

Chapter 6: Investment Climate

- [Openness to Foreign Investment](#)
- [Conversion and Transfer Policies](#)
- [Expropriation and Compensation](#)
- [Dispute Settlement](#)
- [Performance Requirements and Incentives](#)
- [Right to Private Ownership and Establishment](#)
- [Protection of Property Rights](#)
- [Transparency of Regulatory System](#)
- [Efficient Capital Markets and Portfolio Investment](#)
- [Political Violence](#)
- [Corruption](#)
- [Bilateral Investment Agreements](#)
- [OPIC and Other Investment Insurance Programs](#)
- [Labor](#)
- [Foreign-Trade Zones/Free Ports](#)
- [Foreign Direct Investment Statistics](#)
- [Web Resources](#)

Openness to Foreign Investment

[Return to top](#)

Japan is the world's second largest economy, the United States' fourth largest trading partner, and an important destination for U.S. foreign direct investment (FDI). The Government of Japan (GOJ) recognizes the value of FDI in enhancing Japan's competitiveness and boosting economic growth. Since 2001, increasing the country's stock of FDI has been one of the government's policy priorities and Japan's stock of FDI, as a percentage of GDP, has grown from less than one percent in 2001 to 2.5 percent today. In June 2006, the GOJ announced it aimed to increase further the nation's stock of FDI to the equivalent of five percent of GDP by the end of 2010.

The Ministry of Economy Trade and Industry (METI) and the quasi-governmental Japan External Trade Organization (JETRO) are the lead agencies responsible for assisting foreign firms wishing to invest in Japan. Many prefectural and city governments also have active programs to attract foreign investors.

Risks associated with investment in many other countries, such as expropriation and nationalization, are not of concern in Japan. The GOJ does not impose export balancing requirements or other trade-related FDI measures on firms seeking to invest in Japan.

Japan's economy is in the midst of its longest period of uninterrupted economic growth since World War II, coming after more than a decade of low or negative economic growth and bouts of deflation that resulted from the country's financial crisis of the 1990's. Corporate profits are strong, particularly in Japan's world-class manufacturing sector. Unemployment is down. Growth in consumption continues to lag, however, as

wage growth remains modest. Domestically focused firms have not done as well as those dealing internationally.

In recent years, significant structural reforms created new opportunities for FDI. The reforms and the improving economy have led to increased merger and acquisition (M&A) activity. According to Recof, a Tokyo-based M&A consultancy, M&A transactions in Japan in 2007 totaled 2,696. This figure was the third highest ever, even if it was down 2.8 percent from the previous year. The vast majority of these mergers were domestic transactions, but 308 deals involved foreign buyers, up 72 percent over the year before. In 2007, the number of takeover bids (TOB) in Japan exceeded 100 for the first time.

Foreign investors wishing to establish or enhance their presence in Japan still face a number of unique challenges, many of which relate to business practices, rather than government regulations. The most notable are:

- Japan's high overall cost structure makes entry, exit, and expansion expensive
- Cultural and linguistic challenges
- Labor practices that inhibit labor mobility, suppress productivity, and negatively affect skill development
- A consensual business culture resistant to hostile M&A and preferring transactions that preserve the independence of target firms
- Weak corporate governance and a lack of independent directors on most company boards
- Cross-shareholding networks between related or friendly companies, in which shares are held for non-economic reasons resulting in a minimal float of available common stock relative to total capital in many companies
- Exclusive supplier networks and alliances between business groups that can restrict competition from foreign firms and domestic newcomers

The U.S. and Japanese Governments discuss all these issues in working groups under the Regulatory Reform and the Investment Initiative, established in 2001 as part of the U.S.-Japan Economic Partnership for Growth. Progress has been made in some areas.

Despite the increase in FDI since the mid-1990s, however, Japan continues to have the lowest foreign direct investment as a proportion of GDP ration of any major OECD member. According to the 2007 United Nations Conference on Trade and Development (UNCTAD) World Investment Report, FDI stock in Japan at the end of 2006 was USD 107.6 billion, or 2.5 percent of GDP. This figure compares to 13.5 percent in the United States, 47.8 percent in the United Kingdom, 17.4 percent in Germany, and 32.6 percent in Australia. According to UNCTAD, FDI inflows to Japan in 2006 turned negative (meaning a net outflow of foreign investment) for the first time since 1989, largely due to the USD 15.5 billion sale of the Japanese cellular telephone subsidiary of UK company Vodafone to local firm Softbank in March 2006. Preliminary data for 2007 show a resumption of net inflows. On a yen basis, FDI stock in Japan continued to rise in 2006 reaching 12.8 trillion yen by year-end.

Meanwhile, Japan runs a significant imbalance between inward and outward FDI (see Table 1b). Japan's outward foreign direct investment in 2006 rose 10 percent to USD 50.2 billion, from USD 45.8 billion in 2005.

Legal Reform Facilitates M&A Activity

In recent years, the GOJ moved to address investment-related problems. Reforms in the financial, communications, and distribution sectors encouraged foreign investment into these industries. The new Company Law, an amended bankruptcy law, and the Financial Instruments and Exchange Law increased Japan's attractiveness as a destination for FDI.

The most significant FDI-related legislation in recent years has been the substantial revision of Japan's Company Law. The law entered into force May 1, 2006 (except for provisions governing the use of foreign stock as consideration in cross-border M&A, a procedure known as a "triangular merger," which came into effect May 1, 2007.) The law significantly revised the corporate structures available in Japan and expanded the types of M&A transactions available for corporate consolidation and restructuring.

Anticipating the entry into force of the above-mentioned triangular merger provisions, the GOJ revised Japan's tax regulations to allow tax deferral of capital gains related to these transactions, provided certain conditions regarding business relevance and business viability of the acquiring Japanese subsidiary are met in advance. The U.S. Government expressed concern that the proposed tax criteria may be too strict to facilitate significant new investment flows into Japan. As of December 2007, one major foreign investor had used the triangular merger provisions to complete an acquisition of a Japanese firm.

