

Publication of JETRO Invest Japan Report 2018

Foreign Investment Contributing to Emergence of Innovation



November 29, 2018

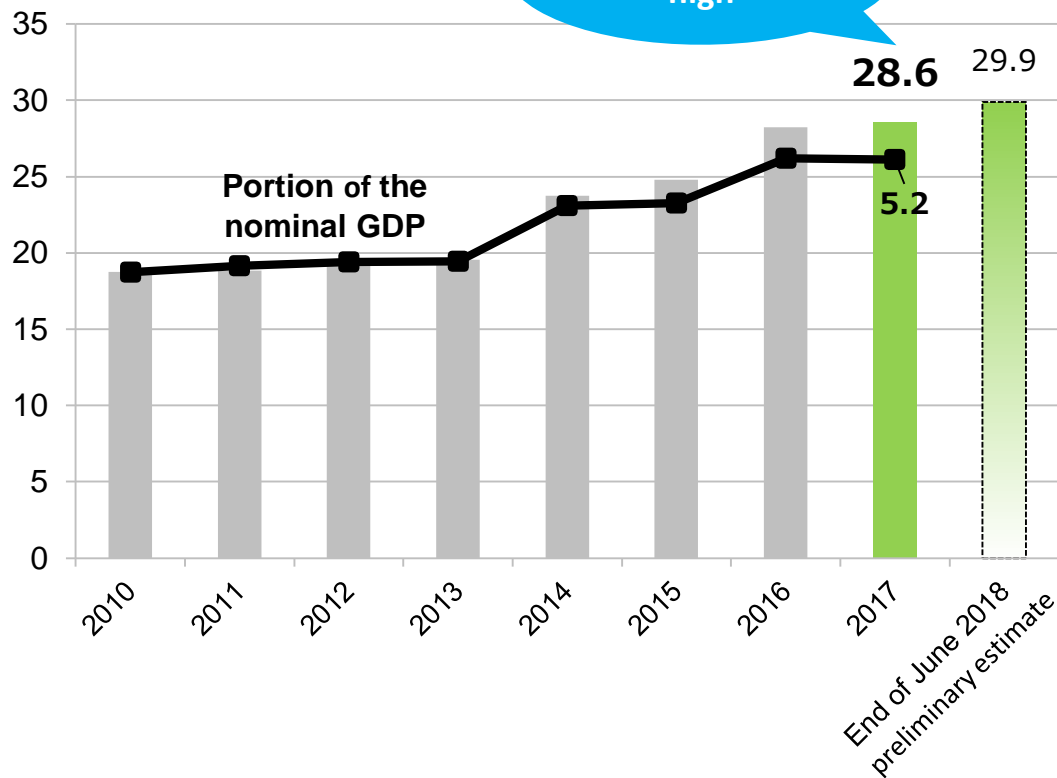
Japan External Trade Organization (JETRO)

Stable increase in Japan's inward FDI—Asia continues to increase its share

- Japan's inward FDI stock at the end of 2017 was 28.6 trillion yen, renewing a record high for four consecutive years.

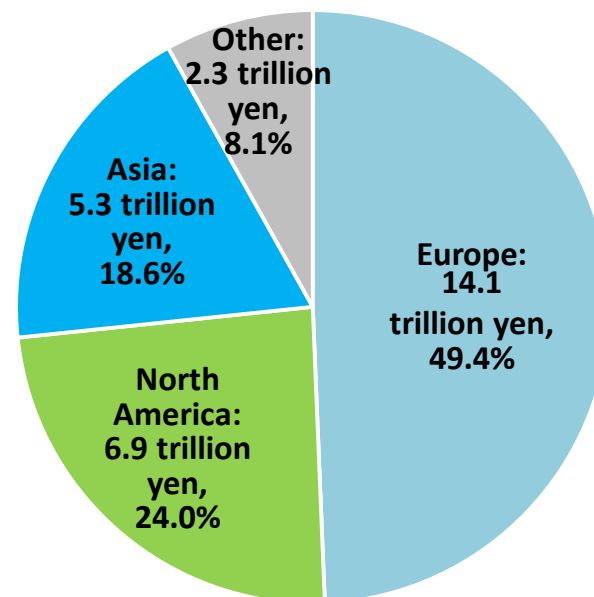
Inward FDI stock and its portion of the nominal GDP

(Trillion yen)



Share of inward FDI stock in Japan by region (as of the end of 2017)

(%)



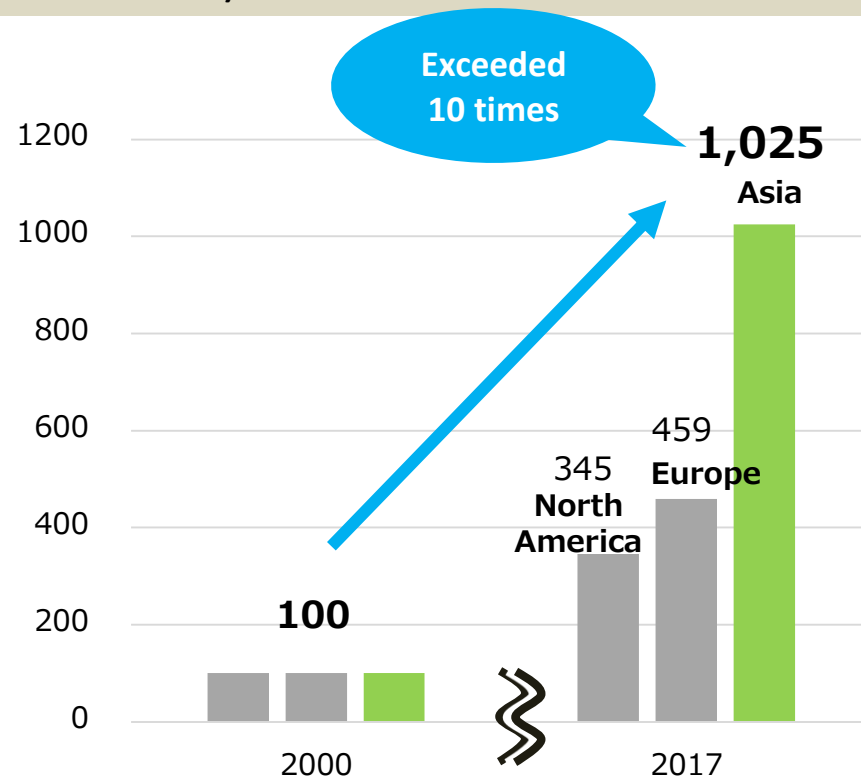
Stable increase in Japan's inward FDI—Asia continues to increase its share

