

JETRO Invest Japan Report

2021

chapter 1

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JETRO

Invest Japan Department

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Introduction



JETRO Invest Japan Department has compiled a comprehensive report on foreign investment in Japan, "JETRO Invest Japan Report 2021." The key points are as follows.

1. FDI in Japan reached a record high in 2020, but sluggish in the first half of 2021

- In 2020, inward foreign direct investment (net, flow) rose 61.8% from the previous year to 7.1 trillion yen, the highest amount since 2014, for which comparable data is available. By region, Europe was the largest at 4.1 trillion yen, up 351.3% from the previous year.
- The stock of foreign direct investment in Japan at the end of 2020 was 39.7 trillion yen, a record high for the seventh consecutive year.
- The amount of FDI in Japan from January to August 2021 decreased by 64.4% from the same period of the previous year. The number of Greenfield investments (83) during the same period was also lower compared to the previous year (144), and it is necessary to closely monitor the trend in new investment projects in the future.

2. Set a new target of 80 trillion yen or 12% of GDP in FDI in Japan by 2030

- In June 2021, the Council for the Promotion of FDI in Japan decided on the "Strategy for Promoting Foreign Direct Investment in Japan," and set a new target of "aiming to increase the stock of FDI in Japan to 80 trillion yen or 12% of GDP by 2030."
- The strategy has three pillars: (1) Creation of new digital and green markets and construction of innovation ecosystems; (2) Acceleration of the development in business environments in response to global environmental changes; and (3) Improvement of the investment environment through public-private partnerships that take advantage of regional strengths.

3. More than half of foreign-affiliated companies responded that they "maintain the status quo" in terms of their business in Japan

- According to the Ministry of Economy, Trade and Industry's "Survey of Trends in Business Activities of Foreign Affiliates", few foreign affiliates are considering downsizing their business in the future, while more than half are planning to "maintain the status quo." Approximately 30% of the respondents intend to expand sales, promotion and marketing functions."
- Regarding the impact of COVID-19 on their business, about 60% of the respondents replied "Decrease in sales/orders." If these effects continue, over 60% of foreign-affiliated companies responded that they would have to retain customers and develop new customers as their business challenges.

4. In fiscal 2020, JETRO's support for foreign companies recorded 96 successful cases.

- In fiscal 2020, JETRO provided support to 1,020 companies through its Japan Investment Promotion Project, of which 96 companies established their bases in Japan or expanded their business in Japan.
- Looking at successful projects in fiscal 2020 by region of origin of the parent company, 37.5% were from Asia, 29.2% were from Europe, and 28.1% were from North America.
- Among the companies that established bases in Japan with support from JETRO in fiscal 2020, we can also see companies that contribute to solving social challenges in Japan, in response to the demand for automation due to the declining birthrate, aging population, and regional disparities.

*This report was compiled in November based on the data as of October 2021.

Section1. Macroeconomic Trends in the World and Japan



Macroeconomic Trends in the World



World economy expected to recover in 2021, but with regional unevenness

According to the World Economic Outlook (WEO) released in October 2021 by the International Monetary Fund (IMF) (Chart 1-1), the global real GDP growth rate in 2020 was -3.1% in 2020, while the forecast for 2021 was 5.9%.

Chart 1-1: World Economic Outlook (%)

Country/Region	2019	2020	2021	2022
World	2.8	-3.1	5.9	4.9
Developed Economies	1.6	-4.5	5.2	4.5
US	2.2	-3.4	6.0	5.2
Japan	0.0	-4.6	2.4	3.2
UK	1.4	-9.8	6.8	5.0
EuroArea	1.3	-6.3	5.0	4.3
Germany	0.6	-4.6	3.1	4.6
Developing Economies	3.7	-2.1	6.4	5.1
Emerging and Developing Asia	5.4	-0.8	7.2	6.3
China	6.0	2.3	8.0	5.6
India	4.0	-7.3	9.5	8.5
ASEAN-5	4.9	-3.4	2.9	5.8
Latin America	0.1	-7.0	6.3	3.0
Middle East and Central Asia	1.4	-2.8	4.1	4.1
Sub-Saharan Africa	3.2	-1.7	3.7	3.8

Note: 1) Categories of regions follows the rules of the source. 2) Data in Italic indicates outlook.

Source: "World Economic Outlook, Oct. 2021" (IMF)

The economic growth projections have been revised from the last WEO of July 2021 based on the situation in each region. The projected growth rate of developed economies and regions in 2021 has been revised upward by 0.4 percentage point in light of the new fiscal policy that the U.S. government is considering introducing. On the other hand, that for emerging economies and regions has been revised downward by 0.4 percentage point. In particular, the growth rate projection for emerging Asian economies has been lowered by 1.0 percentage point due to the re-spread of novel coronaviruses (hereafter, COVID-19) in India and Southeast Asian countries and the shrinkage in the scale of China's fiscal policies and public investment. As upward revisions in developed economies offset downward revisions in emerging economies, the global growth rate forecast has remained unchanged from the previous WEO. However, different responses to COVID-19 across countries and regions have resulted in uneven projected economic recoveries among countries and regions.

The future recovery of the world economy will continue to be centered on the response to COVID-19.

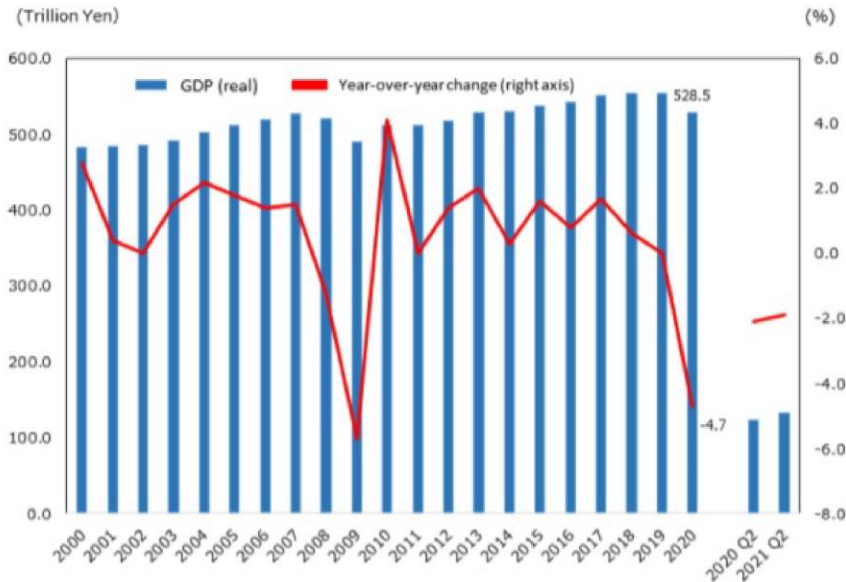
Macroeconomic Trends in Japan



Negative growth in 2020 due to COVID-19, but GDP expected to recover within 2021

According to the Cabinet Office, Japan's real GDP decreased by 4.7% to 528.5 trillion yen in 2020 (Chart 1-2). 2020 was heavily affected by COVID-19 and marked negative growth for the first time since 2009.

Chart 1-2: Real GDP of Japan



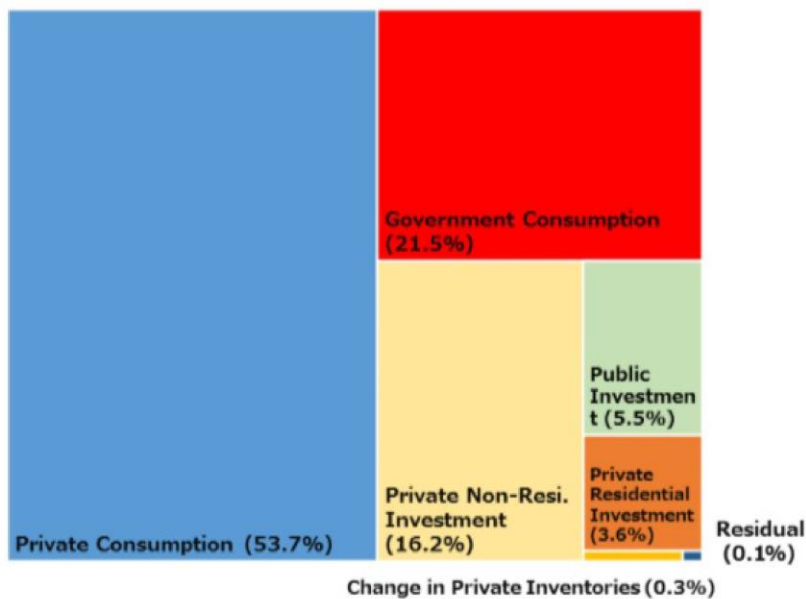
Source: Cabinet Office (As of May, 18th, 2021)

Looking at the breakdown of GDP^{*1} by demand item in 2020, private final consumption expenditure accounted for the largest share of the total at 53.7%, followed by government final consumption expenditure (21.5% of the total) and private non-residential investment (16.2% of the total) (Chart 1-3). Of the demand items, only the government final consumption expenditure (up 2.8% year-on-year) and public fixed capital formation^{*2} (up 3.6% year-on-year) increased, while all other items decreased year-on-year. In particular, private final consumption expenditure, which accounted for the largest share, fell 5.8% from the previous year, contributing to about two-thirds of the negative growth in real GDP in 2020.

