

Business Environment in Japan

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Invest Japan Department

Japan External Trade Organization (JETRO)



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- Policy Measures and Regulatory Changes

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Efforts to Improve Business Environment

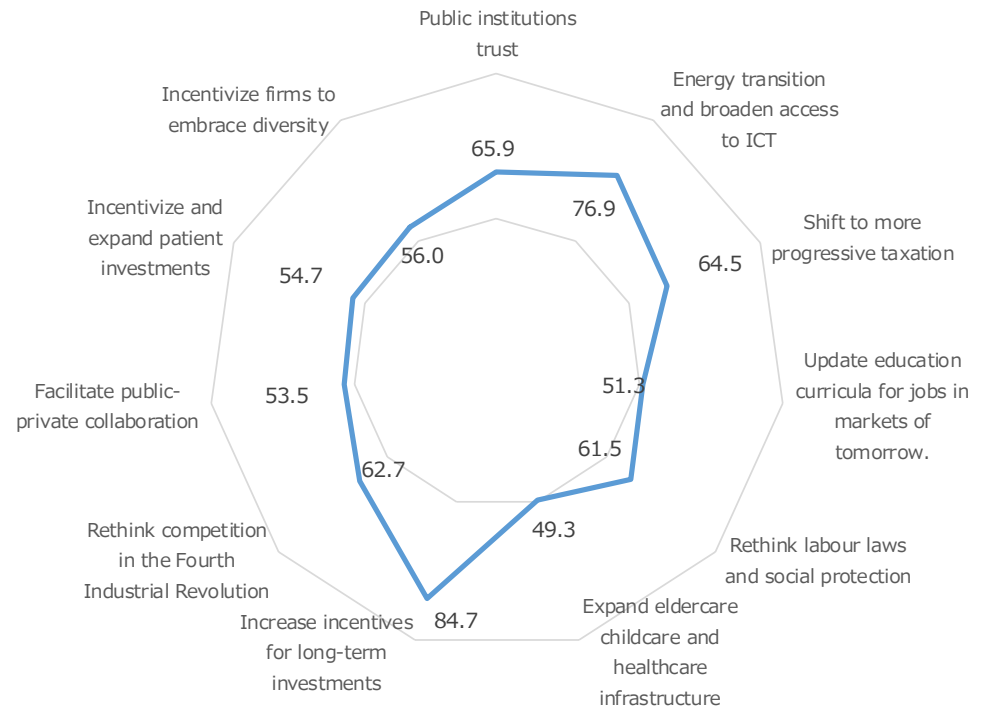
The World Economic Forum published rankings in 11 priorities (scored 0 to 100 points) in the four broad areas for business environment transformation for 37 countries and regions. Japan ranks second in the shift to more progressive taxation.

4 Areas and overall mean of each priority

Areas	Priorities	Mean
Reviving and transforming the enabling environment	Public institutions trust	60.0
	Energy transition and broaden access to ICT	78.7
	Shift to more progressive taxation	50.0
Reviving and transforming human capital	Update education curricula for jobs in markets of tomorrow.	55.3
	Rethink labour laws and social protection	61.4
	Expand eldercare childcare and healthcare infrastructure	47.8
Reviving and transforming markets	Increase incentives for long-term investments	69.2
	Rethink competition in the Fourth Industrial Revolution	62.0
	Facilitate public-private collaboration	45.1
Reviving and transforming the innovation ecosystem	Incentivize and expand patient investments	41.6
	Incentivize firms to embrace diversity	62.2

Source: Global Competitiveness Report 2020(World Economic Forum)

Japan's scores in each priority



Note: Numbers indicate Japan's scores

Source: Global Competitiveness Report2020 (World Economic Forum)

Establishment of "Regulatory Sandbox" system (from June 2018)

The new system allows companies to operate demonstration projects with new technologies/services, with the aim to introduce adequate regulations based on the data acquired from the projects.

New technologies: IoT, blockchain, etc.

New businesses: Platformer-type businesses, etc.

Difficult to commercialize due to regulations



Consultation with the Cabinet Secretariat



Application of demonstration projects to the minister having jurisdiction over the regulation



Regulatory exemption



Demonstration experiments with conditions (areas, participants, etc.)

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Liaison and coordination between **foreign enterprises/foreign affiliates** and a centralized contact point

Japanese government

Regulatory Reform based on Empirical Data
Policy formulation through dialogue and demonstration with the market

Source: Growth Strategy Portal Site > Regulatory Sandbox
<https://www.kantei.go.jp/jp/singi/keizaisaisei/regulatorysandbox.html>

Establishment of DX investment Promotion Tax System

- Established a digital transformation (DX) investment promotion tax system in the fiscal 2021 tax reform to promote corporate transformation using digital technology.
- This allows for the selection of a tax credit of 3% of the acquisition price (5% if the data is to be linked with businesses outside the group) or a special depreciation of 30% for digital-related investments utilizing cloud technology

【Applicable】~Mar. 2023

Requirements	Eligible Facilities	Details of measures
Digital (D) requirements <ul style="list-style-type: none"> ◆ Linking and sharing of data (linkage of data owned by other entities or data newly obtained by business operators using sensors with existing internal data) ◆ Utilization of cloud technology ◆ Acquiring of the certification examined by the Japan Information-technology Promotion Agency (DX certification) 	Software Deferred assets Machinery and equipment Furniture and fixtures	Tax credit of 3% (5% for data linkage with external parties) or, Special depreciation of 30%
Corporate Transformation (X) Requirements <ul style="list-style-type: none"> ◆ Reduction of product manufacturing costs by 8.8% or more, etc. ◆ Establishment of targets for productivity improvement and sales growth ◆ Setting of targets for productivity improvement and sales growth • Within the plan's effective period, an ROA increase by 1.5 percentage points from the 2014-2018 average as the base. • Within the plan's effective period, sales growth rate that exceeds the growth rate of the industry over the past five fiscal years by 5 percentage points or more. ◆ Total investment must be 0.1% or more of sales. 		

[N.B.]The maximum amount of the total capital investment under the DX Investment Promotion Tax System is 30 billion yen.