- By country/region, only the FDI stock from North America has decreased from the previous year (down 444.2 billion yen).
- Meanwhile, the FDI stock from Asia has risen by a factor of 10.3 compared to 2000 levels, making it the fastest growing player and largest investor in Japan following Europe and North America.

Inward FDI stock into Japan by country/region (2016-2017)

Region	2016	2017	growth
Asia	5,186	5,298	111
North America	7,296	6,851	▲444
Europe	13,662	14,092	430
Latin America	1,614	1,817	203
Oceania	395	416	21
Middle East	58	59	10
Africa	17	19	2
Total	28,232	28,555	323

Inward FDI stock in Japan by region (level at the end of 2000 = 100)



Stable increase in Japan's inward FDI—Asia continues to increase its share

- Investment expanded in business related to inbound tourism (new airline services to regional cities in Japan by low-cost carriers [LCCs] and cashless payment services), establishment of procurement bases by cross-border EC site companies, and the sharing economy, which is a new form of service.

Business related to inbound tourism



- **New airline services to regional cities in Japan by LCCs**
JetStar Asia (Singapore): Introduced the first ever direct service between Singapore and Naha, Okinawa Prefecture in November 2017.
Air Busan (Korea): Launched the first LCC service between Busan and Chubu, Aichi Prefecture in June 2018.
- **Cashless payment services**
Alibaba (China), Coolpay (Singapore), etc.

Establishment of procurement bases by cross-border EC companies



- **Ruten (PChome Online)(Taiwan)**
 Taiwan's largest e-commerce operator. Opened a second office in Osaka City following Tokyo in November 2017. Began offering a "substitute purchase" service system in May 2018 in order to connect Japanese companies with Taiwanese consumers.

Investment in the sharing economy field

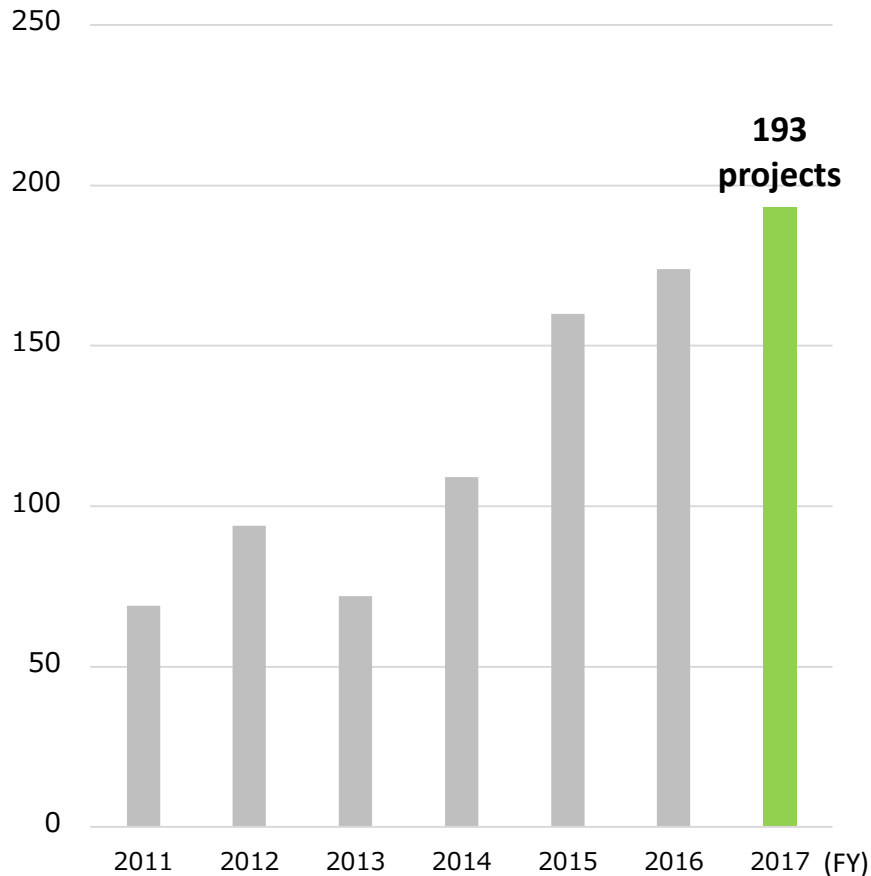


- **Mobike (China)**
 A bike-sharing behemoth. Set up a Japanese subsidiary in June 2017. Launched bicycle-sharing services in regional cities.
- **Didi Chuxing (China)**
 A major ride-hailing operator. Teamed up with Softbank to establish a joint venture to launch a new taxi service in June 2018.
- **Tujia (China)**
 A major vacation rental site. Announced business collaboration with a Japanese vacation rental site for expansion into Japan in August 2017.