The Financial Instruments and Exchange Law may affect potential investment in the financial, insurance, and real estate sectors. The law establishes a more flexible regulatory system for financial markets and applies a uniform set of rules for similar financial instruments. At the same time, the law allows brokers and financial advisors to treat investors differently, depending on whether they are deemed "professional" investors (assumed to be capable of more sophisticated investment strategies and requiring less protection and disclosure) or "general", i.e., retail investors. Brokerage firms must provide the latter with detailed disclosure of risks related to different types of financial products at the time of offering. Brokers and legal experts are concerned the law will raise the cost of marketing financial products to retail investors and affect the structures currently used for portfolio real estate investment in Japan.

Limited Sector-specific Investment Restrictions Remain

Japan has gradually eliminated most formal restrictions governing FDI and U.S. investment has become increasingly common in once restricted sectors, most notably, the financial and telecommunications industries.

One important restriction in the law limits foreign ownership in Japan's former landline monopoly operator, Nippon Telegraph and Telephone (NTT), to 33 percent. Japan's Radio and Broadcasting Law limits foreign investment in broadcasters to 20 percent, or 33 percent for broadcasters categorized as facility supplying. Foreign ownership of Japanese companies invested in terrestrial broadcasters will be counted against these limits. These limits do not apply to communication satellite facility owners, program suppliers, or cable television operators.

The Foreign Exchange and Foreign Trade Control Law governs investment in sectors deemed to have national sovereignty or national security implications. In most cases,

foreign investors are only required to report transactions to the Bank of Japan within 15 days of acquiring more than 10 percent of the shares in a publicly listed company or any shares of a closely held company. However, if a foreign investor wants to acquire more than 10 percent of shares of a company in certain designated sectors it must provide prior notification (and thus obtain specific approval) of the intended transaction to the Ministry of Finance and the specific ministry that regulates that industry. Designated sectors include agriculture, aerospace, forestry, petroleum, electrical/gas/water utilities, telecommunications, and leather manufacturing. In practice, however, the GOJ has denied few proposed investments. In July 2007, the GOJ announced regulatory revisions to the law that expand the prior notification requirement to proposed investment in holding companies with subsidiaries operating in the restricted sectors and to investors "operating jointly" whose combined holdings exceed the 10 percent threshold.

Several sections of the Japanese Anti-Monopoly Law (AML) are relevant to FDI. Chapter Four of the AML includes extensive anti-trust provisions pertaining to international contract notification (section 6), shareholdings (sections 10 and 14), interlocking corporate directorates (section 13), mergers (section 15), and acquisitions (section 16). The stated purpose of these provisions is to restrict shareholding, management, joint venture, and M&A activities that may constitute unreasonable restraints on competition or involve unfair trade practices. The GOJ has emphasized these provisions are not intended to discriminate against foreign companies or discourage FDI.

Limitations on Facility Development and Availability of Investment Real Estate

Japanese law permits marketing of real estate investment trusts (REITs) and mutual funds that invest in property rights. As of December 2007, there are 42 REITs listed on the Tokyo Stock Exchange (TSE). Currently, TSE-listed REITs may only invest in domestic real estate, but press reports indicate the GOJ is considering legal revisions to allow REITs to invest in overseas assets beginning April 2008.

Aiming to increase the liquidity of Japanese real estate markets, the government in recent years has progressively lowered capital gains, registration, and license taxes on real estate. It also reduced inheritance and gift taxes to promote intergenerational transfer of land and other real assets. More changes in tax policy and accounting standards could increase real estate liquidity, but the market remains hampered by a shortage of legal and accounting professionals and by a relative lack of information on prices and income flows. Corporate legal experts have predicted a significant impact on the most commonly used structures for commercial real estate investment as a result of the new Foreign Instruments and Exchange Law.

For thirteen consecutive years, from 1992 to 2005, the nationwide average price of real estate fell. But prices in Japan's major urban areas have now leveled off and, in some cases, have begun to rise. Potential foreign investors find high prices for commercial office space can be an obstacle to investment in Japan. However, significant new commercial development planned or under construction in Tokyo, Osaka, and Nagoya, much of it luxury-class, may eventually ease prices somewhat, especially for second-tier office space. Investment funds housed in the U.S. are active in the Japanese real estate market, often in partnership with Japanese developers.

Japan continues to restrict development of retail and commercial facilities in some areas to prevent excessive concentration of development in the environs of Tokyo, Osaka, and Nagoya, and also to preserve agricultural land. Conversely, many prefectural governments outside the largest urban areas make available property for development in public industrial parks. Japan's zoning laws give local officials and residents considerable discretion to screen almost all aspects of a proposed building. In some areas, these factors have hindered real estate development projects and led to construction delays and higher building costs, in particular in cases where proposed new retail development would affect existing businesses.

Corporate Tax Treatment

Local branches of foreign firms are generally taxed only on corporate income derived within Japan, whereas domestic Japanese corporations are taxed on their worldwide income. Calculations of taxable income and allowable deductions, and payments of the consumption tax (sales tax), for foreign investors are otherwise the same as those for domestic companies. Corporate tax rules classify corporations as either foreign or domestic depending on the location of their "registered office," which may be the same as -- or a proxy for -- the place of incorporation.

The current U.S.-Japan bilateral tax treaty came into force in January 2005. The treaty allows Japan to tax the business profits of a U.S. resident only to the extent those profits are attributable to a "permanent establishment" in Japan. It also provides measures to mitigate double taxation. Cross-border dividends on listed stock are not subject to source country withholding tax if the parent company owns 50 percent or more of the foreign subsidiary. Interest on financial transactions payable to a nonresident and royalties paid to a foreign licensor are no longer subject to source country withholding tax.

A special tax measure allows designated inward investors to carry over certain losses for tax purposes for ten years rather than for the normal five years. In 2003, Japan's effective corporate tax rate, including local taxes, was reduced from 40.87 percent to 39.54 percent.

The option of consolidated taxation is available to corporations. The purpose of these rules is to facilitate investment and corporate restructuring, because losses usually expected from a new venture or recently acquired subsidiary can be charged against the profits of the parent firm or holding company.