[Source] "Fiscal 2021 Tax Reform" (Ministry of Finance), and materials from the Ministry of Economy, Trade and Industry

Establishment of Investment Promotion Tax System toward carbon neutrality

- In October 2020, the government declared "carbon neutrality by 2050," a goal to reduce overall greenhouse gas emissions to zero by 2050.
- A tax credit of up to 10% or a special depreciation of 50% will be applied to the introduction the following facilities.

Requirements	Eligible Facilities	Details of measures
1. Introduction of production facilities for products with significant decarbonization effects	Equipment used exclusively in the production of products such as compound power semiconductors and fuel cells that are expected to contribute to the expansion of new demand *The target facilities are machinery and equipment.	Tax credit of 10% or special depreciation of 50%
2. Introduction of facilities that achieve both decarbonization of production processes and increase of added value	Equipment required for planning to significantly improve carbon productivity (value-added amount/energy-originated CO2 emissions) at business sites, including the introduction of new energy management facilities (*) *The target facilities are machinery and equipment, furniture and fixtures, building fixtures, and structures. The introduction of the facilities improves the carbon productivity at the business site by 1% or more.	<Improvement in carbon productivity and corresponding measures> 10% or more improvement within 3 years: Tax credit of 10% or special depreciation of 50% 7% or more improvement within 3 years: Tax credit of 5% or special depreciation of 5%

[N.B.]1. The maximum amount of investment eligible for investment measures under the Carbon Neutral Investment Promotion Tax System is 50 billion yen.

2. The tax credit is up to 20% of the corporate tax in the sum of the investment promotion tax system for carbon neutrality and the DX Investment Promotion Tax System.

[Source] "Fiscal 2021 Tax Reform" (Ministry of Finance), and materials from the Agency for Natural Resources and Energy

Startup Ecosystem

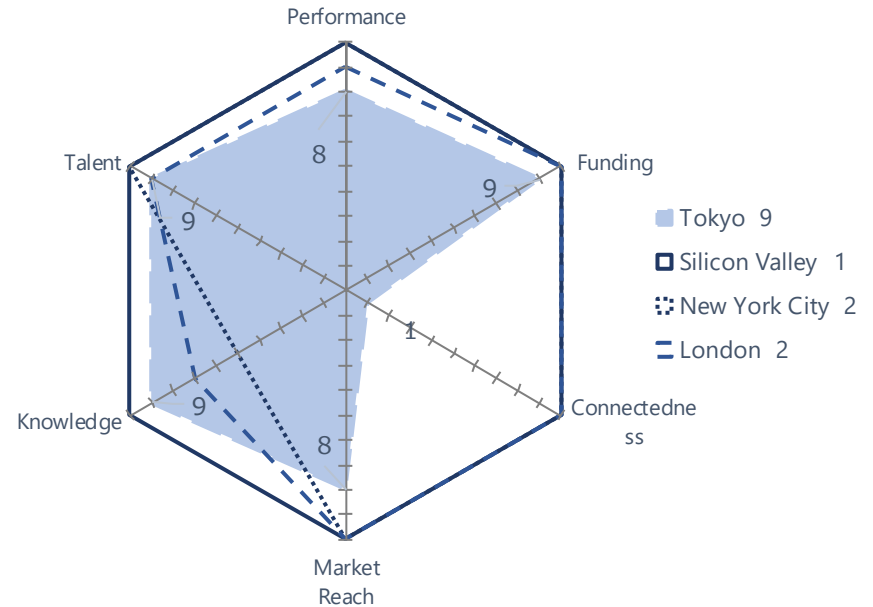
Tokyo ranked ninth by moving up from 15th in 2020 in “Global Startup Ecosystem Report (GSER) 2021.”

Top 20 Cities in GSER

Rank 2021	Country	City	
1	USA	Silicon Valley	-
2	USA	New York City	-
2	UK	London	-
4	China	Beijing	-
5	USA	Boston	-
6	USA	Los Angeles	-
6	Israel	Tel Aviv	↘
8	China	Shanghai	-
9	Japan	Tokyo	↗
10	USA	Seattle	↘
11	USA	Washington DC	-
12	France	Paris	↗
13	Netherlands	Amsterdam-Delta	↘
14	Canada	Toronto-Waterloo	↗
15	USA	Chicago	↘
16	Korea	Seoul	↗
17	Sweden	Stockholm	↘
18	Singapore	Singapore	↘
19	China	Shenzhen	↗
20	USA	Austin	↘

Source: GSER2021(Startup Genome)