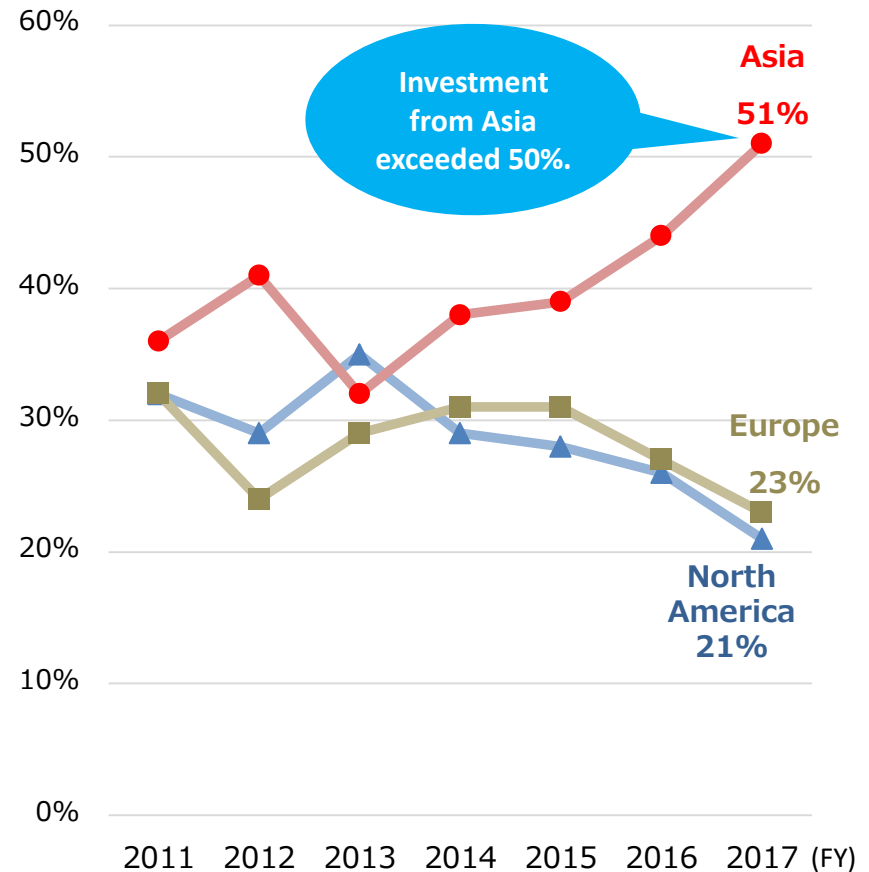
Stable increase in Japan's inward FDI—Asia continues to increase its share

- The number of JETRO-attracted investments in 2017 reached a record high of 193.
- More than 50% came from Asia, representing an increase in the region's share.