Investment Incentives

Since 2001, promotion of inward FDI has been one of the ways the GOJ has sought to revitalize the Japanese economy. In 2003, the Japan Investment Council (JIC) adopted a five-point Program for the Promotion of Foreign Direct Investment into Japan that called on the GOJ to (1) make administrative processes clearer, simpler, and faster; (2) improve the business environment by facilitating cross-border M&A; (3) create a favorable work and living environment for foreign residents in Japan; (4) improve local efforts to attract FDI through use of Special Zones for Structural Reform; and (5) disseminate information on investment opportunities both domestically and internationally. A March 2006 JIC report recommended the government establish a national goal of increasing the balance of FDI into Japan to five percent of the country's

GDP by 2010, which the GOJ adopted formally in June 2006. (For details of the JIC's recommendations, see <http://www.investment-japan.go.jp>.)

The Japan External Trade Organization operates six Invest Japan Business Support Centers in major urban areas to provide investment-related information and "one-stop" support services to foreign companies interested in investing in Japan. (More detailed information is available at <http://www.jetro.go.jp/en/invest>.) Most national-level ministries also have information desks to help guide potential investors in navigating GOJ administrative procedures. (Links to the "Invest Japan" contact points at each ministry are at <http://www.investment-japan.go.jp/links.htm>.)

Many city or regional governments are working to attract foreign capital through outreach to prospective foreign investors, business start-up support services, and limited financial incentives. JETRO supports local government investment promotion efforts. Detailed information on local and regional FDI promotion programs is available in English on the JETRO website in the above paragraph.

Since 2003, the Japanese Government has maintained a program of Special Zones for Structural Reform that allows specified local areas to be exempted from one or more national regulations in order to develop the areas' special features. To date, the GOJ has approved approximately 550 Special Zones. In theory, special zones can build on ideas developed by local governments and private companies and obtain regulatory exemptions to improve the investment environment, for example, liberalizing restrictions on ownership of hospitals or schools or allowing localities to introduce exemptions for visas/resident qualifications to expand the acceptance of foreign engineers or exchange students. In practice, however, the GOJ has approved fewer than half of the applications submitted and the program's impact on inward FDI flows has been limited.

Conversion and Transfer Policies

[Return to top](#)

Generally, all foreign exchange transactions to and from Japan -- including transfers of profits and dividends, interest, royalties and fees, repatriation of capital, and repayment of principal -- are freely permitted. Japan maintains an ex-post facto notification system for foreign exchange transactions that specifically prohibits specified transactions, including certain foreign direct investments (e.g., from countries under international sanctions) or others, which are listed in the appendix of the Foreign Exchange and Foreign Trade Control Law.

Japan is an active partner in the struggle against terrorist financing. In coordination with other OECD members, the GOJ has strengthened due-diligence requirements for financial institutions. The Diet passed a "Know Your Customer" law in 2002. Customers wishing to make cash transfers exceeding 100,000 yen (USD 880) must do so through bank clerks, not ATMs, and must present photo identification.

Expropriation and Compensation

[Return to top](#)

In the post-war period, the GOJ has not expropriated or nationalized any enterprises, with the exception of the 1998 nationalization of two large Japanese capital-deficient banks and the 2002 nationalization of two failed Japanese regional banks as part of the

Government's efforts to clean up the banking system after its near collapse in 1998. Expropriation or nationalization of foreign investments is extremely unlikely.

Dispute Settlement

[Return to top](#)

There have been no major bilateral investment disputes since 1990. Nor are there any outstanding expropriation or nationalization cases in Japan. There have been no cases of international binding arbitration of investment disputes between foreign investors and the GOJ since 1952. Japan is a member of the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitration Awards.

There are no legal restrictions on foreign investors' access to Japanese lawyers and reforms in the legal services sector and the judicial system have increased the ability of foreign investors to obtain international legal advice related to their investments in Japan. Japan does, however, retain certain restrictions on the ability of foreign lawyers to provide international legal services in Japan in an efficient manner. Only individuals who have passed the Japanese Bar Examination and qualified as Japanese lawyers (*bengoshi*) may practice Japanese law. At the same time, Japan has a Foreign Legal Practitioner system under which foreign qualified lawyers may establish Japanese / foreign joint legal enterprises (*gaikokuho kyodo jigyo*) and provide legal advice and integrated legal services on matters within the competence of its members. Foreign lawyers qualified under Japanese law (*gaiben*), may provide advice on international legal matters. *Gaiben* and *bengoshi* in joint enterprises can adopt a single law firm name of their choice and may determine the profit allocation among them freely and without restriction. However, foreign lawyers are unable to form professional corporations in the same manner as Japanese lawyers and are prohibited from opening branch offices in Japan. *Gaiben* are permitted to hire Japanese lawyers to work directly with them or in a joint legal enterprise or in a Foreign Japanese Joint Legal Office (*gaikokuho-jimu-bengoshi jimusho*) composed of multiple *gaiben*. The Japanese government has adopted a long term goal of increasing the number of legal professionals who pass the Bar Examination to 3,000 per year by 2010. The Ministry of Education, Culture, Sports, Science and Technology introduced a new system of law schools in April 2004, which is increasing the number of spaces for students wishing to study law.

Japan's civil courts enforce property and contractual rights and do not discriminate against foreign investors. Japanese courts, like those in other countries, operate rather slowly and experience has shown them sometimes ill suited for litigation of investment and business disputes. Japanese courts lack powers to compel witnesses to testify or a party to comply with an injunction. Timely temporary restraining orders and preliminary injunctions are difficult to obtain. Filing fees are based on the amount of the claim, rather than a flat fee. Lawyers usually require large up-front payments from their clients before filing a lawsuit, with a modest contingency fee, if any, at the conclusion of litigation. Contingency fees familiar in the U.S. are relatively uncommon. A losing party can delay execution of a judgment by appealing. In appeals to higher level courts, additional witnesses and other evidence may be allowed.

Japan's Alternative Dispute Resolution (ADR) law, which provides a legal framework for arbitration, including international commercial arbitration, came into effect on May 31, 2007. Foreign lawyers qualified under Japanese law can represent parties in ADR proceedings taking place in Japan in which one of the parties is foreign, or foreign law is applicable, at least to the extent such representation is not inconsistent with Japanese

law. The United States continues to urge Japan to promote alternative dispute resolution mechanisms by ensuring that *gaiben* and non-lawyer experts can act as neutrals in international arbitration or other international ADR proceedings in Japan, in whole or in part, regardless of the governing law or matter in dispute.