*1 There is a net export (-0.8%), and the sum of the graphs does not add up to 100%.

*2 Public fixed capital formation refers to public investment by the government to develop infrastructure such as roads.

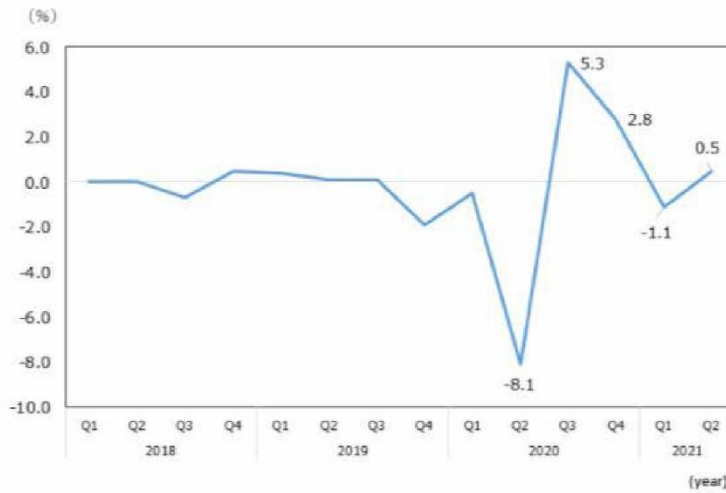
Chart 1-3: Breakdown of GDP of Japan (2020)



Source: Cabinet Office (As of May, 18th, 2021)

As for the current trends in Japan's economy, the real GDP growth rate for the third quarter and fourth quarter of 2020 was 5.3% and 2.8%, respectively, but was -1.1% in the first quarter of 2021 and a slight pick-up of 0.5% in the second quarter (Chart 1-4). In a report released by OECD in May 2021, Japan's GDP per capita will recover to pre-pandemic levels around the third quarter of 2021. One key to the recovery of the Japanese economy is the speed of vaccination against COVID-19. Although the start of vaccination in Japan lagged behind other countries and regions, after it started in March 2021, the number of people who completed the second dose of vaccination has exceeded 60% of the total population as of October 4, 2021.

Chart 1-4: Trends in Japan's GDP over the past few years (quarter-on-quarter change)



Source: Cabinet Office (As of Oct 16th, 2021)

Section2. FDI Trends in the World and Japan

Global Trends in Inward FDI part1

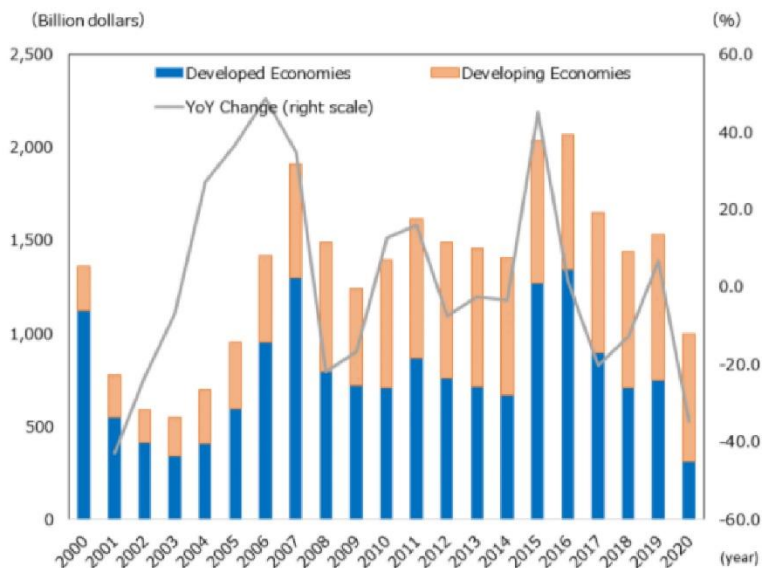


Global FDI in 2020 fell 34.7% year-on-year to 999 billion dollars



According to the United Nations Conference on Trade and Development (UNCTAD), global inward direct investment (net, flow; hereafter, inward FDI) was \$999 billion in 2020 (Chart 1-5). It fell 34.7% from the previous year due largely to the impact of COVID-19, the amount of decline exceeded that of the 2008-2009 financial crisis, and it fell below \$1 trillion for the first time since 2005.

Chart 1-5: Trends in Global Inward FDI



Note: "Developed economies" is as defined by UNCTAD. The amount of inflow to developing economies is computed by subtracting that of developed economies from that of the world.

Source: "World Investment Report 2021"(UNCTAD)

The amount of investment in developed economies decreased by 58.3% year-on-year to \$312 billion, and that in emerging economies decreased by 12.1% to \$687 billion (Chart 1-6). Both regions saw a year-on-year decrease. In particular, the investment amount in developed economies fell to the 2003 level. In 2020, inward FDI in developed economies accounted for 31.3% of the total, while emerging economies accounted for 68.7%, resulting in a record-high percentage for the latter. Developed economies' share shrank due to a significant year-on-year decline, while emerging economies' share exceeded 50% for three consecutive years since 2018.

Chart 1-6: Global Inward FDI by Region (Billion dollars %)

Region	2019			2020		
	Flow	YoY	Share	Flow	YoY	Share
World	1,530	6.5	100.0	999	-34.7	100.0
Developed economies	749	5.8	48.9	312	-58.3	31.3
Europe	363	5.3	23.7	73	-80.0	7.3
North America	309	18.2	20.2	180	-41.7	18.0
Developing economies	781	7.2	51.1	687	-12.1	68.7
Africa	47	3.9	3.1	40	-15.6	4.0
Asia	516	3.8	33.7	535	3.8	53.6
Latin America	160	6.9	10.5	88	-45.4	8.8

Note: "Developed economies" is as defined by UNCTAD. The amount of inflow to developing economies is computed by subtracting that of developed economies from that of the world.

Source: "World Investment Report 2021" (UNCTAD)

Among developed countries and regions, Europe fell 80.0% year on year to 73 billion dollars and North America fell 41.7% year on year to 180 billion dollars. By country and region, the U.S. remained the largest recipient of investment in 2020 but declined 40.2% from the previous year to 156 billion dollars (Chart 1-7). Regarding European countries, while Luxembourg (up 320.1% year-on-year) and Sweden (up 158.2% year-on-year) markedly exceeded the previous year's levels, in other major recipient countries, Germany fell by 34.1%, and Ireland fell by 58.8%. The Netherlands saw a new withdrawal. As a result, investment declined significantly in major countries from the previous year due to the decline in investment affected by COVID-19 and the financing of multinational companies.

Chart 1-7: Top Ten Countries and Regions of Inward FDI in 2020 (Billion dollars %)

Ranking in 2020	Country/Region	Change in Ranking	2019	2020	2020 YoY	2020 Share
1	United States	→	261	156	-40.2	15.6
2	China	→	141	149	5.7	15.0
3	Hong Kong, China	↗	74	119	61.7	11.9
4	Singapore	↘	114	91	-20.7	9.1
5	India	↗	51	64	26.7	6.4
6	Luxembourg	↗	15	62	320.1	6.2
7	Germany	↗	54	36	-34.1	3.6
8	Ireland	↘	81	33	-58.8	3.3
9	Mexico	↗	34	29	-14.7	2.9
10	Sweden	↗	10	26	158.2	2.6
20	Japan	↗	15	10	-29.5	1.0
—	Netherlands	↘	49	-115	-335.5	-11.5
—	World	—	1,530	999	-34.7	100.0

Note: "World" and the ranking exclude financial centers in the Caribbean.