Number of JETRO-attracted investments

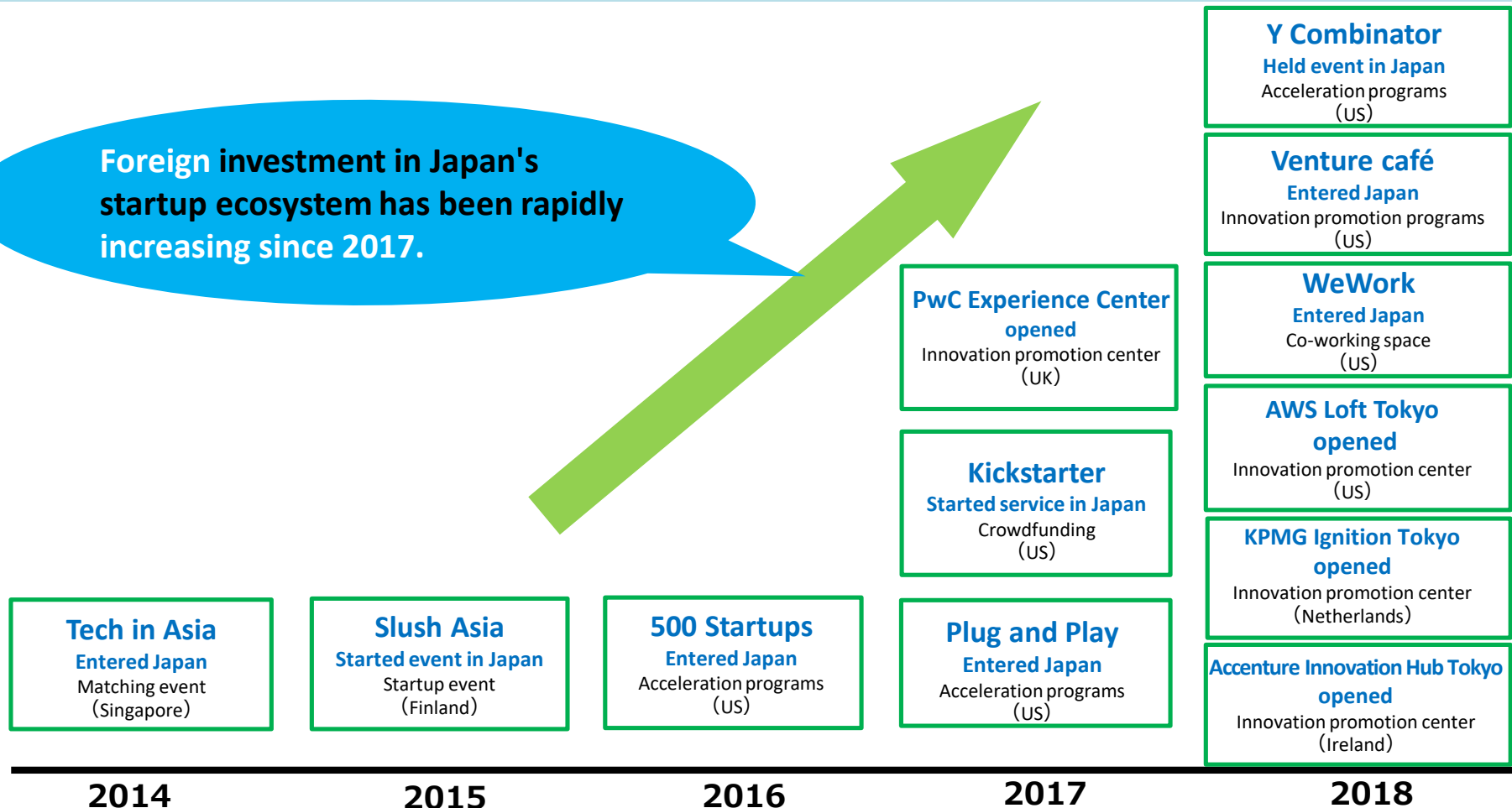


Ratio of JETRO-attracted investments by region



- Foreign companies are successively participating in the Japanese startup ecosystem.
- They are contributing to the forming of environment for startups in Japan, leveraging their abundant experience and successes achieved abroad.

Foreign investment in Japan's startup ecosystem has been rapidly increasing since 2017.



Summarized by JETRO by year of entry of foreign companies in the startup ecosystem of Japan, such as through establishment of a base or starting services in Japan, based on various news reports.

Full-scale foreign investment in ecosystem to create innovation

- Foreign companies are successively participating in the Japanese startup ecosystem.
- They are contributing to the forming of environment for startups in Japan, leveraging their abundant experience and successes achieved abroad.

WeWork (US)

- A big player in the coworking space field. Opened its first office in Japan in February 2018, and successively extended its presence to six offices.
- Has offices in almost 300 locations across the globe and connects more than 260,000 members on a global scale, stimulating each other and creating new business and innovation.
- Coordination of optimum networking by community managers is one of their unique features.

Plug and Play (US)

- One of the world's biggest technology accelerators and venture capital providers. Advanced into Shibuya, Tokyo in July 2017.
- Operating accelerator programs with top companies in Japan, centered around business axis of FinTech and IoT.
- Provides various forms of mentoring and business knowhow needed to grow a startup through a three-month program.
- Looking to invest in 50 startups in Japan by 2020.

Venture Café (US)

- Opened its base in Tokyo in March 2018. Offers networking events and seminars for startups.
- Through events, innovators such as entrepreneurs and investors can interact to expand their contacts and pick up business hints.
- Offer activities co-partnered by government bodies and local governments such as "J-Startup", a startup support program run under a partnership between the public and private sectors.

500 Startups (US)

- A venture capital firm providing acceleration programs through investment into startups in Japan.
- Stages accelerator program annually in partnership with Kobe City since 2016.
- Some participant entrepreneurs have received venture capital and entered into partnerships with companies.

Active attitude of foreign-affiliated companies in the Japanese market – eager to create innovation

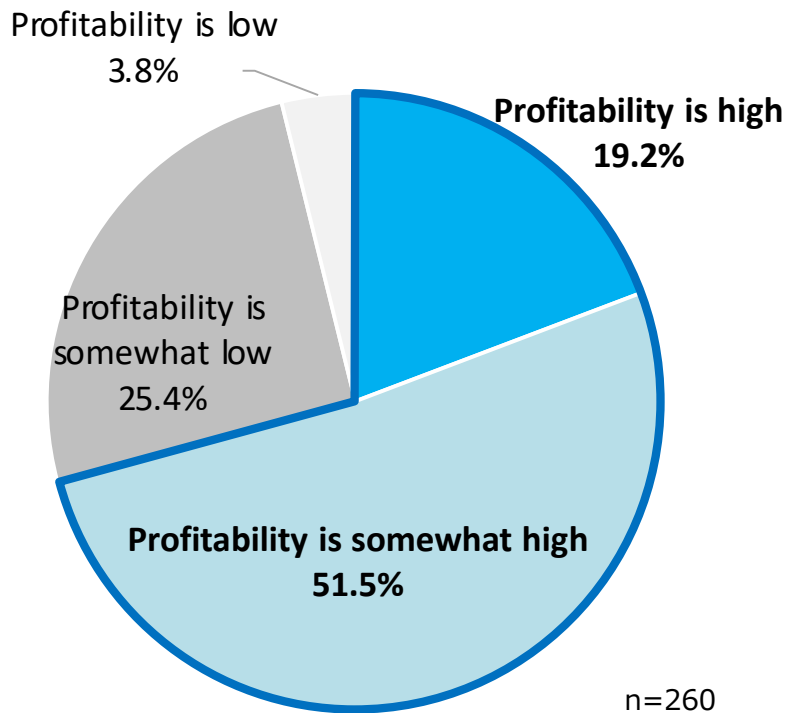
- Over 70% of the companies perceive Japan as a highly profitable market.