Comparison of Tokyo and the Top Three Cities in GSER

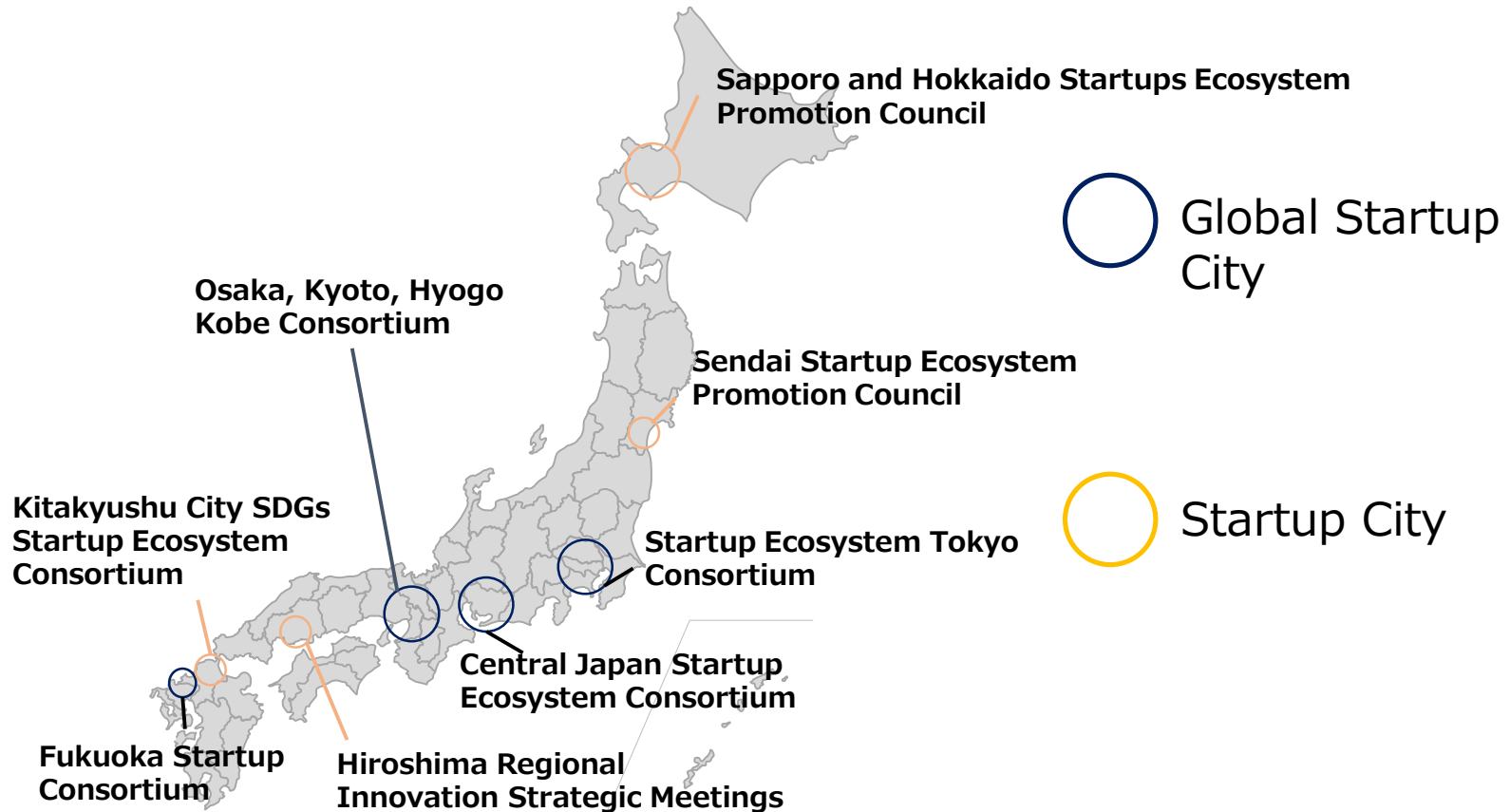


Note: Numbers indicate scores of Tokyo

Source: GSER 2021

Startup Ecosystem Bases

In order to strengthen the domestic startup ecosystem, the Cabinet Office announced a policy to support the development of startups and selected eight cities, four as "Global Startup City" and four as "Startup City."



Source: Cabinet Office

Strategies for Startup Ecosystems

The government is to enhance startup ecosystems in the eight cities over the next three years under the following seven Strategies.

Strategy 1 : Creation of the startup city

Strategy 2 : Empowerment of university

Strategy 3 : Cutting-edge acceleration programs*

Strategy 4 : Gap funding** for tech startups

Strategy 5 : Public procurement for startups

Strategy 6 : Enhancement of networks

Strategy 7 : Increasing mobility of human resources

* Programs to support the upgrading of business models and accelerate startup growth

* * Funds to fill the gap between basic research and commercialization, such as prototype development cost

Source: Cabinet Office

Super City Initiative

The government is to accelerate the realization of a future society through the social implementation of advanced services with deregulation of selected cities, such as drone delivery, telemedicine and nursing care, and automated driving, as well as the coordination of data in a wide range of fields.

Dec. 2020 Government : Start accepting applications from municipalities to be selected as Super City area

Apr. 2021 Deadline for the application (applications from a total of 31 municipalities)

Aug. 2021 Specialized Investigation Committee (examination of area designation draft)

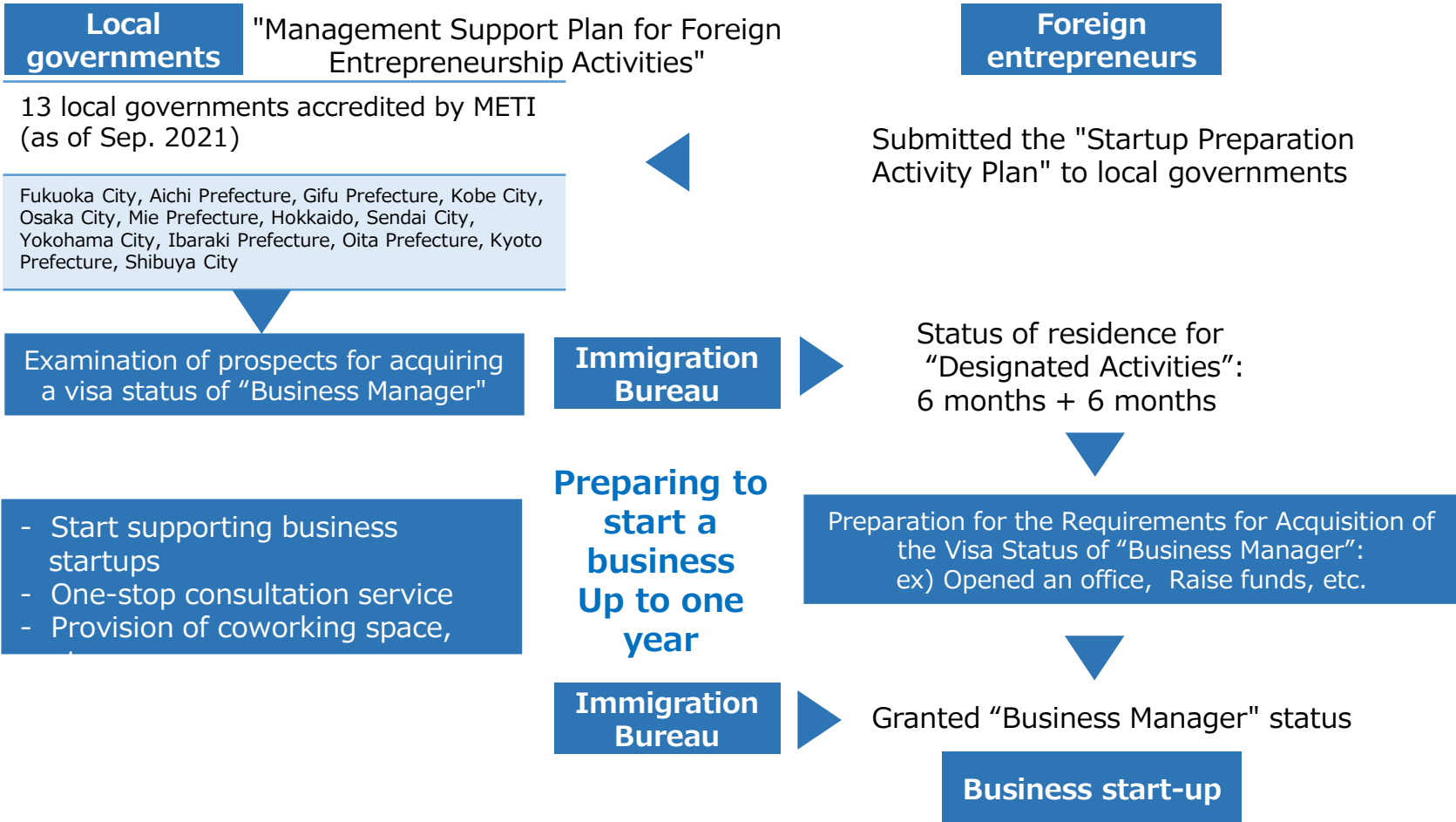
Oct. 2021 28 of the 31 municipalities made re-proposals