Source: "World Investment Report 2021" (UNCTAD)

The decline in emerging countries and regions was smaller than that in developed countries and regions. Asia saw a 3.8% year-on-year increase, while Africa (-15.6%) and Latin America (-45.4%) experienced decrease. Some Asian countries and regions saw gains in investment amount, such as China (5.7% increase to \$149 billion), Hong Kong (61.7% increase to \$119 billion), and India (26.7% increase to \$64 billion). UNCTAD attributes the impact of multinational corporation's financial strategies and the relatively early containment of the spread of COVID-19 in Asia to the solid investment in China

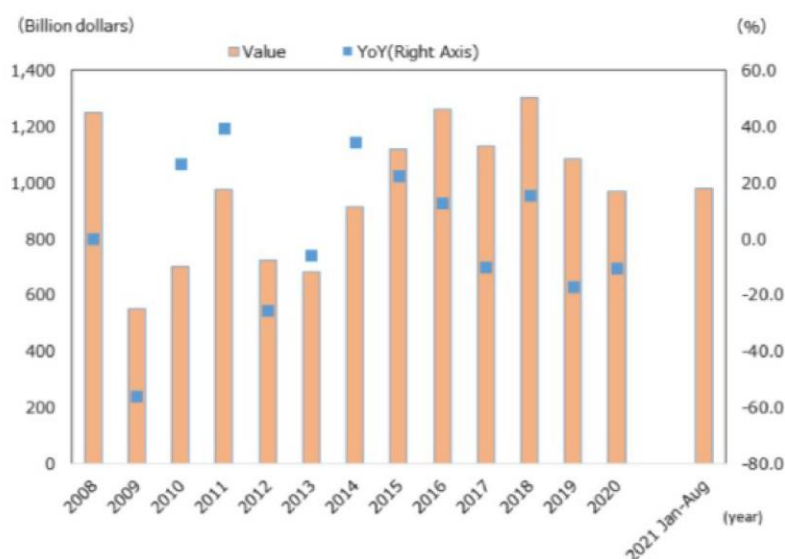
Number of global Greenfield investments declined for the second consecutive year



According to the fDi Markets (Financial Times), in 2020, the number of global Greenfield investments³ (based on the date of publication) was 11,781, down 30.2% from the previous year (Chart 1-8). Due to the impact of COVID-19, the number of Greenfield investments fell sharply, marking the second consecutive year-on-year decline from the record high in 2018. In January-August of 2021, the number of greenfield investments has been sluggish even compared to the same period of the most recent two years, suggesting that it will take time for the number of global greenfield investments to pick up.

³ Refers to a form of investment in which a corporation is newly established in the destination country

Chart 1-8: Trends in Global Greenfield Investment



[Source] "fDi Markets" (Financial Times) (as of Oct.11th, 2021)

Looking at the number of investment projects in 2020 by investor country and region, the U.S. accounted for the largest number at 2,446 cases, down 32.9% from the previous year, followed by the U.K. (1,138 cases, down 28.7%), and Germany (1,051 cases, down 28.6%) (Chart 1-9). Although investments from all the top 10 countries and regions decreased from the previous year, there was little change in the ranking of countries and regions. Except Japan and China (excluding Hong Kong), all countries were Western countries..

Chart 1-9: Number of Global Greenfield Investments by Investor Country and Region in 2020 (# of Project, %)

Ranking	Country/Region	Change in Ranking	# of Project	YoY	Share
1	US	→	2,446	-32.9	20.8
2	Uk	→	1,138	-28.7	9.7
3	Germany	→	1,051	-28.6	8.9
4	France	→	682	-27.8	5.8
5	Switzerland	↗	604	-25.2	5.1
6	Japan	↘	547	-34.7	4.6
7	China	→	394	-40.4	3.3
8	Netherlands	↗	386	-24.6	3.3
9	Spain	↘	340	-34.5	2.9
10	Sweden	↗	299	-7.7	2.5
—	World	—	11,781	-30.2	100.0

Source: "fDi Markets" (Financial Times) (as of Oct.11th, 2021)

In terms of recipient countries and regions of greenfield investments, the U.S. marked the largest number of 1,529 cases, down 20.7% from the previous year, followed by Germany (964 cases, down 17.5%), and the U.K. (873 cases, down 34.9%) (Chart 1-10). All of the top recipient countries and regions for greenfield investment saw a year-on-year decline.

Chart 1-10: Number of Global Greenfield Investments by Recipient Country and Region in 2020 (# of Project, %)

Ranking	Country/Region	Change in Ranking	# of Project	YoY	Share
1	US	→	1,529	-20.7	13.0
2	Germany	↗	964	-17.5	8.2
3	UK	↘	873	-34.9	7.4
4	France	↗	511	-29.9	4.3
5	Spain	↗	452	-33.8	3.8
6	Poland	↗	380	-1.0	3.2
7	India	→	373	-45.1	3.2
8	China	↘	358	-54.6	3.0
9	UAE	→	351	-13.8	3.0
10	Canada	↗	300	-15.7	2.5
18	Japan	→	197	-14.3	1.7
—	World	—	11,781	-30.2	100.0

Source: "fDi Markets" (Financial Times) (as of Oct. 11th, 2021)

Global Trends in Inward FDI part2



Global M&A deals declined both in number and value



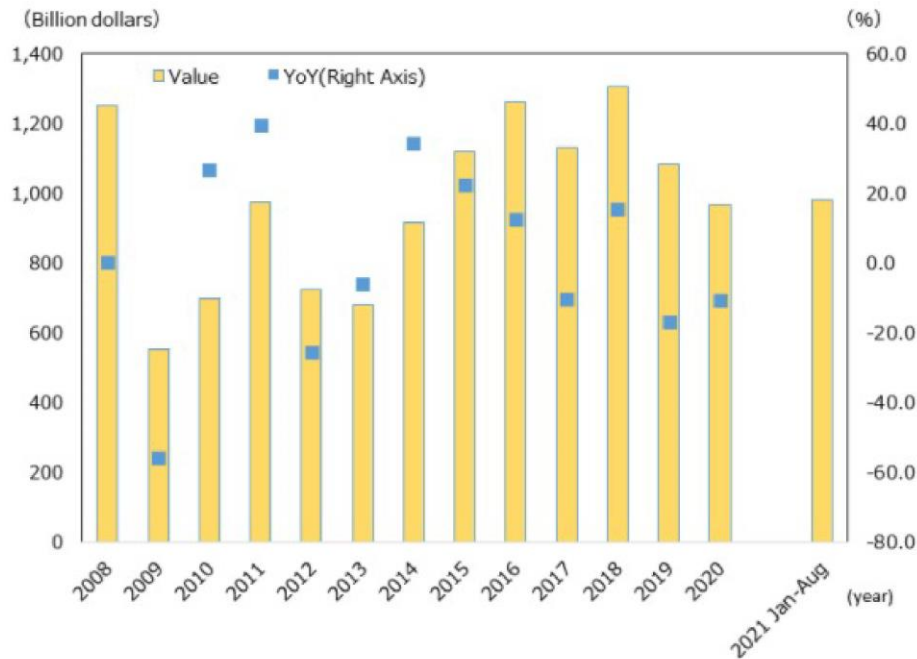
According to the Workspace(Refinitiv), in 2020, cross-border mergers and acquisitions (hereafter, M&A) declined for the second consecutive year following 2019, both in number and value. The number of deals fell 15.3% to 10,070 and the value decreased 10.6% to 969 billion dollars.(Chart 1-11) (Chart 1-12).

Chart 1-11: Number of M&A Deals in the World



Source: "Workspace" (Refinitiv) (as of Oct.11th, 2021)

Chart 1-12: Values of M&A Deals in the World



Source: "Workspace" (Refinitiv) (as of Oct.11th, 2021)

Looking at the monthly trends of M&A deals in 2020, there were 1,055 deals in January, about the same as in any other usual month (900 to 1100 deals). Then the monthly number dropped to 800s in February (822) and March (818), and further to 600s in April (669) and May (681), when the COVID-19 pandemic spread globally. Thereafter, the number gradually recovered, increasing to 950 in October and 1,067 in December. In 2021, the number of M&A deals has been robust; in the January-August period, the number of M&A deals was 39.6% higher than in the same period of the previous year.

Looking at global M&A activity in 2020 by acquirer country and region, the U.S. accounted for the largest number at 2,187 (down 4.6% from the previous year), followed by the U.K. (1,051, down 12.1%), Canada (547, down 6.5%), Germany (490, down 22.5%), and France (479, down 28.6%) (Chart 1-13).