Courts have the power to encourage mediated settlements and there is a supervised mediation system. However, this process is also often time-consuming and judges transfer frequently, so continuity is often lost. As a result, it is common for companies to settle cases out of court.

Performance Requirements and Incentives

[Return to top](#)

Japan does not maintain performance requirements or requirements for local management participation or local control in joint ventures.

Right to Private Ownership and Establishment

[Return to top](#)

Foreign and domestic private enterprises have the right to establish and own business enterprises and engage in all forms of remunerative activity.

However, the new Company Law includes a provision -- Article 821 -- which created uncertainty among foreign corporations that conduct their primary business in the Japanese market through a branch company. As written, Article 821 appears to prohibit branches of foreign corporations from engaging in transactions in Japan "on a continuous basis." The Japanese Diet subsequently issued a clarification of the legislative intent of Article 821 that makes clear the provision should not apply to the activities of legitimate entities. However, some legal uncertainty remains, particularly with respect to possible private litigation against directors and officers of affected firms. The U.S. Government has urged Japan to revoke Article 821 or more formally clarify its meaning. The Japanese government has undertaken to ensure Article 821 will not adversely affect the operations of foreign companies duly registered in Japan and conducting business in a lawful manner.

Protection of Property Rights

[Return to top](#)

In general, Japan maintains a strong intellectual property rights (IPR) regime, but there are costs and procedures of which prospective investors should be aware. Companies doing business in Japan are encouraged to be clear about all rights and obligations with respect to IPR in any trading or licensing agreements. Explicit arrangements and clear understanding between parties will help to avert problems resulting from differences in culture, markets conditions, legal procedures, or business practices.

Registering Patents, Trademarks, Utility Models and Designs: The IPR rights holder must register patents and trademarks in order to ensure protection in Japan. Filing the necessary applications requires hiring a Japanese lawyer or patent practitioner (*benrishi*) registered in Japan to pursue the patent or trademark application. A U.S. patent or trademark attorney may provide informal advice, but is not able to perform some required functions.

Patent and trademark procedures in Japan have historically been costly and time-consuming. There have also been complaints about the weaknesses of Japanese enforcement and legal redress, for example, that judges are not adequately trained or that court procedures do not adequately protect business-confidential information required to file a case. The GOJ has revised the law and continues to take steps to address these concerns and it is becoming easier and cheaper to obtain patent and trademark protection. Procedures have been simplified, fees cut, and judges are receiving more training and are being assigned to specialized IPR courts. Courts have strengthened rules to protect sensitive information and the GOJ has established criminal penalties for inappropriate use of sensitive information used in court or administrative proceedings.

Prompt filing of patent application is very important. Printed publication of a description of the invention anywhere in the world, or knowledge or use of the invention in Japan, prior to the filing date of the Japanese application, could preclude the granting of a patent. Japan grants patents on a first-to-file basis. Japan accepts initial filings in English (to be followed by a Japanese translation), but companies should be careful as translation errors can have significant negative consequences. Unlike the United States, where examination of an application is automatic, in Japan an applicant must request examination of a patent application within three years of filing.

The Japanese Patent Office (JPO) publishes patent applications 18 months after filing, and if it finds no impediment to granting a patent, publishes the revised application a second time before the patent is granted. The patent is valid for 20 years from the date of filing. Currently, the law allows parties to contest the terms of a patent after issuance (for up to six months), rather than prior to registration, as was the previous practice.

Patent Prosecution Highway: The Patent Prosecution Highway (PPH) is a noteworthy development for U.S. firms seeking patent protection in Japan. This arrangement became fully operational January 4, 2008, after an 18-month pilot program. The PPH will allow filing of streamlined applications for inventions determined to be patentable in other participating countries and is expected to reduce the average processing time (from request for examination to First Action) from 26 months to two to three months for second filings. The program, which is based on information sharing between national patent offices and standardized application and examination procedures, should reduce costs and encourage greater utilization of the patent system.

Trademarks, Utility Models, and Designs: Japan's Trademark Law protects trademarks and service marks and, like patent protection, requires registration by means of an application filed by a resident agent (lawyer or patent agent). As the process takes time, firms planning on doing business in Japan should file for trademark registration as early as practicable. Japan is a signatory of the Madrid Protocol. Trademarks registered at the WIPO Secretariat are protected among all member countries.

Japan's Utility Model Law allows registration of utility models (a form of minor patent) and provides a 10-year term of protection. The JPO reduced registration fees in 2005 and streamlined the application procedures in such cases. A separate design law, effective April 2007, allows for protection of designs for a 20-year term from the date of registration. Semiconductor chip design layouts are protected for 10 years under a special law, if registered with the Japanese "Industrial Property Cooperation Center" -- a government-established public corporation.

Unfair Competition and Trade Secrets: The Unfair Competition Prevention Law provides for protecting trademarks prior to registration. The owner of the mark must demonstrate that the mark is well known in Japan and that consumers will be confused by the use of an identical or similar mark by an unauthorized user. The law also provides some protection for trade secrets, such as know-how, customer lists, sales manuals, and experimental data. Recent amendments to the law provide for injunctions against wrongful use, acquisition, or disclosure of a trade secret by any person who knew, or should have known, the information in question was misappropriated. Criminal penalties were also strengthened. However, Japanese judicial processes make it difficult to file claims without losing the trade secrets.

Copyrights: In conformity with international agreement, Japan maintains a non-formality principle for copyright registration -- i.e., registration is not a pre-condition to the establishment of copyright protection. However, the Cultural Affairs Agency maintains a registry for such matters as date of first publication, date of creation of program works, and assignment of copyright. United States copyrights are recognized in Japan by international treaty.

Transparency of Regulatory System

[Return to top](#)

The GOJ has made greater transparency a crosscutting theme of its regulatory reform initiatives. Nevertheless, the Japanese economy continues to suffer from over-regulation, which can restrain potential economic growth, raise the cost of doing business, restrict competition, and impede investment. It also increases the costs for Japanese businesses and consumers. Over-regulation underlies many market access and competitive problems faced by U.S. companies in Japan.