↓
Council on National Strategic Special Zones
(Proposal for designation of area)
Cabinet Decision on the Cabinet Order
(Area designation for Super City)

Source: Cabinet Office (as of Oct 2021)

"Foreign Entrepreneurship Promotion Program" (known as "Startup Visa")

A system that grants a status of residence for "Designated Activities" to foreign entrepreneurs who receive supports from local governments, for up to one year for startup preparation activities.



Source: Outline of System for Promotion of Foreign Entrepreneurship Activities (METI)
<http://www.meti.go.jp/policy/newbusiness/startupvisa/index.html>

Promoting Highly-skilled Foreign Personnel

Highly-skilled foreign personnel are expected to expand their businesses with other countries and to play an active role in accelerating innovation.

Employment and retention of highly-skilled foreign personnel

Status of Residence: "Researcher", "Engineer/Specialist in Humanities/International Services", "Business Manager" and "Legal/Accounting Services"

High-level human resource point system*: age, academic background, work history, and annual income + additional point measures = 70 points or more

Active participation of highly-skilled foreign personnel

"Advanced academic research activities," "Advanced specialized/technical activities," and "Advanced business and management activities"

With 70 points for a three-year stay

80 points for a one-year stay

Accelerate innovation
Productivity improvement

Japanese Green Card for High-skilled Foreign Professionals: Can apply for "indefinite period of stay"

- Number of Approval Items on the Next Page and Point Calculation Example

Source: Ministry of Internal Affairs and Communications,
JETRO Advanced Foreign Human Resources Promotion Platform <https://www.jetro.go.jp/hrportal/>

“Japanese Green Card for Highly Skilled Foreign Professionals” (April 2017)

Drastically shortening the required period of residence for application of highly skilled foreign professionals for permanent residence status.

Outline of “Japanese Green Card for Highly Skilled Foreign Professionals”

Before revision

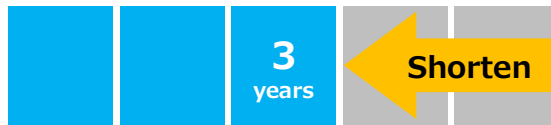
Required period of residence for application for permanent residence

70 points or more



After revision

70 points or more



80 points or more



Example of point calculation



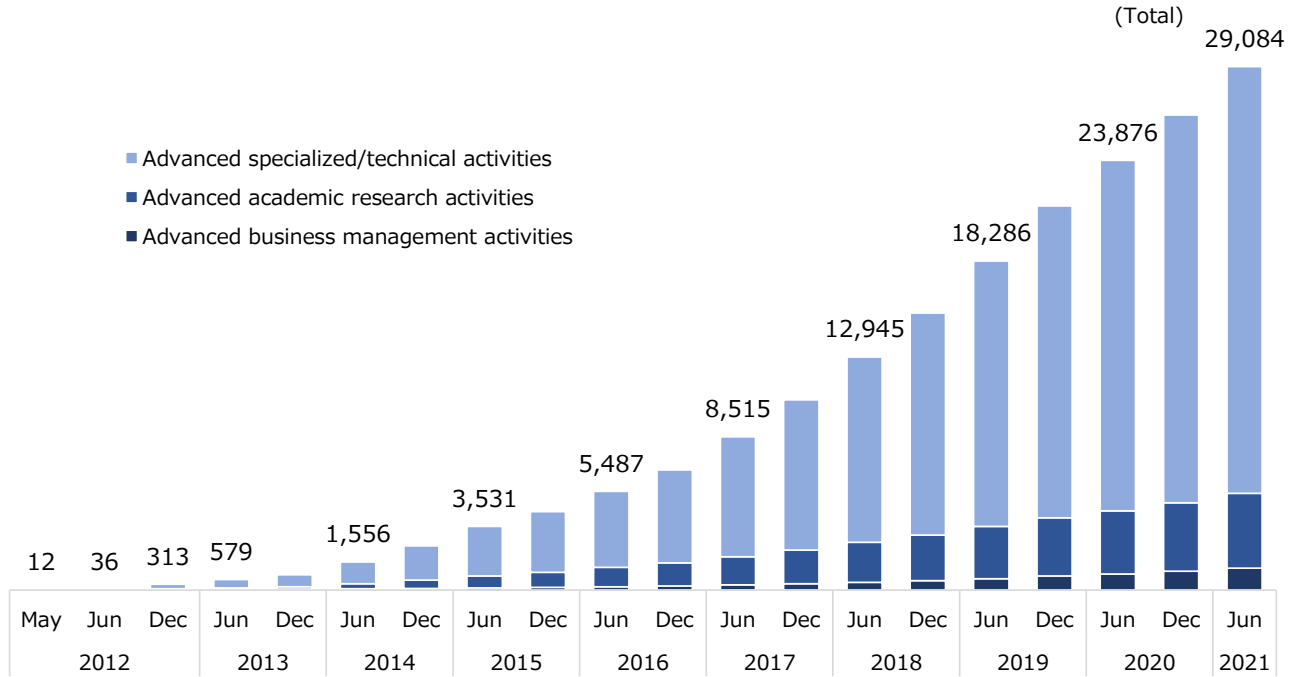
In case of Engineer (33 years old)