Chart 1-13: Number of Global M&A Deals by Acquirer Country and Region (# of Projects, %)

Ranking	Country/Region	Change in Ranking	# of Projects	YoY	Share
1	US	→	2,187	-4.6	21.7
2	UK	→	1,051	-12.1	10.4
3	Canada	↗	547	-6.5	5.4
4	Germany	→	490	-22.5	4.9
5	France	↘	479	-28.6	4.8
6	Japan	→	376	-25.7	3.7
—	Total	—	11,896	-15.3	100

Source: "Workspace" (Refinitiv) (as of Oct.11th, 2021)

The number of deals by the top five countries, which accounted for about half of the total, were all down from the previous year.

On a value basis, the U.S. accounted for the largest amount at \$246 billion, up 19.2% from the previous year, followed by the U.K. (\$186 billion, up 43.0%), Germany (\$48 billion, down 0.3%), and Japan (\$48 billion, down 65.3%).

The U.S. and U.K. saw year-on-year increases (Chart 1-14). UNCTAD analyzes and attributes the year-on-year decline of Japan's M&A, both in the number and value, to the absence of large-scale deals in 2020, which had been observable in recent years.

Chart 1-14: Values of Global M&A Deals by Acquisition Country and Region (Billion dollars %)

Ranking	Country/Region	Change in Ranking	Value	YoY	Share
1	US	→	246	19.2	25.4
2	UK	↗	186	43.0	19.2
3	Germany	↗	48	-0.3	5.0
4	Japan	↘	48	-65.3	4.9
5	China	↗	37	-0.7	3.8
—	Total	—	969	-10.6	100.0

Source: "Workspace" (Refinitiv) (as of Oct.11th, 2021)

Looking at the acquisition target by countries and regions, the U.S. recorded the largest number with 1,686 deals, up 0.0% from the previous year, followed by the U.K. (941 deals, down 10.6%), and Germany (523 deals, down 25.3%) (Chart 1-15). While the overall number fell 15.3%, those in the top countries, including the U.S. and Canada, were almost unchanged.

Chart 1-15: Number of Global M&A Deals by Target Country and Region (# of of Projects, %)

Ranking	Country/Region	Change in Ranking	# of Projects	YoY	Share
1	US	→	1,686	0.0	16.7
2	UK	→	941	-10.6	9.3
3	Germany	→	523	-25.3	5.2
4	Canada	→	512	-1.0	5.1
5	France	→	415	-18.3	4.1
20	Japan	↘	135	11.6	1.3
—	Total	—	10,070	-15.3	100.0

Source: "Workspace" (Refinitiv) (as of Oct.11th, 2021)

Looking at the value, the U.S. registered 249 billion dollars, down 11.1% from the previous year. As with the number of deals, the U.S. recorded the highest figure amount all countries and regions. However, the amount declined year on year. The Netherlands (136 billion dollars, up 442.2%), and the U.K. (74 billion dollars, down 16.8%) followed (Chart 1-16).

Chart 1-16: Values of Global M&A Deals by Target Country and Region (Billion dollars %)

Ranking	Country/Region	Change in Ranking	Value	YoY	Share
1	US	→	249	-11.1	25.7
2	Netherlands	↘	136	442.2	14.0
3	UK	↘	74	-16.8	7.6
4	Germany	→	66	10.9	6.8
5	India	↘	40	43.6	4.1
21	Japan	↘	10	19.8	1.0
—	Total	—	969	-10.6	100.0

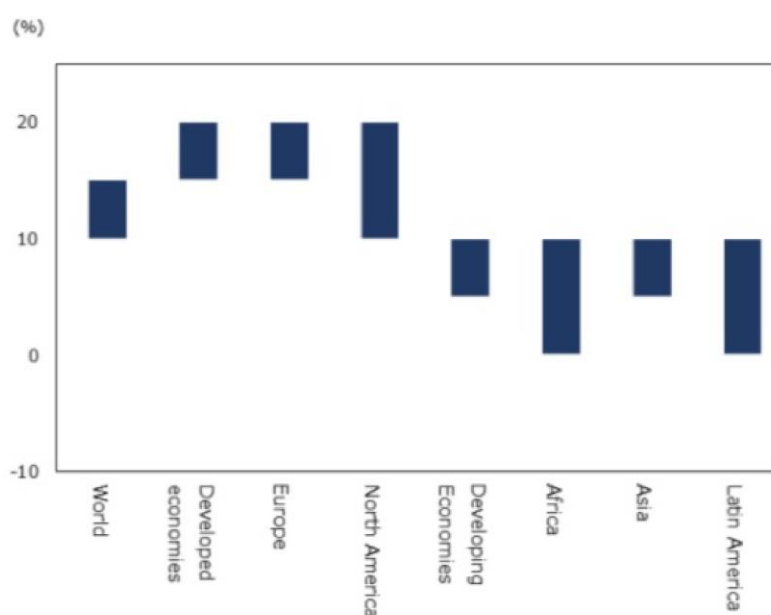
Source: "Workspace" (Refinitiv) (as of Oct.11th, 2021)

Growth forecasted for 2021, with uneven recovery across regions



UNCTAD projects global inward FDI in 2021 to increase by 10 to 15% from 2020 (Chart 1-17). While the number of greenfield investments has been sluggish, M&A has been active since the second half of 2020, and this trend continues in 2021. In addition to the Asian region, where investments were solid in 2020, UNCTAD expects investments in infrastructure, digital technologies, and environment, funded by the fiscal policies launched by the EU countries and the U.S. to respond to the economic impact of COVID-19, will contribute to increasing inward FDI.

Chart 1-17: FDI Growth Rate for 2021 (Forecast)



Note: Classification of each region is as defined by UNCTAD.
Source: "World Investment Report 2021" (UNCTAD)

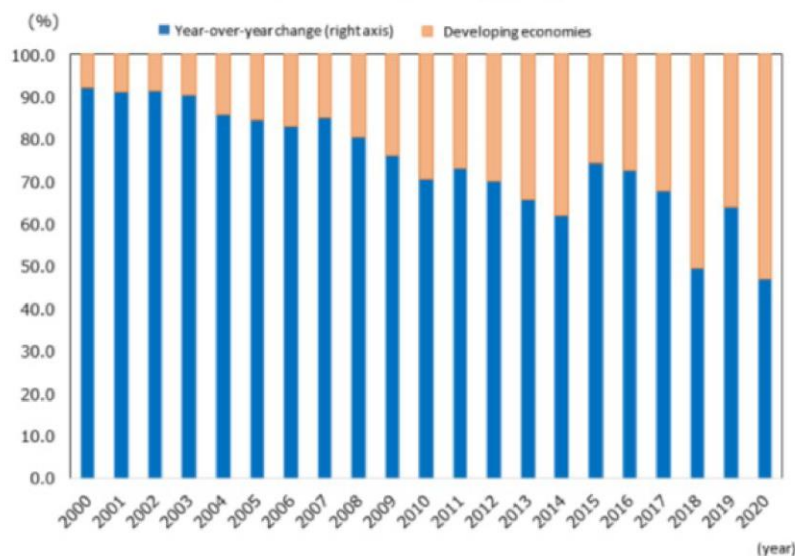
On the other hand, UNCTAD predicts that the recovery of inward FDI will be weak in Latin American and African countries, which will continue to be significantly affected by COVID-19. There are concerns that the impact of COVID-19 variants on the world's social and economic conditions in various parts of the world may affect the forecast of global Inward FDI.

Global Trends in Outward FDI



Looking at the global outward FDI (net flow; hereinafter outward FDI) by region in 2020, developed economies accounted for 46.9%, and developing economies 53.1% (Chart 1-18). Investment by developed countries and regions, in particular, fell sharply (Chart 1-19). The amount of outward FDI by Japan, the largest investor in 2018 and 2019, fell by 49.0% year on year, and there was a net withdrawal of investment by the Netherlands. The ratio of outward FDI from developed economies fell below 50% for the first time in two years, and that from developing economies (53.1% of the total) reached a record high.

Chart 1-18: Outward FDI by Region



Note: "Developed economies" is as defined by UNCTAD. The amount of inflow to developing economies is computed by subtracting that of developed economies from that of the world.

