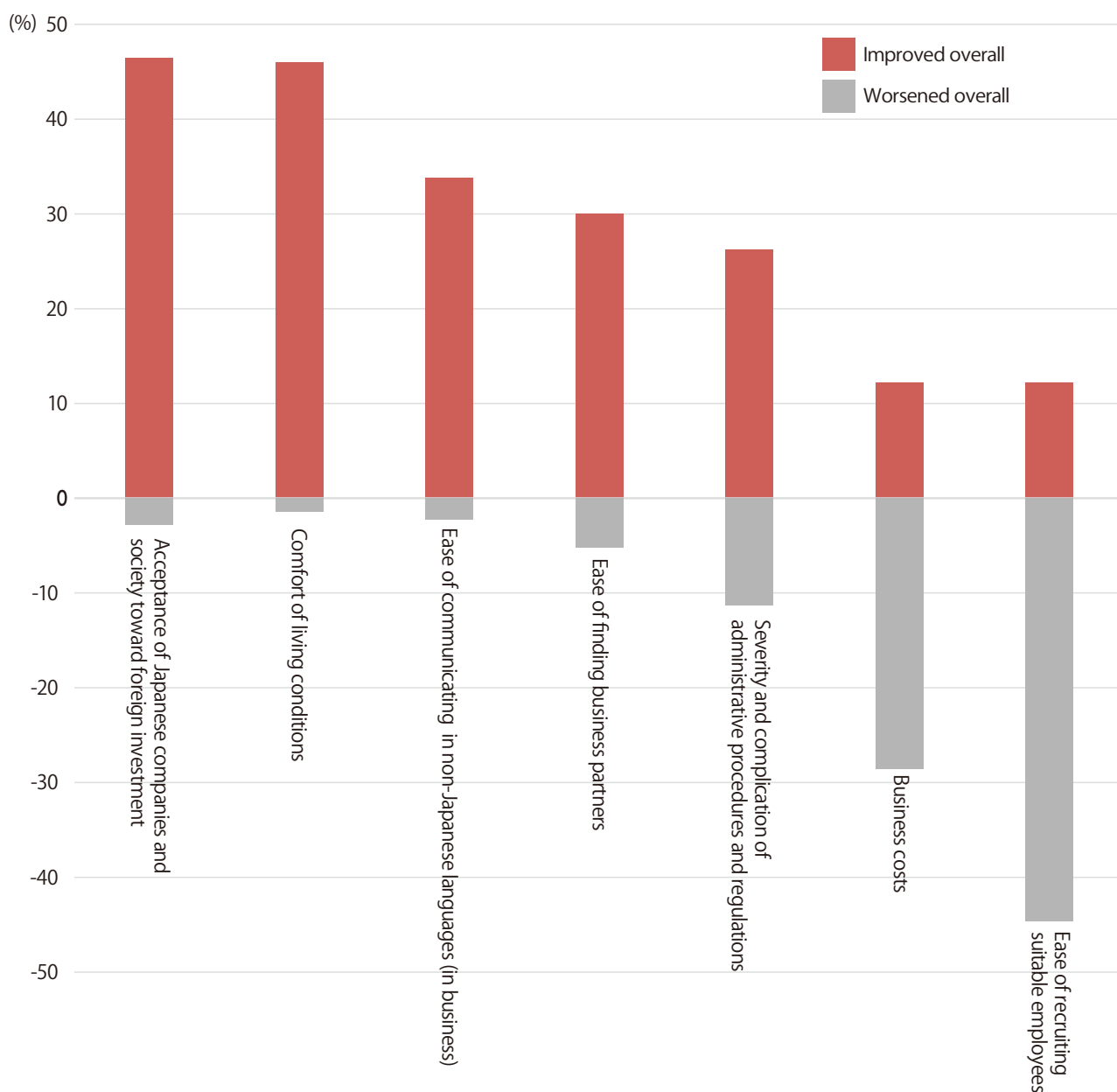
### 5. Japan's business environment heading for improvement

Foreign-affiliated companies recognize that business environment in Japan has been heading for improvement for the past one or two years. Among the 7 items included in the survey, such as "Acceptance of Japanese companies and society toward foreign investment," companies felt that things are improving in 5 of the items, the exceptions being "Ease of recruiting suitable employees" and "Business costs" (Chart 3-22). In particular, in the case of "Acceptance of Japanese companies and

society toward foreign investment" and "Comfort of living conditions for foreigners," as with last year, a large proportion of companies recognize that things are improving. With the promotion of active participation of foreign professionals (see p.11) and response measures for issues, such as the increasing number of foreign tourists visiting Japan, being advanced in recent years, it can be said that Japan's preparations to receive foreign-affiliated companies have been steadily improving.

JETRO will continue to deliver feedback from foreign-affiliated companies to the Japanese government based on the results of its surveys, etc., and will work to help further improve Japan's investment environment.

Chart 3-22 Business environment in Japan - changes in comparison with past one or two years



n=213

[Note] Ratio of companies answering "Improved overall" is shown as positive, while that of answering "Worsened overall" is shown as negative. Ratio of answers "Unchanged" is not shown in the chart.