34 years old or younger	10 points
Annual salary: ¥6M	20 points
Master's degree	20 points
Job experience of 3 years	5 points
Patented invention	15 points
Graduated from a top-tier university	10 points
Total	80 points

Source: Created from several media reports
Points-based Preferential Immigration Treatment for Highly Skilled Foreign Professionals
http://www.immi-moj.go.jp/newimmiact_3/en/index.html

Number of Approvals based on Highly-skilled Foreign Professionals

The government goal of 40,000 persons by the end of 2022(Follow-up of the Growth Strategy July, 2020)



Age	Pt.	Academic	Pt.	Job Experience	Pt.	Salary	Pt.	Activity
23	15	Graduate from top Japanese university	30	-		¥4M	10	IT-related
		Japanese Proficiency Exam N1	15					
30	10	MBA from foreign university	25	7 years in IT	15	¥6M	20	Development of business management software
36	5	2 IT-related exams	10	10 years in IT	20	¥7M	25	Management of IT system operation
		Japanese Proficiency Exam N2	10					
39	5	Graduate from foreign university	10	11 years in IT	20	¥9M	35	Management of information processing division

Ex: Acquire 70 Pts

Introduction of Status of Residence: Specified Skilled Worker

In April 2019, Japan started accepting foreign personnel with a status of residence for “Specified Skilled Worker” for industrial sectors which lack human resources.

	Specified Skilled Worker (i)	Specified Skilled Worker (ii)
Period of stay	Renewals every 1 year, 6 months, or 4 months (up to 5 years)	Renewals every 3 years, 1 year, or 6 months
Skill level	Confirmed by an exam (those who have completed technical intern training (ii) are exempt)	Confirmed by an exam
Level of Japanese language proficiency	Confirmed by an exam (those who have completed technical intern training (ii) are exempt)	Not required
Accompaniment by family members	In principle, not permitted	Permitted under certain conditions (spouse and children)
Specified industrial fields	①nursing care, ②building cleaning, ③Material processing industry, ④Industrial machinery manufacturing industry, ⑤Electric and electronic information-related industry, ⑥Construction, ⑦ Shipbuilding and ship-related industry, ⑧Automobile maintenance, ⑨Aviation, ⑩Lodging, ⑪Agriculture, ⑫Fisheries, ⑬Food/beverages manufacturing industry, ⑭Food service industry	⑥Construction, ⑦Shipbuilding and ship-related industry
Support by accepting organization* or registered support organization*	Eligible	Not eligible

* An accepting organization is an enterprise or sole proprietorship that actually accepts and supports specific skilled foreign nationals.

** A Registered Support Organization shall mean a person who is entrusted by the accepting organization and carries out all the businesses of Support Plan for Specified Skilled Workers (i).

Source: Japan International Trainee & Skilled Worker Cooperation Organization (JITCO)
Support Website for the Specified Skilled Worker Program

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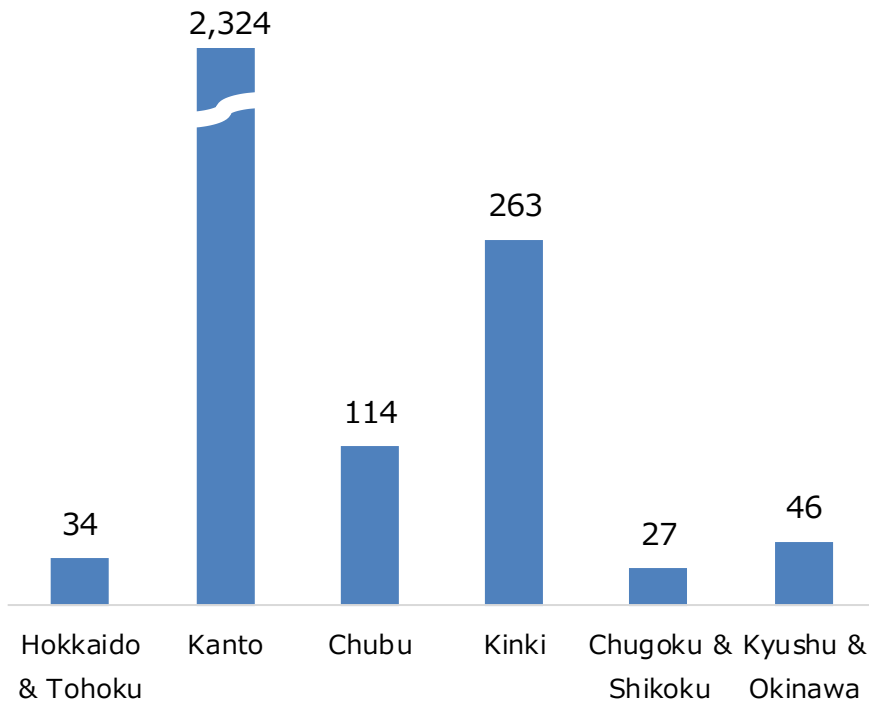
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Number of Foreign affiliates within Japan

Over 30% of foreign-affiliated companies in Japan are located outside Tokyo.

Number of Foreign Affiliates in Japan



Top 10 Foreign Affiliates Host Prefectures

Rank	Prefecture	# of Companies	Share (%)
1	Tokyo	1,829	65.1
2	Kanagawa	297	10.6
3	Osaka	143	5.1
4	Aichi	82	2.9
5	Hyogo	80	2.8
6	Saitama	59	2.1
7	Chiba	51	1.8
8	Fukuoka	31	1.1
9	Shizuoka	21	0.7
10	Kyoto	17	0.6

Note: 1. The number of foreign-affiliated companies in each region/prefecture is based upon the number of response (n = 2,808) to the survey and thus, do not cover all the foreign affiliates in Japan.