Results from JETRO “Survey on Japan’s Investment Climate 2018”

A survey conducted by JETRO from May to June 2018, which collected and analyzed data on the perception of the business environment in Japan among 266 foreign-affiliated companies

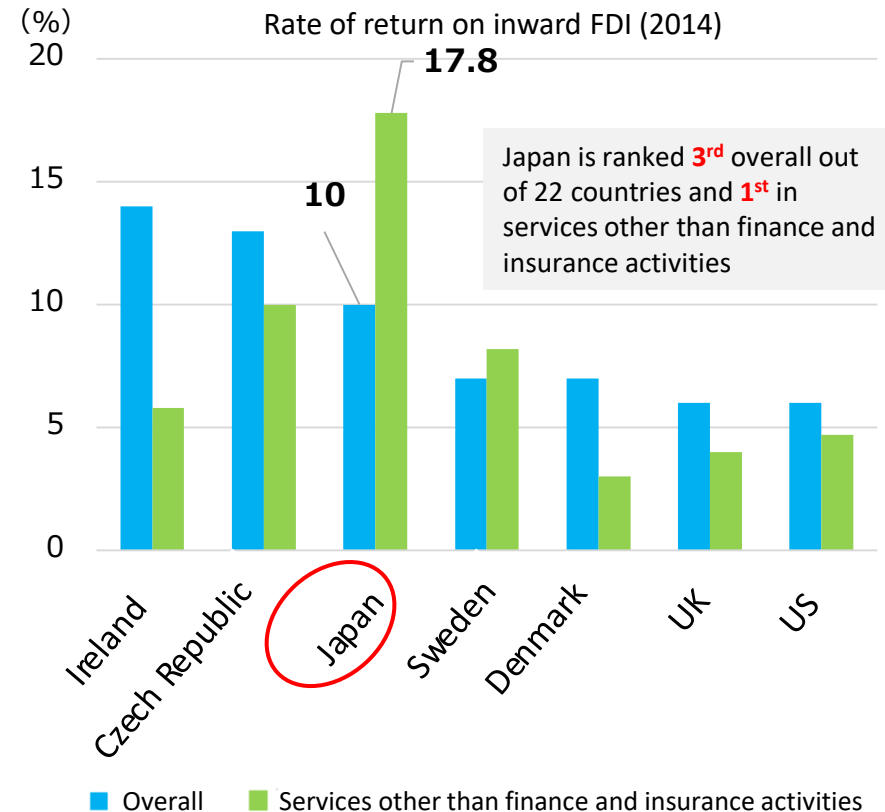
New Question

Evaluation of the Japanese market in terms of profitability.



[Source] JETRO “Survey on Japan’s Investment Climate 2018”

Reference: OECD Report “FDI in Figures” (April 2016)

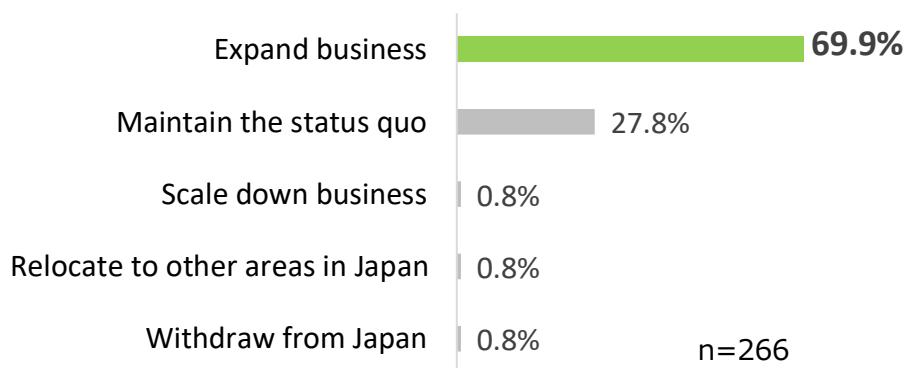


3

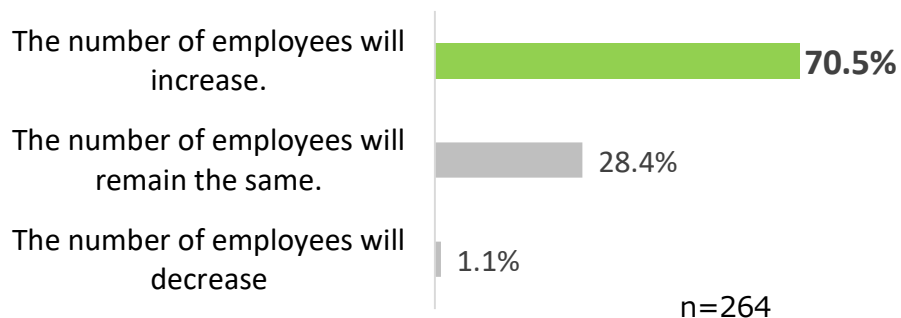
Active attitude of foreign-affiliated companies in the Japanese market – eager to create innovation

- About 70% of foreign-affiliated companies plan to expand their investment and employment.
- 50% of them expressed an interest in M&A deals with Japanese companies.

Investment plans within the next five years

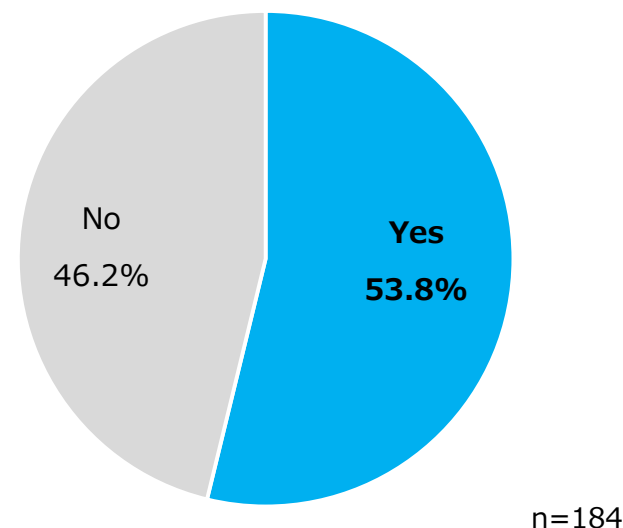


Projected number of employees in Japan (within the next five years)



New Question

Are you interested in secondary investment through M&A with a Japanese company?