The United States has for several years called on the GOJ to make improvements in its regulatory system to support domestic reform efforts and ensure universal access to government information and the policymaking process.

In response, the GOJ has taken steps to improve its public comment procedures, but these improvements are not uniform throughout the government. The United States continues to urge Japan to apply consistently high transparency standards, including by issuing new rules to ensure transparency and access for stakeholders in the rulemaking process; by allowing effective public input into the regulatory process; and by giving due consideration to comments received. The United States also has asked the GOJ to lengthen its public comment period and to require ministries and agencies to issue all new regulations or statements of policy in writing or provide applicable interpretations to interested stakeholders in plain language.

In the financial sector, the Financial Services Agency has made efforts to expand the body of published written interpretations of Japan's financial laws, including improvements to the "no-action letter" system, and improved outreach to the private sector regarding these changes. The United States recommends Japan take further steps to enhance the effectiveness and usage of the "no-action letter" system and provide regulated firms an opportunity to seek clarification of an administrative agency's interpretation of law or regulation, including through more active use of the interpretive letter system.

The United States continues to hold bilateral working-level discussions in an effort to encourage the Japanese to promote deregulation, improve competition policy, and administrative reforms that could contribute to sustainable economic growth, increase imports and foreign direct investment into Japan. The National Trade Estimate Report on Foreign Trade Barriers, issued by the Office of the U.S. Trade Representative (USTR), contains a detailed description of Japan's regulatory regime as it affects foreign exporters and investors.

Efficient Capital Markets and Portfolio Investment

[Return to top](#)

Japan maintains no formal restrictions on inward portfolio investment and, in fact, foreign capital plays an important role in Japan's financial markets. However, many company managers and directors resist the actions of activist shareholders, especially foreign private equity funds, potentially limiting the attractiveness of Japan's equity market to large-scale foreign portfolio investment. On the other hand, some firms have taken steps to facilitate the exercise of shareholder rights by foreign investors, including the use of electronic proxy voting. The Tokyo Stock Exchange maintains an Electronic Voting Platform for Foreign and Institutional Investors in which more than 200 listed companies participate.

Environment for Mergers and Acquisitions: Japan's aversion to M&A activity is receding very gradually, accelerated by the unwinding of previously extensive corporate cross-shareholding networks, improved accounting standards, and government mandates that banks divest cross-holdings above a set threshold. The majority of M&A over the past decade has been driven by the need to consolidate and restructure mature industries, or in response to severe financial difficulties.

Friendly transfer of wholly owned or majority-owned subsidiaries remains by far the more common form of M&A in Japan. Similarly, unlisted owner-operated firms -- which traditionally would only sell out as a last resort before bankruptcy -- are becoming more amenable to acquisition, including by foreign investors. Nevertheless, there remains a strong preference among Japanese managers and directors for M&A that preserves the independence of the target company and resistance to surrendering control of corporate assets to foreigners. There has been wide-ranging public debate in the past year of the value of defensive measures against hostile takeovers. Since 2006, more than 500 Japanese firms have adopted such measures, most of which are either "advance warning systems" or "poison pill"-type rights distribution plans.

Besides the inherent wariness of many senior business executives to foreign M&A, something they frequently describe as inherently hostile and based largely on short-term profit motives, a number of technical factors limit greater entry into the Japanese market through M&A. These factors include tax policy, a lack of independent directors, weak disclosure practices, and a relative shortage of M&A infrastructure in the form of specialists skilled in making matches and structuring M&A deals.

Company Law Revisions: The extensive revision of Japan's Company Law (Commercial Code) in 2005-06 significantly expanded the flexibility of corporate capital structures and increased the types of governance structures available to Japanese firms. The new law, which came fully into force in May 2007, revised and combined Part II of the previous Commercial Code with existing laws governing limited liability companies (*yugen gaisha*) and audits. The law also introduced changes to facilitate start-ups and make corporate

structures more flexible, including elimination of minimum capital requirements for joint-stock companies (*kabushiki kaisha*). It merged a number of different corporate structures and created a new structure (*godo kaisha*) modeled on the U.S.-style limited liability company.

In addition, the revised Company Law permits the formation of corporate holding companies in Japan for the first time since World War II. This step has facilitated the use of domestic stock swaps in corporate restructuring, through which one party becomes a wholly-owned subsidiary of the other. Japan's tax law now provides special tax treatment and deferral of taxes on such stock-swap transactions at the time of exchange and transfer.

The law also provides increased flexibility in the types of compensation that investors can use for M&A transactions. As of May 2007, foreign equities can be used as consideration in triangular merger transactions targeting Japanese firms. However, to take advantage of the new rules, the foreign acquirer must legally establish a Japanese subsidiary firm to act as the counterpart to the stock exchange/transfer.

Changes in Corporate Governance: Under the new Company Law and the Industrial Revitalization Law, publicly traded companies have the option of adopting a U.S.-style corporate governance system instead of the traditional Japanese statutory auditor (*kansayaku*) system of corporate governance. This new system requires the appointment of executive officers and the establishment of a board committee system in which at least the audit, nomination, and compensation committees are composed of a majority of outside directors. Initially available only under the Industrial Revitalization Law and effectively limited to distressed companies, the new Company Law makes these options available to all listed companies.

Companies also can use the Internet or other electronic means to provide notices of annual general meetings or similar communication with shareholders. Where available, shareholders may exercise voting rights electronically and companies are permitted to make required disclosures of balance sheet and other financial information in an electronic format.

Cross-shareholding and M&A: Potential foreign investors in Japan frequently point out that cross-shareholding between Japanese listed companies greatly complicates market-based M&A activity and reduces the potential impact of shareholder-based corporate governance. Such cross-shareholding practices allow senior management to put a priority on internal loyalties over shareholder returns and can lead to premature rejection of M&A bids. Traditionally, a company maintained a close relationship with a large-scale commercial bank, known as a "main bank", usually part of the same loose corporate grouping. In return for holding a bloc of the company's shares, the bank provided both regular financing and emergency support if the company ran into financial difficulties. The "main bank" system largely dissolved in the late 1990's as Japan's banking system came close to collapse. With the recovery of the Japanese economy, however, some company boards have begun rebuilding cross-shareholding networks, this time with suppliers or nominal competitors rather than a commercial bank. Many boards see such linkages as an effective means of defense against hostile takeovers.