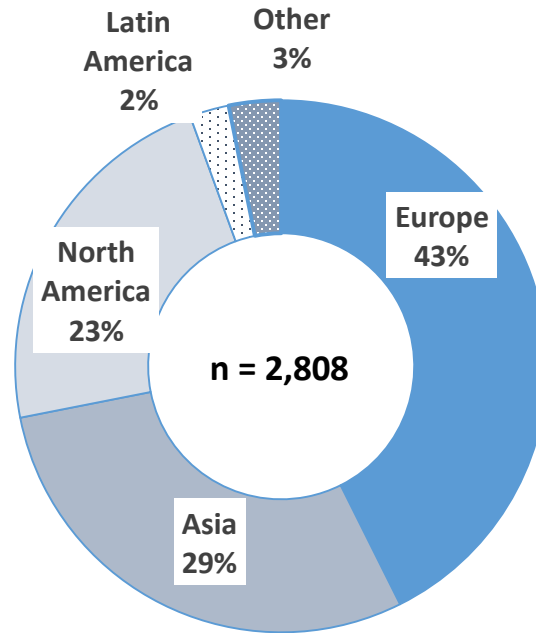
2. Kanto: Tokyo, Ibaraki, Tochigi, Gunma, Saitama, Chiba, Kanagawa, Niigata, Yamanashi, Nagano, Shizuoka (10 Prefectures), Chubu: Toyama, Ishikawa, Gifu, Aichi, Mie (5 Prefectures), Kinki: Osaka, Kyoto, Shiga, Nara, Wakayama, Hyogo, Fukui (7 Prefectures)

Source: "54th Survey of Trends in Business Activities of Foreign Affiliates" (METI)

Nationality of Foreign-affiliated Companies in Japan (By Region)

Europe accounts for more than 40%, followed by Asia.

Nationality of Parent Companies of Foreign-affiliated Companies in Japan



(Unit: %)

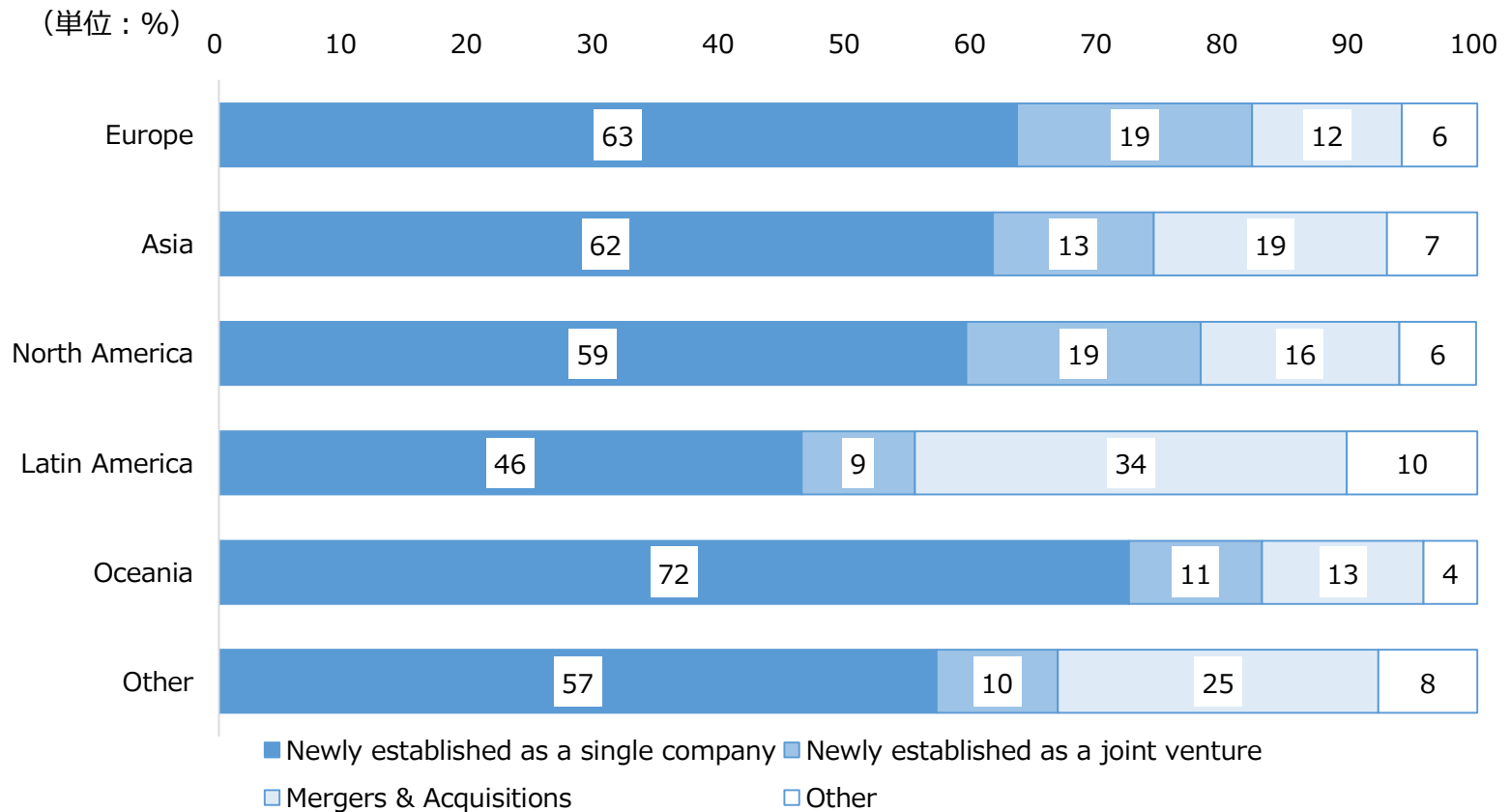
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Source: "54th Survey of Trends in Business Activities of Foreign Affiliates" (METI)

60% Established as a Single Company

About 60% of the foreign-affiliated companies are established as a single company.

**Method of Establishing Foreign-affiliated Companies in Japan
(By region of parent company)**



Note: n is 2,804 companies.

Source: "54th Survey of Trends in Business Activities of Foreign Affiliates" (METI)

Size of Japanese Market as Most Attractive Factor

The most attractive factor of doing business in Japan is the size of the market, followed by extensiveness of infrastructures and the market as a proving ground for measuring competitiveness of new products/services.