Source: "World Investment Report 2021" (UNCTAD)

Chart 1-19: Outward FDI: Top Ten Countries and Regions (Billion dollars %)

Ranking in 2020	Country/Region	Change in Ranking	2019	2020	2020 YoY	2020 Share
1	China	↗	137	133	-2.9	18.0
2	Luxembourg	↗	34	127	268.7	17.2
3	Japan	↘	227	116	-49.0	15.6
4	Hong Kong, China	↗	53	102	92.1	13.8
5	United States	↘	94	93	-0.8	12.5
6	Canada	→	79	49	-38.3	6.6
7	France	↗	39	44	14.3	6.0
8	Germany	↘	139	35	-74.9	4.7
9	Korea, Republic of	→	35	32	-7.8	4.4
10	Singapore	→	51	32	-36.0	4.4
—	World	—	1,220	740	-39.4	100.0

Note: "World" and the ranking exclude financial centers in the Caribbean.

Source: "World Investment Report 2021" (UNCTAD)

Turning eyes to other major countries and regions, China was the largest investor country at \$133 billion, down 2.9% from the previous year. According to UNCTAD, investment activities were particularly robust in countries and regions surrounding One Way One Road, despite tighter investment regulations in the U.S. and other countries. As for the share of global outward FDI by major countries and regions, the top five countries and regions accounted for approximately 80%, manifesting a concentration of investment sources in some areas.

Trends in Inward FDI to Japan part1



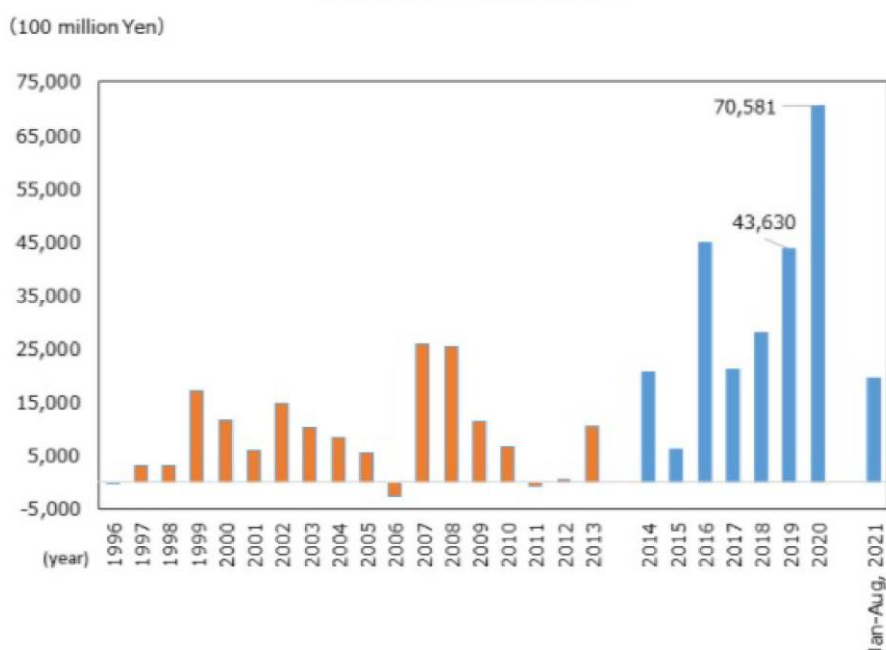
FDI Flow to Japan

Inward FDI to Japan rose to 7.1 trillion yen in 2020



In 2020, inward FDI to Japan (net, flow) was 7.1 trillion yen, up 61.8% from the previous year (Chart 1-20). This is the largest amount since 2014, for which comparable data is available, far exceeding the amount of 4.5 trillion yen in 2016.

Chart 1-20: FDI Flow to Japan



Note: The figures before 2013 are calculated based upon a different principle.
Source: "Balance of Payments" (Ministry of Finance, Bank of Japan)

Breaking down FDI flow to Japan in 2020 (7.1 trillion yen) by forms of capital, equity capital^{*4} fell 49.8% year on year to 600 billion yen, reinvestment of earnings^{*5} decreased 2.6% to 1.4 trillion yen, while debt instrument^{*6} increased 183.7% to 5.1 trillion yen (Chart 1-21). Reflecting the economic and social impact of the global COVID-19 crisis, equity capital, which represents the trend of new investment and capital increase in Japan, halved compared to the record high in 2019. On the other hand, debt instrument, which include lending and borrowing between companies with capital ties, has increased significantly. This increase was the main factor behind increasing FDI flow to Japan in 2020. In particular, according to the announcement by the Ministry of Finance in June 2020^{*7}, when debt instrument rose significantly, the increase in debt instrument was attributable to "borrowings from overseas affiliates, etc." by Japanese companies. Because of the recording principle of these statistics (asset and liability principle^{*8}), borrowing by Japanese companies from their overseas subsidiaries, etc. is reflected in the amount of FDI flow to Japan, which has pushed up the overall amount.

*4 Equity capital: share purchase or capital exchange with a value of at least 10% of voting rights, equity interest on investment to a branch and other capital expenditures by a foreign company is recorded.

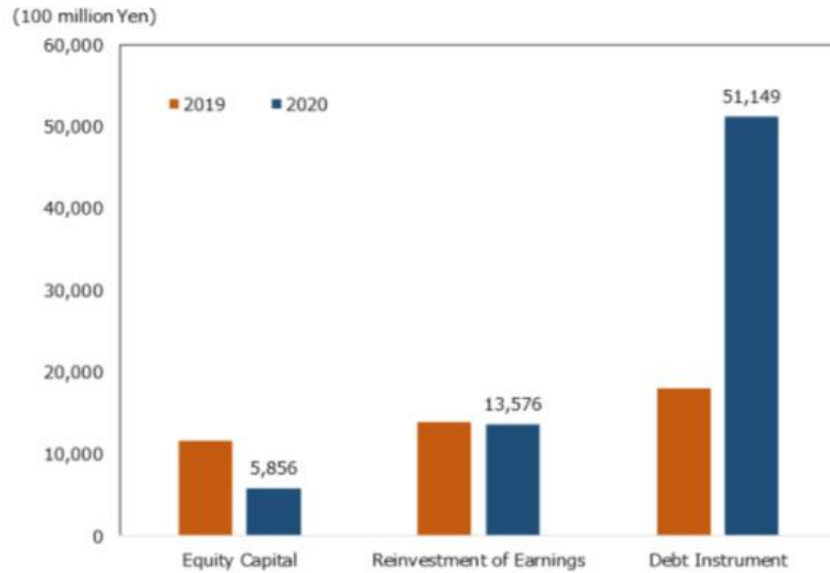
*5 Reinvestment of earnings: proportion of undistributed earnings from a Japanese business or local subsidiary with foreign ownership corresponding to the level of foreign investment is recorded.

*6 Debt instrument: cash loans exchanged between parent and subsidiary and acquisition/disposal of bonds are recorded.

*7 "Balance of Payments Statistics in June 2020 (Preliminary)." [Link](#)

*8 The asset and liability principle defines investments from Japan to foreign countries as assets (outward investments) and investments from foreign countries to Japan as liabilities (inward investments). [Link](#)

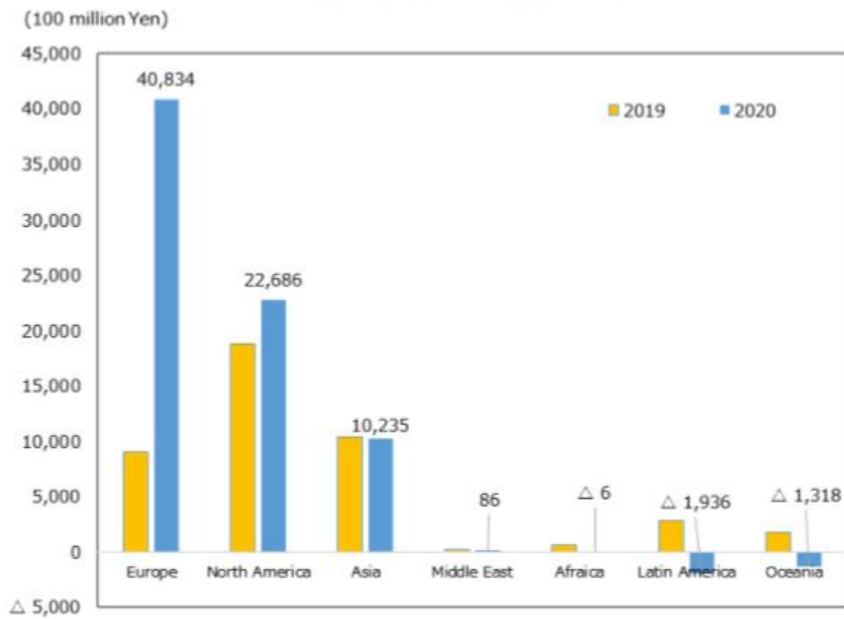
Chart1-21 FDI Flow to Japan by Form of Capital



Source: "Balance of Payments" (MoF, BoJ)

By region, Europe accounted for the largest share of FDI flow to Japan in 2020 at 4.1 trillion yen, up 351.3% from the previous year, followed by North America at 2.3 trillion yen, up 20.6%, and Asia at 1 trillion yen, down 1.6% (Chart 1-22).