Accounting and Disclosure: Accounting and disclosure standards are an extremely important element in assessing and improving a country's environment for M&A. Before

any merger or acquisition can take place, it is critical that the merging or acquiring firms have the best possible information on which to make business decisions. Implementation of so-called "Big Bang" reforms since 1998 significantly improved Japan's accounting standards.

Consolidated accounting is mandatory since 1999 and "effective control and influence" standards have been introduced in place of conventional holding standards, expanding the range of subsidiary and affiliated companies included for the settlement of accounts. Consolidated disclosure of contingent liabilities, such as guarantees, is also mandatory. All marketable financial assets held for trading purposes, including cross-shareholdings and other long-term securities holdings, are recorded at market value.

Companies are required to disclose unfunded pension liabilities by valuing pension assets and liabilities at fair value. Fixed asset impairment accounting, in effect since 2005, requires firms to record losses if the recoverable value of property, plant, or equipment is significantly less than book value.

The greater focus on consolidated results and mark-to-market accounting had a significant effect in encouraging the unwinding of cross-shareholdings and the "main bank" system. Corporate restructuring has taken place, in many cases with companies reducing pension under-funding and banks disposal of many low-yield assets. While the recent improvement in accounting standards and growth in M&A activity have been welcome, they have also exacerbated the shortage of accounting professionals.

The Accounting Standards Board of Japan (ASBJ) and the International Accounting Standards Board (IASB) began discussions on the convergence of Japanese both accounting standards and International Financial Reporting Standards (IFRS) practices in March 2005 and, in March 2006, further agreed to accelerate the process of convergence. The ASBJ embarked on similar discussions with the U.S. Financial Accounting Standards Board in May 2006.

Taxation and M&A: Japan adopted a standard 20 percent capital gains tax rate applicable from January 2004. However, under special policy measures intended to stimulate capital markets, Japan applies a capital gains tax rate of 10 percent on sales of listed stocks. These measures will remain in effect through December 2008. Tax changes proposed in December 2007 would, if approved, extend this reduced rate through 2010 for capital gains of less than 5 million yen. Under a series of special measures Japan has adopted to promote venture businesses, if the founding shareholder of a qualified company sells shares in the company a ten percent capital gains tax rate will apply if the sale is made prior to public listing in an M&A transaction and, from 2008, a ten percent rate will apply to shares sold by the founding shareholder within three years of listing.

Bankruptcy Laws: An insolvent company in Japan can face liquidation under the Bankruptcy Act or take one of four roads to reorganization: the Civil Rehabilitation Law, the Corporate Reorganization Law, corporate reorganization under the Commercial Code, or an out-of-court creditor agreement.

In 2000, Japan overhauled its bankruptcy law governing small and medium size firm bankruptcies by enacting the Civil Rehabilitation Law, which focuses on corporate restructuring in contrast to liquidation. The law provides stronger protection of debtor

assets prior to the start of restructuring procedures, eases requirements for initiating restructuring procedures, simplifies and rationalizes procedures for the examination and determination of liabilities, and improves procedures for approval of rehabilitation plans. Japan's Corporate Reorganization Law, generally used by large companies, was similarly revised in 2003. Amendments made corporate reorganization for large companies more cost-efficient, speedy, flexible and available at an earlier stage. By removing many institutional barriers to the restructuring process, the new bankruptcy regime has accelerated the corporate restructuring process in Japan.

Previously, most corporate bankruptcies in Japan were handled through out-of-court creditor agreements because court procedures were lengthy and costly. The fact bankruptcy trustees had limited powers to oversee restructuring meant most judicial bankruptcies ended in liquidation, often at distress prices. Beginning in 2001, a group of Japanese bankruptcy experts published a set of private rehabilitation guidelines, modeled after the UK-based INSOL guidelines, for out-of-court corporate rehabilitation in Japan. Out-of-court settlements in Japan tend to save time and expense, but can sometimes lack transparency and fairness. In practice, because 100 percent creditor consensus is required for out-of-court settlements and the court can sanction a reorganization plan with only a majority of creditors' approval, the last stage of an out-of-court workout is often a request for a judicial seal of approval.

Credit Markets: Domestic and foreign investors have free access to a variety of credit instruments at market rates. In general, foreign companies in Japan do not experience significant difficulties in obtaining funding. Most foreign firms obtain short-term credit from Japanese commercial banks or one of the many foreign banks operating in Japan. Medium-term loans are available from commercial banks or from trust banks and life insurance companies. Large foreign firms tend to use foreign sources for long-term financial needs, although sophisticated derivatives products are now available to assist in hedging foreign investors' perceived risk.

Political Violence

[Return to top](#)

Political violence is rare in Japan. Acts of political violence directly involving U.S. business interests have been virtually non-existent in the last decade.

Corruption

[Return to top](#)

Japan's penal code covers crimes of official corruption. An individual convicted under these statutes is, depending on the nature of the crime, subject to prison sentences ranging from one month to fifteen years and possible fines up to three million yen or mandatory confiscation of the monetary equivalent of the bribe.

Although the direct exchange of cash for favors from government officials in Japan is rare, some have described the situation in Japan as "institutionalized corruption." The web of close relationships between Japanese companies, politicians, government organizations, and universities has been said to foster an inwardly-cooperative business climate that is conducive to the awarding of contracts, positions, etc. within a tight circle of local players. Over the last couple of years, Japan has been buffeted by a continuing series of revelations involving improprieties by both public sector officials, as well as by

private sector firms in diverse business sectors. An editorial in a December 2007 issue of the Japan Times outlines a number of these incidents and the impact they have had on eroding the public's trust in government officials and institutions. The editorial can be viewed at <http://search.japantimes.co.jp/cgi-bin/ed20071228a1.html>

In view of the continuing disclosures involving fraud, negligence and cover-ups by Japanese public and private sector entities, U.S. companies interested in doing business in Japan should be aware of these issues, and understand the impact they may have on regulatory issues involved in bringing new products and services to the Japanese market.