Attractiveness of Doing Business in Japan (Top 10 responses)

(%)

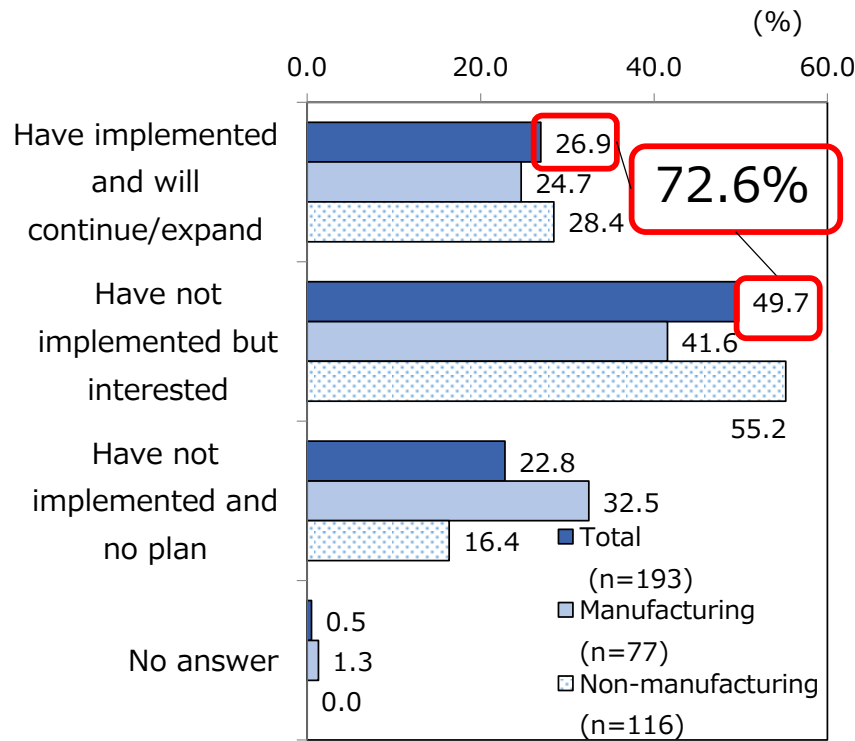
Ranking	Responses	Total (n=2,468)	Manufacturing	Non- Manufacturing
1	Income levels are high. Customer volume for products and services is high	61.0	8.7	52.3
2	Extensive infrastructure	47.6	8.1	39.6
3	Sensitive to added value and trends in products and services. Proving ground for measuring competitiveness of new products/services	47.3	8.4	38.9
4	Concentration of global companies and affiliates	36.8	6.1	30.7
5	Developed living environment	34.8	5.7	29.1
6	Availability of quality personnel	23.9	5.9	18.0
7	Gateway to the Asian market. Optimal location for regional headquarters	19.8	3.8	16.0
8	Geographical advantage for accessing headquarters and countries your company manages	18.2	3.1	15.1
9	Solid financial environment, financing opportunities	13.1	2.7	10.5
10	High quality research and development environment	10.4	3.8	6.6

Note: n is 2,468 companies. Top 10 responses are listed. In the survey, companies could choose up to five responses.
 Source: "54th Survey of Trends in Business Activities of Foreign Affiliates" (METI)

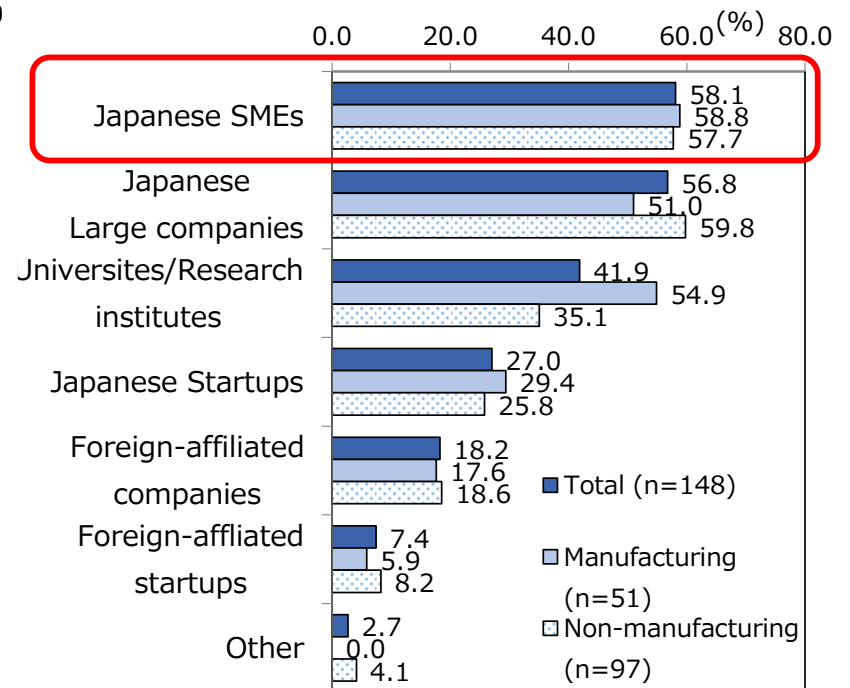
Positive Attitude toward Open Innovation in Japan

- Over 70% are positive about working on open innovation in Japan.
- Among those companies, 60% are interested in working with SMEs.

Interest in Open Innovation



Interesting Potential Partners for Open Innovation



Source: "Survey of Operations of Foreign-affiliated Companies in Japan" (Jul. 2020) (JETRO)

Note: n is companies that have engaged in or are interested in open innovation in Japan. Respondents could choose up to three answers.

Factors Inhibiting Business Expansion in Japan

The top factor is the cost of doing business in Japan, followed by “Difficulty securing personnel,” such as engineers and persons with language skills.