Chart1-22 FDI Flow to Japan by Region



Source: "Balance of Payments" (MoF, BoJ)

Among Europe that accounted for the largest share of FDI flow to Japan, the U.K. invested the largest amount of all countries and regions at 3.3 trillion yen, up 969.9% from the previous year, and Switzerland the third largest at 800 billion yen, up 704.4%. The investment from these two countries accounted for the majority of the investment from Europe. The U.S., the second largest, invested 2.3 trillion yen, a 21.1% year-on-year increase. Looking at investments from the U.K., the U.S., and Switzerland, the top countries in the amount of FDI flow to Japan in 2020, debt instrument accounted for the largest portion.^{*9}

*9 Statistics on the amount of FDI in Japan for a single year do not show data by types of capital for each investor country or region. See trends in the amount outstanding of FDI in Japan, for which statistics data are available by investor country/region and types of capital.

Chart 1-23: FDI Flow to Japan by Country and Region (100 million yen, %)

2020 Ranking	Investor Country/Region	Change in Ranking	2020	2020 YoY
1	UK	↗	32,674	969.9
2	US	↘	22,605	21.1
3	Switzerland	↗	7,610	704.4
4	Singapore	↘	5,462	98.3
5	China	→	1,434	-31.5
6	France	→	1,398	-19.5
7	Hong Kong	↘	1,239	-45.4
8	Netherlands	↗	1,215	—
9	Thailand	→	1,080	-4.8
10	Germany	↗	819	235.7
—	World	—	70,581	61.8

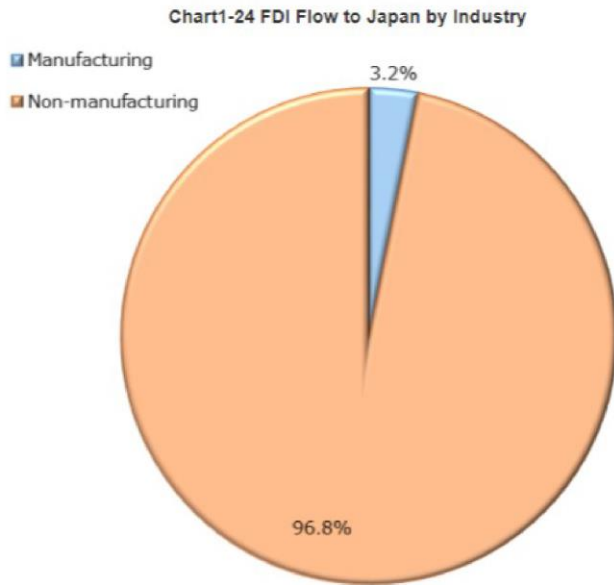
Source: "Balance of Payments" (MoF, BoJ)

As for Asia, where FDI to Japan has been on the rise in recent years, Singapore rose 98.3% year on year to 500 billion yen, but other major investor countries and regions saw declines across the board, including 31.5% down in China and 45.4% down in Hong Kong.

Non-manufacturing sector accounted for the majority of FDI flow to Japan by industry



According to the statistics for FDI by industry, FDI flow to Japan fell 26.8% from the previous year to 1.1 trillion yen in 2020, the first year-on-year decline in three years since 2017. The non-manufacturing sector accounted for the majority with 1.1 trillion yen (96.8% of the total), and the manufacturing sector with 0.03 trillion yen (3.2% of the total) (Chart 1-24).



Note: Based upon different principles from statistics for FDI by region.
Source: "Balance of Payments" (MoF, BoJ)

In terms of specific industries, the financial and insurance industry accounted for the largest share at 1.2 trillion yen, down 3.7% year on year, overwhelming other industries. It was about six times as much as the transportation equipment industry, which accounted for the next largest share (200 billion yen, down 18.4% YoY) (Chart 1-25). Looking at investment by country in the financial and insurance industry, the U.S. saw a 40.5% year-on-year decline to 700 billion yen, but Singapore nearly tripled its investment from the previous year to 400 billion yen. In addition, there was an increase in investment from European countries, resulting in an overall investment amount at the same level as the previous year. In the manufacturing industry, electrical machinery, which usually has a relatively large value, fell 90.4% year on year to 30 billion yen, and chemicals and pharmaceuticals saw a net withdrawal of 200 billion yen, constraining the overall figure.

Chart 1-25: FDI Flow to Japan: Top Ten Industries (100 million Yen, %)

Ranking	Change in Ranking	Sector	2020 YoY	Share	
1		Finance&insurance	12,445	-3.7	113.7
2		Transportation Equipment	1,992	-18.4	18.2
3		Services	1,950	38.1	17.8
4		Electric machinery	325	-90.4	3.0
5		Transportation	256	11.5	2.3
6		General Machinery	254	—	2.3
7		Glass and ceramics	243	—	2.2
8		Petroleum	77	—	0.7
9		Teitile	40	44.8	0.4
10		Iron, non-ferrous&metals	35	-70.2	0.3
—		Chemistry, Pharmaceutical	-2,227	—	—
—		Wholesale, retail business	-4,004	—	—

Note: 1) Based upon different principles from statistics for FDI by region.

2) Negative amount indicates withdrawal exceeds flow.

Source: "Balance of Payments" (MoF, BoJ)

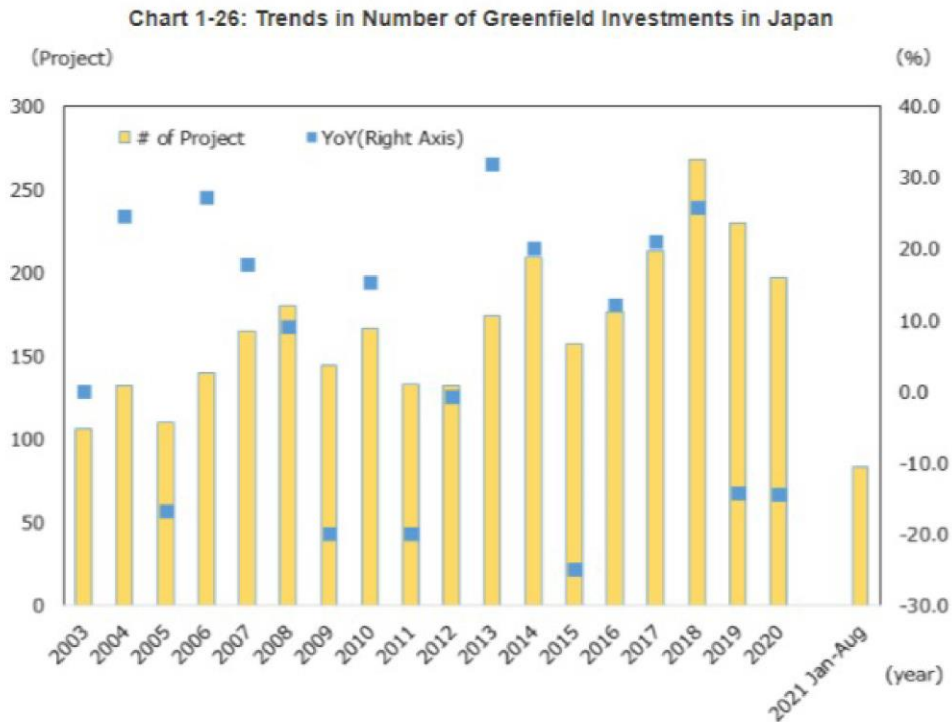
Trends in Inward FDI to Japan part2



Greenfield investment declined for the second consecutive year



The number of greenfield investments in Japan in 2020 (based on the date of publication) fell 14.3% from 2019 to 197, marking the second consecutive year-on-year decline (Chart 1-26).