Japanese authorities have acknowledged the problem of bid-rigging and have taken steps to address it. Building on the longstanding laws on bribery of public officials and misuse of public funds, the Japanese government passed legislation aimed specifically at eliminating official collusion in bid rigging. The Bid-Rigging Prevention Act, which came into effect in 2003, authorizes the Japan Fair Trade Commission (JFTC) to demand central and local government commissioning agencies take corrective measures to prevent continued complicity of officials in bid-rigging activities, and to report such measures to the JFTC. The Act also contains provisions concerning disciplinary action against officials participating in bid rigging and compensation for overcharges when the officials caused damage to the government due to willful or grave negligence. In 2005, the JFTC invoked the Bid-Rigging Prevention Act for the first time against a central government agency following a major scandal involving executives of the state-owned corporation in charge of highway construction and maintenance. Previous applications of the Act had been directed only at local authorities. Nevertheless, questions remain as to whether the Act's disciplinary provisions are strong enough to ensure officials who facilitate illegal bid-rigging are held accountable.

Complicating efforts to combat bid rigging is the phenomenon known as *amakudari* whereby government officials retire into top positions in Japanese companies, usually in industries that they once regulated. *Amakudari* employees are particularly common in the financial, construction, transportation, and pharmaceutical industries -- which, not coincidentally, are traditionally heavily regulated. Foreign companies usually do not enjoy such pipelines into the bureaucracy and thus are somewhat disadvantaged in their ability to understand and deal with laws, regulations, and informal ministry guidance. This situation has been ameliorated somewhat in recent years by the introduction of more transparent administrative procedures. In 2007, the Japanese Diet passed legislation aimed at limiting the involvement of individual ministries in finding post-retirement employment for its officials.

While there have been some high profile exposures of officials having either given or accepted bribes, the Japanese government does not have an aggressive record of criminal prosecution. Those prosecuted generally received suspended sentences. Nevertheless, JFTC surcharges and fines imposed by the courts for violations of the Anti-monopoly Act have increased significantly, particularly since new amendments to the Act came into effect in 2006.

With respect to corporate officers who accept bribes, Japanese law also provides for company directors to be personally liable for the amount of the bribe and some judgments have been rendered against company directors. This provision may pose a significant deterrent to the payment of bribes, as individuals are held personally liable

without the shield of the company to protect them. There has been discussion at various times within the ruling political party since 1993 when the law was amended to facilitate the filing of shareholder derivative suits, of possible new rules to make it more difficult to file shareholder derivative lawsuits.

Japan ratified the OECD Anti-Bribery Convention, which bans the bribing of foreign government officials. The OECD has identified deficiencies in Japan's implementing legislation, some of which the GOJ has taken steps to rectify. A follow-up examination in February 2006 concluded "Japanese law enforcement authorities have still not made adequate efforts to investigate and prosecute foreign bribery cases." In 2004, Japan amended its Unfair Competition Prevention Law to extend national jurisdiction to cover the crime of bribery and in 2006 made changes to the Corporation Tax Law and the Income Tax Law expressly to deny the tax deductibility of bribes to foreign public officials. In addition, Japan extended the statute of limitations for prosecuting natural persons and corporate bodies from three to five years. In March 2007, prosecutors indicted officials of a Fukuoka-based engineering firm in the first case brought under the 1998 Anti-foreign Bribery law.

Bilateral Investment Agreements

[Return to top](#)

The 1952 U.S.-Japan Treaty of Friendship, Commerce, and Navigation gives national treatment and most favored nation treatment to U.S. investments in Japan. Japan has bilateral investment treaties with Egypt, Sri Lanka, China, Hong Kong SAR, Turkey, Pakistan, Bangladesh, Russia, Mongolia, Vietnam, the Republic of Korea, and Cambodia. Japan has economic partnership agreements (analogous to a free trade agreement) containing investment chapters in force with Singapore, Mexico, Malaysia Thailand and Chile. Japan has also signed such agreements with the Philippines, Brunei, and Indonesia, but these are not yet in force.

U.S.-Japan Investment Initiative: The U.S. Government's concerns about barriers to foreign investment in Japan continue to be addressed through the U.S.-Japan Investment Initiative under the Economic Partnership for Growth, established by President Bush and Prime Minister Koizumi in June 2001. The Initiative's Investment Working Group holds semi-annual sessions to discuss policy measures that could improve the investment climate in both countries. The group has pursued a vigorous program of public outreach. In order to increase business awareness and receptiveness to FDI, the Initiative holds annual investment promotion seminars. The 2007 seminars took place in September in Osaka, in conjunction with the annual Japan-U.S. Midwest Association meeting, and in October in New York and Miami.

OPIC and Other Investment Insurance Programs

[Return to top](#)

OPIC insurance and finance programs are not available in Japan. Japan is a member of the Multilateral Investment Guarantee Agency (MIGA). Japan's capital subscription to the organization is the second largest, after the United States.

Labor

[Return to top](#)

Changing demographic patterns, macroeconomic trends, and regulatory reforms are gradually affecting traditional Japanese employment practices. Foreign investors

seeking to hire highly qualified workers in Japan should benefit from many of these changes. However, finding suitable local labor, can be a concern for U.S. companies seeking to establish an office in Japan. There are a number of executive search firms in Japan that can help address this important issue. For a list of some of these firms, please visit the website for the Commercial Service in Japan, www.buyusa.gov/japan/en or the American Chamber of Commerce in Japan's website www.accj.or.jp.

Throughout most of the post-war period, Japanese employment practices -- most notably in the nation's large, internationally competitive firms -- rested on three pillars: lifetime employment, seniority-based wages, and enterprise unions. Today all three are undergoing rapid transformation. Demographic pressures -- fewer young workers and a rapidly aging labor force -- and the subsequent structural changes in the Japanese economy are forcing many firms to reduce sharply lifetime employment guarantees and seniority-based wages in favor of merit-based pay scales and limited-term contracts. Although labor unions play a role in the annual determination of wage scales throughout the economy, that role is shrinking. As in the United States, trade union membership as a portion of the labor force has been declining for decades. However, the number of part-time workers who are union members has increased in recent years as a result of strengthened organizing efforts by some labor unions.