Factors Inhibiting Business Expansion in Japan (Top 10 responses)

(%)

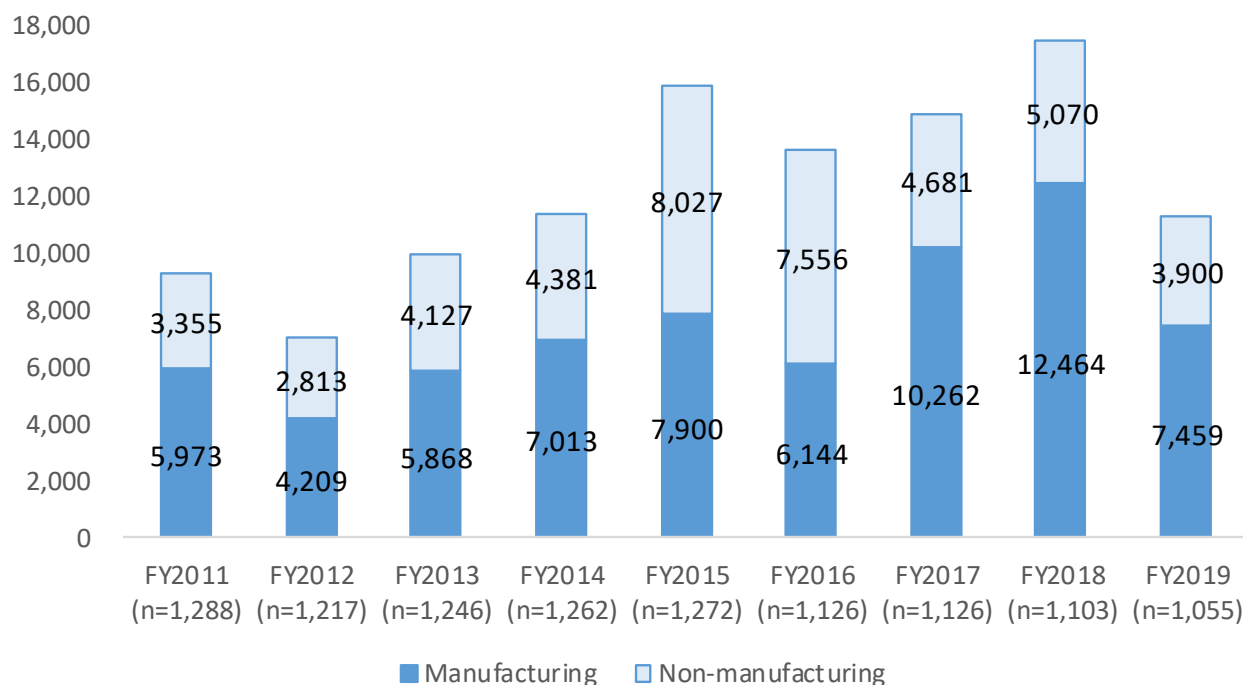
Ranking	Responses	Total (n=2,476)	Manufacturing	Non- Manufacturing
1	High cost of doing business	75.1	80.1	74.1
2	Difficulty securing personnel	53.6	57.4	52.8
3	Exclusivity and distinctiveness of the Japanese market	45.2	40.9	46.1
4	High standard that users demand from products and services	44.3	49.5	43.2
5	Complicated administrative procedures	40.5	36.4	41.3
6	Strict regulations, permits and license system	39.3	37.6	39.7
7	Not enough breaks and incentives	18.7	21.5	18.1
8	Living environment for foreigners	12.2	13.6	11.9
9	Difficulty in obtaining visas	7.0	6.0	7.2
10	Difficulty in procuring funds	6.7	6.9	6.7

Note: n is 2,476 companies. Top 10 responses are listed. In the survey, companies could choose up to five responses.
 Source: “54th Survey of Trends in Business Activities of Foreign Affiliates” (METI)

Trend of Capital Investment by Foreign-affiliated Companies

- The amount of capital investment by foreign-affiliated companies in Japan in FY 2019 was ¥1.1 trillion, down 35.2% from the previous year. The manufacturing industry accounted for two-thirds and the non-manufacturing industry for one-third of the total.
- By industry, the amounts of investment from Information & communication equipment in the manufacturing industry and Wholesale trade in the non-manufacturing industry were large .

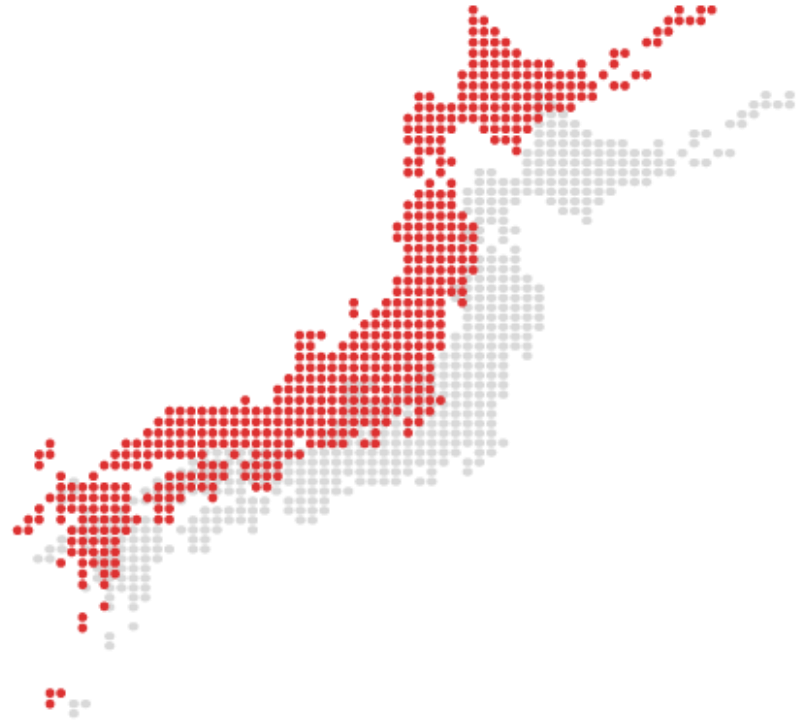
Trends in Capital Investment by Foreign-affiliated Companies



Note: n is companies that answered the question of a given year.

Source: "54th Survey of Trends in Business Activities of Foreign Affiliates" (METI)

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Invest Japan Department, JETRO
1-12-32, Akasaka, Minato-ku, Tokyo
107-6006 Japan
Tel. +81 3 3582 5571
Email: jaa-research@jetro.go.jp

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