Source: "fDi Markets" (Financial Times) (as of Oct. 5th, 2021)

By investor countries and regions, the U.S. recorded the highest number of 61 cases, more than three times as many as Singapore, which came in second. Although the U.S. far exceeded other countries and regions, its number decreased by nearly 30% from the previous year (Chart 1-27). Singapore more than doubled its number of investments from 8 in 2019 to 19, while Germany marked the same number as the previous year (17 cases), and France (13 cases, -50.0% YoY) and the U.K. (12 cases, -36.8% YoY) both saw declines.

Chart 1-27: Number of Greenfield Investments in Japan in 2020 by investor country and region (# of Projects, %)

Ranking	Country/Region	Change in Ranking	# of Projects	YoY	Share
1	US	→	61	-29.9	31
2	Singapore	↗	19	137.5	9.6
3	Germany	↗	17	0	8.6
4	France	↘	13	-50	6.6
5	UK	↘	12	-36.8	6.1
—	Total	—	197	-14.3	100

Source: "fDi Markets" (Financial Times) (as of Oct.5th, 2021)

Looking at greenfield investment in Japan in 2020 by industry, as in previous years, software (63 cases) was the largest, but down 12.5% from the previous year. Real estate (19, up 5.6% YoY) and renewable energy (17, up 21.4% YoY) followed. While the overall number of investments declined, these two industries saw year-on-year increases.

Chart 1-28: Number of Greenfield Investments in Japan in 2020 by industry (# of Projects, %)

Ranking	Industry Sector	Change in Ranking	# of Projects	YoY	Share
1	Software & IT services	→	63	-12.5	32
2	Real estate	↗	19	5.6	9.6
3	Renewable energy	↗	17	21.4	8.6
4	Business services	↘	16	-30.4	8.1
5	Industrial equipment	↘	13	-7.1	6.6
—	Total	—	197	-14.3	100

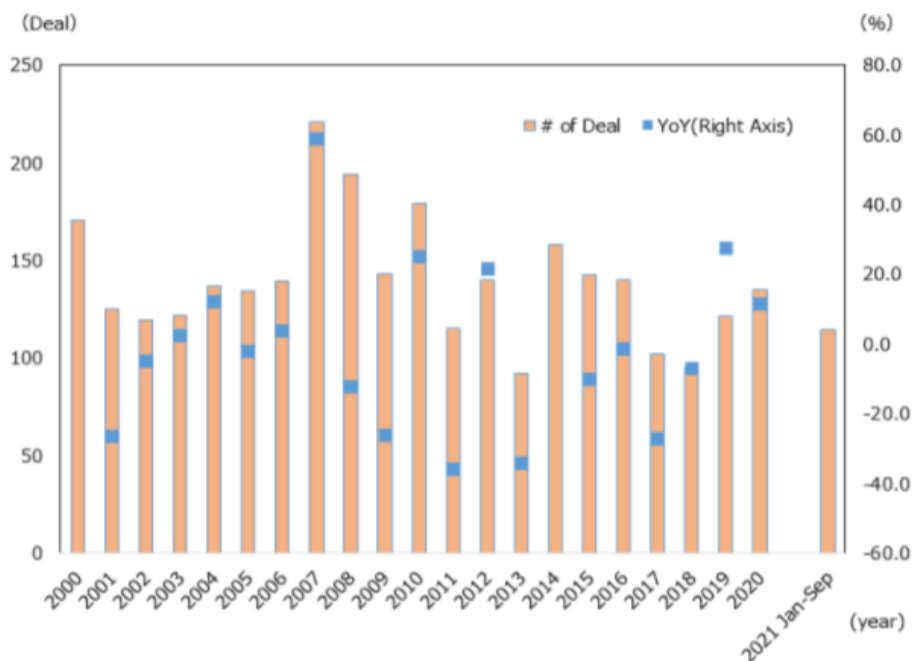
Source: "fDi Markets" (Financial Times) (as of Oct.5th, 2021)

Number of M&A deals in Japan in 2020 increased from the previous year



In 2020, the number of cross-border M&A deals to Japan (hereafter, M&A deals in Japan), based on the date of completion, increased 11.6% from the previous year to 135 (Chart 1-29). The number of M&A deals in Japan had declined year on year for four consecutive years until 2018, but increased year on year in 2019 and 2020, marking the second consecutive year of growth.

Chart 1-29: Trends in M&A Deals in Japan



Source: "Workspace" (Refinitiv) (as of Jun.3rd, 2021)

Looking at the number of M&A deals in Japan in 2020 by country and region, the U.S. claimed the largest number with 31 deals (23.0% of the total), followed by Hong Kong (12 deals, 8.9%) and Singapore (10 deals, 7.4%) (Chart 1-30). The top five countries and regions were all Asian countries except for the U.S. and Germany.

Chart 1-30: Number of M&A Deals in Japan in 2020 by Investor Country and Region (# of Project, %)

Ranking	Country/ Region	# of Project	YoY	Share
1	US	31	14.8	23
2	Hong Kong	12	-14.3	8.9
3	Singapore	10	0	7.4
4	South Korea	9	80	6.7
5	Germany	7	250	5.2
—	Total	135	15.4	100

Source: "Workspace" (Refinitiv) (as of Oct.5th, 2021)

Major M&A deals in Japan since 2020 include the acquisitions of UNIZO Holdings Company, Limited by Chitosea Investment Co., Ltd. (location of the ultimate parent company: Cayman Islands), and Takeda Consumer Healthcare Co., Ltd. by Oscar A-Co KK (location of the ultimate parent company: US) (Chart 1-31).

Chart 1-31: Major M&A Deals in Japan since 2020

Rank	Target Company	Target Company Industry	Acquirer	Acquirer Parent country/region	Acquirer Industry	Date(Completion)	Transaction value(1 million dollars)
1	UNIZO Holdings Company, Limited	Real Estate	Chitosea Investment Co., Ltd.	Cayman Isl.	Finance	June 2020	4,375
2	Takeda Consumer Healthcare Co., Ltd.	Healthcare	Oscar A-Co K.K.	US	Finance	March 2021	2,288
3	Shiseido Company, Limited - Personal Care Business	Wholesale and services	Oriental Beauty Holding Co., Ltd.	UK	Finance	July 2021	1,524
4	Showa Aircraft Industry Co., Ltd.	Industry	BCPE Planet Cayman LP	US	Finance	April 2020	851
5	Accordia Golf Asset	Media and entertainment	Accordia Golf Co., Ltd.	Spain	Media and entertainment	September 2020	618
6	Rakuten Group, Inc.	High-tech	Image Frame Investment (HK) Ltd.	China	Finance	March 2021	606
7	Aspen Japan K.K.	Healthcare	Sandoz International GmbH	Switzerland	Healthcare	January 2020	441
8	Takeda Pharmaceutical Company Limited-TachoSil Business	Healthcare	Corza Health, Inc.	US	Finance	February 2021	415
9	ESR Redwood Kuki Distribution Center	Industry	Logistics-related joint venture	France	Finance	August 2020	369
10	Hulic Co., Ltd. - Hewlett Packard Japan, G.K. Office Building (98.47%)	Real Estate	Tsubaki special-purpose company	Singapore	Finance	June 2021	353

Note: M&As with the top 10 transaction values between January 2020 and September 2021 are listed.

The nationality of the acquiring company is the location of the ultimate parent company. [Source] "Workspace" (Refinitiv) (as of October 5, 2021)

Sluggish FDI Flow to Japan in the first half of 2021



As mentioned earlier, in World Investment Report 2021 released in June 2021, UNCTAD predicted global inward FDI in 2021 to increase by around 10 to 15% over the previous year. The amount of inward FDI to Japan from January to August 2021 was sluggish compared to the same period of the previous year. In terms of trends in greenfield investment (based on the date of publication) that indicates the establishment and expansion of bases in Japan by foreign companies, the number of cases from January to August 2021 was 83, less than 60% of 144 during the previous year's same period. Regarding countermeasures against COVID-19, although Japan lagged behind other countries in starting vaccination, 65.8% of the total population has been fully vaccinated as of October 14, 2021, boding well for the country's future progress in economic activities. Also, if the easing of restrictions on travel from abroad progresses, it is expected to lead to the establishment of new bases and the expansion of existing bases by foreign companies, which have been sluggish since 2020.