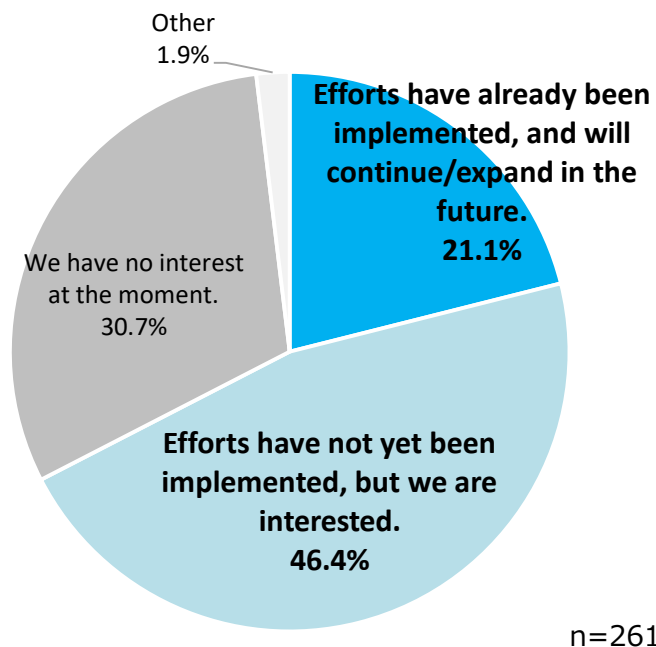
[Source] JETRO “Survey on Japan’s Investment Climate 2018”

Active attitude of foreign-affiliated companies in the Japanese market – eager to create innovation

- Around 70% of the foreign-affiliated companies showed interest in open innovation with Japanese companies and universities.
- By industry, interest tended to be high in the field of life sciences.
- They are more interested in Japan's SMEs and universities/research institutes as partners.

New Question

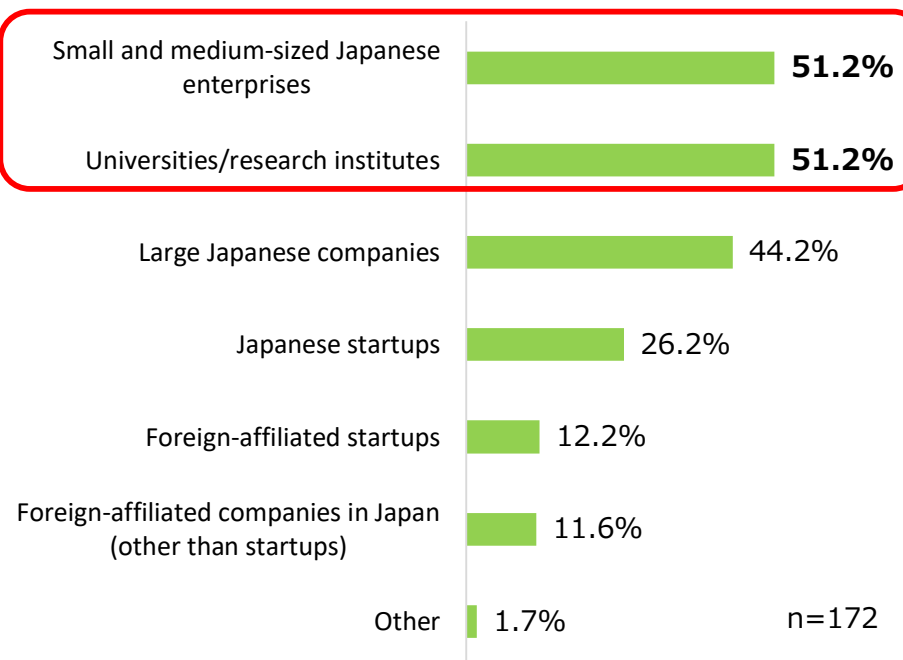
Please tell us about your efforts regarding open innovation with Japanese companies/universities, etc.



n=261

New Question

Please select the kinds of partners you are interested in (multiple answers)



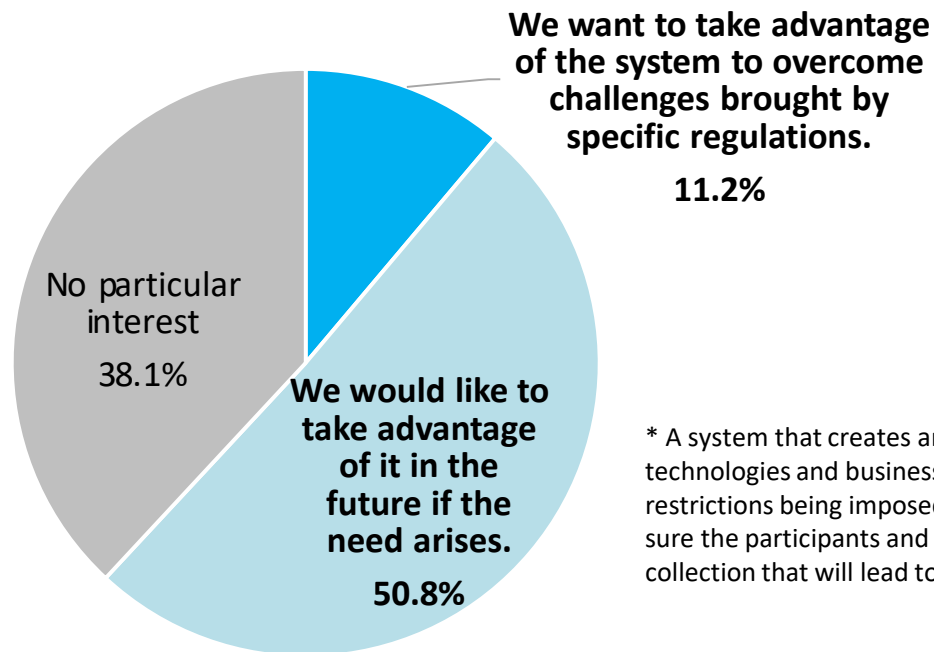
n=172

Active attitude of foreign-affiliated companies in the Japanese market – eager to create innovation

- Over 60% of the companies expressed an interest in using the “Regulatory Sandbox” system(*), mainly in the field of life sciences.

New Question

Please tell us about your interest in the "Regulatory Sandbox" system



* A system that creates an environment where innovative technologies and business models can be demonstrated without restrictions being imposed by existing regulations while making sure the participants and periods are limited, to enable data collection that will lead to swift validation and regulatory reform.

n=260

[Source] JETRO “Survey on Japan’s Investment Climate 2018”



1. JETRO will make earnest efforts to attract startups from overseas from the next fiscal year.

- JETRO will attract innovative technology and business models to Japan by expanding a range of support services while identifying future prospects of each company.
- JETRO will work to find promising local startups, utilizing the “JETRO Global Acceleration Hub” set up worldwide, aiming for two-way (not only outbound but also inbound) support.
- Toward the creation of innovation and economic vitalization at the local level, JETRO will work to invite startups to various regions in cooperation with local governments that conduct activities to cultivate startups and draw investment from overseas.





2. JETRO will hold a new series of lectures at Japanese universities/graduate schools.

- **JETRO will organize omnibus lectures inviting foreign-affiliated companies at Japanese universities/graduate schools, and is now in preparation with candidate universities to begin in April 2019. These are aimed to help make foreign-affiliated companies a promising career choice for university/graduate school students (including international students).**

3. JETRO will contribute to further improvement of the business environment.

- **Acknowledging the requests JETRO received from foreign and foreign-affiliated companies regarding the “Business Manager” status of residence, the outcome of discussions between the Ministry of Economy, Trade and Industry and the Ministry of Justice is that approval has been given for a preferential measure for issuing the status of residence under certain preconditions even when using shared offices such as coworking spaces.**
- **JETRO will contribute to further improvement of the business environment in Japan by continuously listening to the opinions of companies and conveying these requests and ideas to the national government.**



Reference: Obstacles to doing business in Japan

- The biggest obstacle is “Difficulty in finding human resources.”
- Particularly troublesome issues are “Lack of human resources with foreign language ability” and “Difficulty in finding experts.”

Obstacles to doing business in Japan (select one for 1st to 3rd position each)

Rank	Answer	Votes			Points
		1 st	2 nd	3 rd	
1	Difficulty in finding human resources	87	35	37	368
2	Difficulty in communicating in non-Japanese languages	54	69	31	331
3	High business costs	41	45	63	276
4	Complicated administrative procedures	36	40	39	227
5	Rigid regulations	24	32	31	167
6	Difficulty in finding business partners	11	25	15	98
7	Immigration control system	7	6	9	42
8	Difficulty in financing	0	7	12	26
9	Difficulty in living conditions for foreigners	0	2	11	15
	Other	6	5	18	46

[Source] JETRO “Survey on Japan’s Investment Climate 2018”

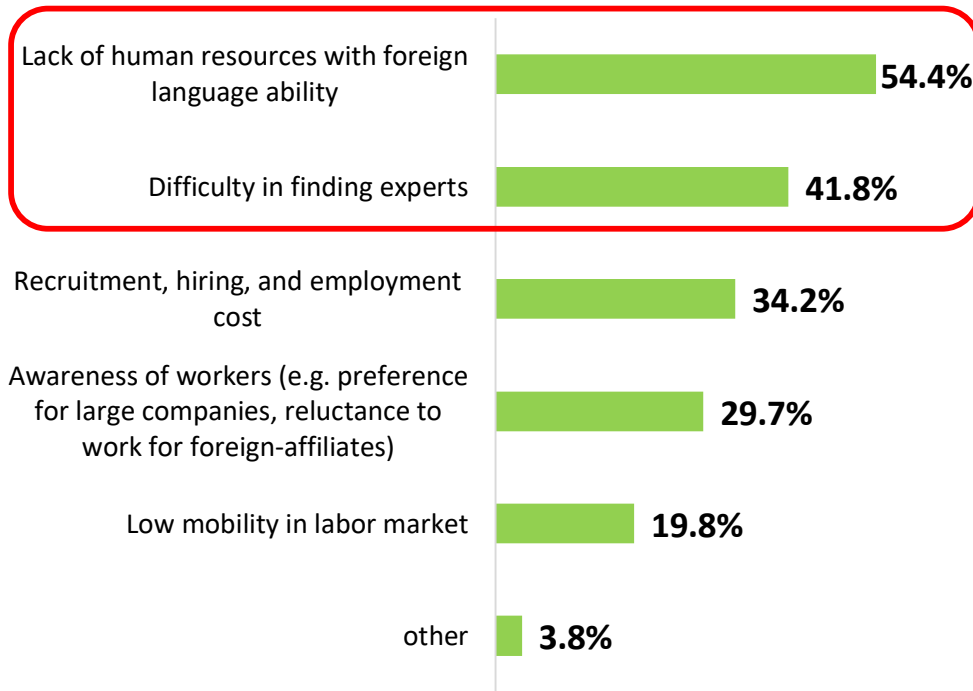
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Note: In regard to the 1st, 2nd and 3rd place answers selected by respondents, each is awarded points as follows: 1st = 3 points, 2nd = 2 points, 3rd = 1 point, and are listed in order of the highest total points.