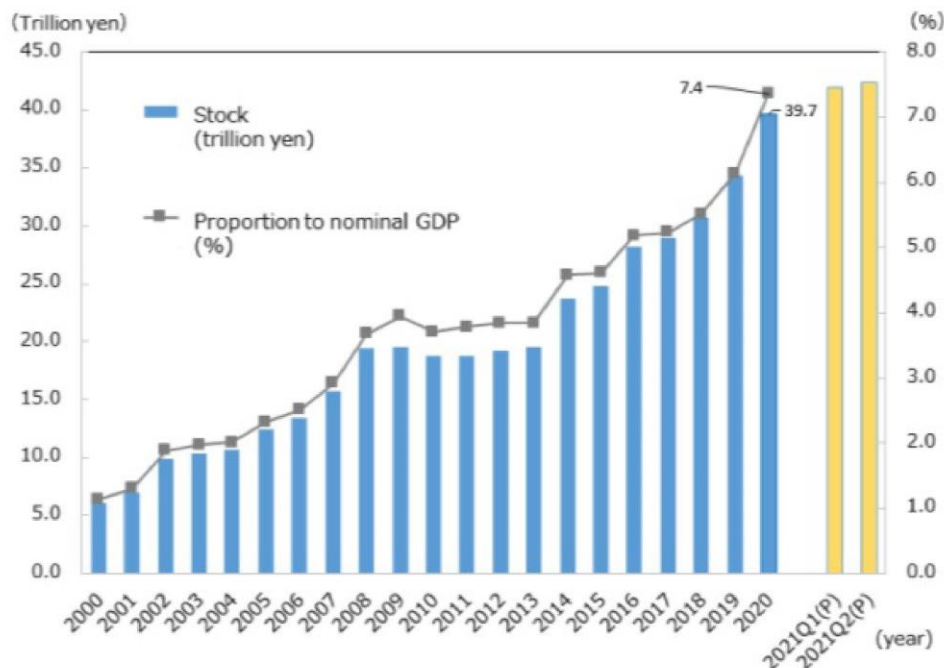
FDI Stock in Japan

FDI stock in Japan at the end of 2020 was 39.7 trillion yen



The outstanding balance of FDI in Japan at the end of 2020 reached a new high of 39.7 trillion yen, up 15.6% from the previous year, reflecting the large amount of inward FDI to Japan in the same year (Chart 1-32). The ratio of the balance to GDP increased from 6.1% to 7.4%.

Chart 1-32: FDI Stock in Japan

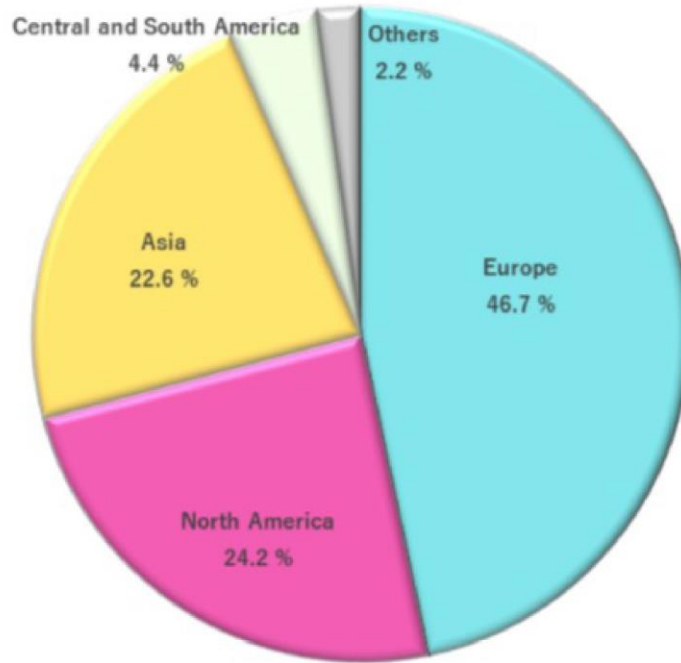


Source: "International Investment Position of Japan" (Ministry of Finance, Bank of Japan), "National Accounts of Japan" (Japan Cabinet Office)

Looking at the FDI stock at the year-end by forms of capital, equity capital increased 1.5% YoY to 19 trillion yen (46.9% of the total), debt instrument increased 63.1% YoY to 13 trillion yen (33.6%), and reinvestment of earnings decreased 1.1% YoY to 8 trillion yen (19.5%). As mentioned earlier, the share of debt instrument in the outstanding balance also increased to more than 30% from 23.8% at the end of 2019, reflecting the large inflow of debt instrument in FDI in 2020. As for the balance of debt instrument by country and region, the U.K. saw a 335.5% increase from the previous year to 4.4 trillion yen, the U.S. increased by 84.8% to 2.7 trillion yen, and the Swiss increased by 272.5% to 900 billion yen, evidencing significant inflow of debt instrument from these countries in 2020.

As for the FDI stock in Japan by investor region, Europe had the largest share at 18.5 trillion yen (46.7% of the total), followed by North America at 9.6 trillion yen (24.2%), and Asia at 9 trillion yen (22.6%) (Chart 1-33). By country and region, the U.S. remained the largest at 9.4 trillion yen (23.7% of the total), followed by the U.K. at 5.8 trillion yen (14.7%) (Chart 1-34). The top 10 countries and regions accounted for 86.0% of the total FDI stock in Japan, which were mainly countries of Europe and Asia except for the U.S.

Chart1-33: FDI Stock in Japan by Region



Source: "International Investment Position of Japan" (Ministry of Finance, Bank of Japan)

Chart1-34: FDI Stock in Japan by Country and Region (Unit: Billion yen, %)

Rank	Country/region	Stock	Ratio
1	U.S.	9,405	23.7
2	U.K.	5,832	14.7
3	Singapore	4,294	10.8
4	Netherlands	4,228	10.7
5	France	3,320	8.4
6	Switzerland	2,337	5.9
7	Hong Kong	1,466	3.7
8	Cayman Isl.	1,285	3.2
9	Germany	997	2.5
10	South Korea	936	2.4
-	Others	5,565	14.0
-	Total	39,669	100

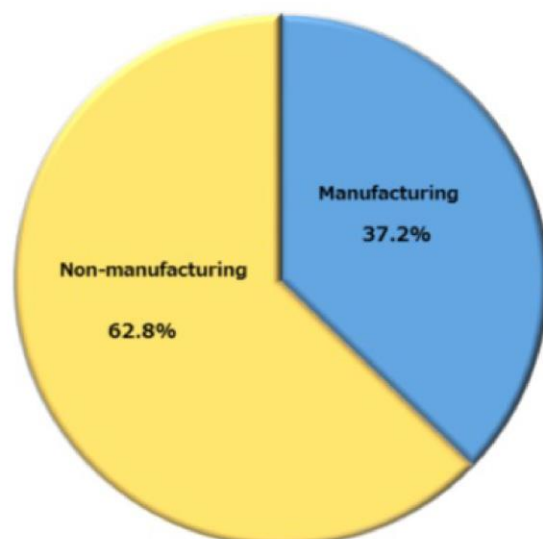
Source: "International Investment Position of Japan" (Ministry of Finance, Bank of Japan)

Non-manufacturing industry accounted for over 60% of FDI stock in Japan by industry at the end of 2020



The FDI stock in Japan by industry at the end of 2020 was 24.1 trillion yen, down 1.4% from the previous year. The manufacturing sector accounted for 37.2%, and the non-manufacturing sector accounted for 62.8% (Chart 1-35). The large proportion of FDI inflow into the non-manufacturing sector during 2020 increased the stock in this sector.

Chart1-35: FDI Stock in Japan by Industry



Note: Based upon different principles from statistics for FDI by region.
Source: "International Investment Position of Japan" (Ministry of Finance, Bank of Japan)

Looking at detailed industries, the stock of finance and insurance increased 41.6% year on year to 10 trillion yen, accounting for the largest share (41.6% of the total) due to substantial investments in 2020 (Chart 1-36). Transportation equipment, down 9.7% YoY to 3.3 trillion yen (13.6%), and electrical machinery, down 9.2% YoY to 2.3 trillion yen (9.5%), followed.

Chart 1-36: FDI Stock in Japan: Top Ten Industries (Billion yen, %)

Rank	Industry	Stock	Ratio
1	Finance and insurance	10,015	41.6
2	Transportation equipment	3,276	13.6
3	Electric machinery	2,290	9.5
4	Communications	2,045	8.5
5	Chemicals and pharmaceuticals	1,793	7.4
6	Services	1,363	5.7
7	Real estate	531	2.2
8	General machinery	495	2.1
9	Transportation	422	1.8
10	Glass and ceramics	372	1.5
-	Others	1,474	6.1
-	Total	24,075	100

Note: Based upon different principles from statistics for FDI by region.
Source: "International Investment Position of Japan" (Ministry of Finance and Bank of Japan)