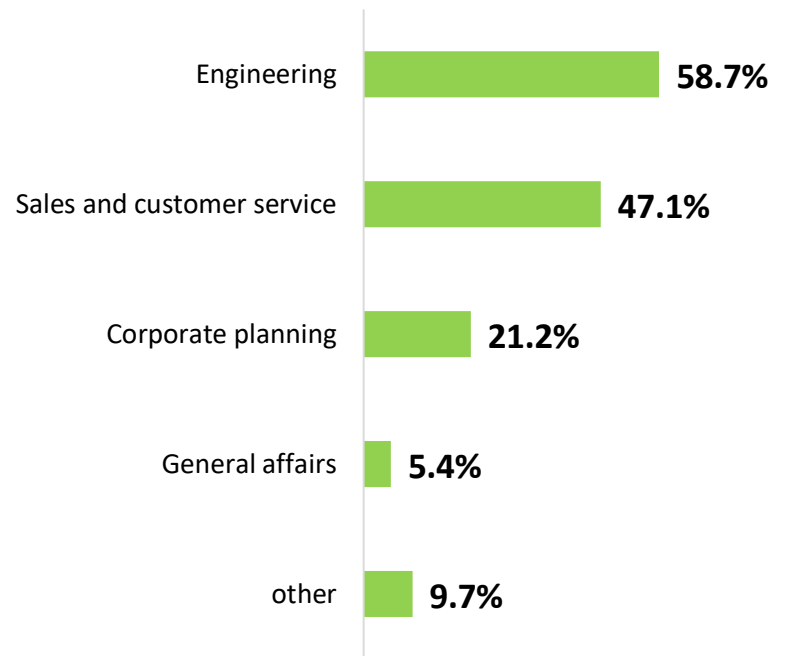


- The biggest obstacle is “Difficulty in finding human resources.”
- Particularly troublesome issues are “Lack of human resources with foreign language ability” and “Difficulty in finding experts.”

Regarding securing human resources, what difficulties in particular have you encountered? (Top two options)



Regarding securing human resources, which categories of jobs are most difficult to fill? (Multiple answers)



[Source] JETRO “Survey on Japan’s Investment Climate 2018”



Reference: Exchange student/global talent and foreign-affiliated company networking event

- The event was joined by a large number of exchange students majoring in science in cooperation with universities, as many foreign-affiliated companies are in need of science personnel.

University of Tokyo

Link to the World: Exploring Your Career Path with Global Companies

Date: Wed, June 13, 2018 16:00-20:00

Venue: Asano Campus, University of Tokyo

Organizer: JETRO, University of Tokyo

Participants: 34 foreign-affiliated companies, 234 students

Comments from foreign-affiliated companies: "We were able to learn about recent trends in students' choices for companies," and "We were able to get acquainted with excellent students majoring in engineering."



Event held at the University of Tokyo

Tohoku University

Networking Event for International Students and Global Companies

Date: Wed, June 20, 2018 15:00-18:00

Venue: Katahira Campus, Tohoku University

Organizer: JETRO, Tohoku University

Co-organizer: Tohoku Innovation Human Resources Development Consortium

Participants: 13 foreign-affiliated companies, 106 students

Companies expressed appreciation for a dedicated time set aside for them to speak frankly with students. One stated: "It was an excellent opportunity to close the distance between us and students and allow us to learn about one another."



Event held at Tohoku University



Reference: Contribution to further improvement of the business environment

- “Business Manager” status of residence now feasible for coworking spaces

Foreign companies’ needs

Needs

- Starting Japanese subsidiaries and doing business in Japan at coworking spaces without incurring too many costs.

Current situation

- Shared offices such as coworking spaces have not conformed to requirements for the “**Business Manager**” status of residence for foreign entrepreneurs or foreign managers of Japanese subsidiaries (the facilities used as an office must be **an independent room equipped with a key lock or a cubicle**).

Requests for improvement

Special measure for examination of entries into Japan and residence permits

- Relax “Business Manager” status of residence requirements for foreign managers of Japanese subsidiaries/branches of foreign companies (those supported by JETRO) using coworking spaces as long as certain conditions are met.

Main conditions to be met

- Being supported by JETRO with their business in Japan.
- The application must be submitted within less than three years since establishment of the Japanese subsidiary/branch.
- The location of the registered office must be the coworking space to be used as an office.
- Use of a certain space at the coworking space must be guaranteed during working hours.
- This special measure is applied to one person per company in principle.

JETRO grasped companies’ needs and the current situation receiving requests for improvement through the “Personal Advisors System for Foreign Companies.”





JETRO Invest Japan Report 2018

- 1 . Recent Situation of Inward FDI in Japan
- 2 . Toward Improvement of Business Environment
- 3 . Trend in Inward FDI in Japan – Foreign Investment Contributing to the Emergence of Innovation
- 4 . Perception of the Business Environment in Japan among Foreign-affiliated Companies
- 5 . JETRO Efforts to Promote Investment in Japan



A stylized map of Japan composed of small dots. The dots are colored in a gradient from light grey to bright red, with the red dots forming the outline and major landmasses of the country. The text "www.investjapan.org" is overlaid on the map.

www.investjapan.org

Invest Japan Report Web address

Japanese: <https://www.jetro.go.jp/invest/ijre/>

English: <https://www.jetro.go.jp/en/invest/reports.html>

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