Investors should be aware of Japan's high wage structure. According to a survey by the Ministry of Health, Labor and Welfare (MHLW), average monthly wages for a salaried worker in Japan in 2006 were approximately 332,000 yen, including semi-annual bonuses. While down 0.2 percent from a year earlier, Japan remains an economy with one of the world's highest wage rates. Growth in average wages has been slow, even in the midst of a return to economic growth, a situation that largely reflects the shift to increased use of non-regular employees and the hiring of younger workers to replace older, higher-wage workers who have begun to retire. Occupational wage differentials are much smaller than in most countries. According to MHLW statistics, base wages, including basic benefits, are approximately 77 percent of total wage costs. Annual summer and year-end bonuses make up the rest. Employers also must make statutory welfare contributions for basic government pensions, health and accident insurance, and unemployment insurance. Many companies incur other employee welfare costs for family and/or transportation allowances, company pension schemes, and, in some cases, in-kind payments such as housing for entry-level employees.

Traditionally, Japanese workers were classified as either "regular" or "other" employees. This system, to a considerable degree, remains in place. Companies recruit "regular" employees directly from schools or universities and provide an employment contract with no fixed duration. In contrast, firms hire "other" employees on fixed duration contracts, which generally cannot exceed one year but may be renewed several times. Since the mid-1990's, companies increasingly use part-time workers, interns, and "dispatched workers" (i.e., workers sent from temporary work agencies) to fill temporary labor requirements. Until recently, the types of jobs that could be handled by dispatched workers were limited, but changes to Japanese labor law have increased the number and types of dispatched workers companies may employ.

Regulation of private, fee-charging employment agencies -- including firms -- has been liberalized. Although a fairly time-consuming and bureaucratic licensing procedure is still required, private employment agencies now serve virtually the entire range of occupations. Internet-based job placement services are still in their infancy in Japan,

constrained by a MHLW requirement that employment agencies personally interview all clients.

Defined contribution pension plans have been available in Japan since 2001. Such plans should promote greater labor mobility in the future, as workers are able to carry pension savings with them to new jobs. However, only about three percent of workers are currently covered by such plans and the ceiling on contributions is too low to realize the full potential of the program. In late 2007, MHLW completed a review of the first five years of the program and recommended limited changes to the law. Draft legislation to implement those changes is likely in 2008.

Foreign-Trade Zones/Free Ports

[Return to top](#)

Japan no longer has free-trade zones or free ports. Customs authorities allow the bonding of warehousing and processing facilities adjacent to ports on a case-by-case basis.

Foreign Direct Investment Statistics

[Return to top](#)

Between 1998 and 2006, Japan's stock of FDI increased from 3 trillion yen to 12.8 trillion yen. In the same period investment flows were generally strong. Net inflow turned negative in 2006 for the first time since 1989, but preliminary data show a resumption of net inflows in 2007. In 2006, Japan's FDI outflow rose to USD 50.2 billion from USD 45.5 billion in 2005. This situation reflected increased investment flows to Europe. China is also among the top five destinations for Japanese investment.

All data in the tables below are current as of December 2007, and converted into dollars using the following average annual exchange rates:

CY 2002: 125.31 yen to the dollar	CY 2004: 108.19 yen to the dollar
CY 2003: 115.93 yen to the dollar	JFY 2004: 107.49 yen to the dollar
JFY 2003: 113.03 yen to the dollar	CY 2005: 110.21 yen to the dollar
	CY 2006: 116.31 yen to the dollar

Note: negative figures indicate net outflow.

Table 1a: Net FDI Inflows (Unit: billions of U.S. dollars; balance-of-payment basis)

JFY 1997	1998	1999	2000	2001
3.20	3.27	12.31	8.23	6.19
JFY 2002	2003	2004	2005	2006
9.09	6.24	7.81	3.22	-6.78

Table 1b: Ratio of Inward to Outward FDI (balance-of-payment basis)

JFY 1997	1998	1999	2000	2001
1 : 8.1	1 : 7.5	1 : 1.8	1 : 3.8	1 : 6.2
JFY 2002	2003	2004	2005	2006
1 : 3.5	1 : 4.6	1 : 4.0	1 : 14.1	1 : 9.4

Figures were first calculated in nominal Japanese yen and converted into U.S. dollars using Bank of Japan average annual exchange rates noted above.

Source: http://www.jetro.go.jp/en/stats/statistics/bpfdi_01_e.xls
http://www.jetro.go.jp/en/stats/statistics/bpfdi_02_e.xls

Table 2: Foreign Direct Investment in Japan, by country
 (Unit: million of U.S. dollars; net and flow; balance-of-payment basis)

	CY2002	CY2003	CY2004	CY2005	CY2006
North America	3,019	-617	2,294	-636	-2,666
U.S.A.	2,451	-641	1,407	308	105
Canada	569	25	890	-944	-2,771
Asia	7	371	994	1,565	-852
China	1	-2	-9	11	12
Hong Kong	-17	38	295	960	-2,136
Taiwan	-24	80	74	-26	110
Korea	63	-101	251	31	108
Singapore	115	329	389	598	1,062
Thailand	-125	28	-1	-6	1
W. Europe	6,261	5,103	5,623	1,123	-3,938
Germany	551	1,764	1,170	237	-542
U.K.	540	-442	-310	132	1,807
France	2,213	651	1,049	-78	274
Netherlands	1,732	3,200	3,611	2,541	-7,583
Switzerland	1,043	-286	108	-748	317
L. America	-176	1,376	-1,114	1,278	566
Mexico	2	2	0	0	0
Brazil	0	0	20	1	0
Cayman Is.	-98	1,347	752	1,069	-82
TOTAL	9,089	6,238	7,808	3,223	-6,789

Source: http://www.jetro.go.jp/en/stats/statistics/bpfdi_02_e.xls

Table 3: Japan's FDI inward stock by country/region (Unit: million dollars)

	end of 2002	end of 2003	end of 2004	end of 2005	end of 2006
North America	28,289	40,222	45,919	47,729	44,273
U.S.	35,743	36,612	40,872	43,888	41,989
Canada	2,647	3,610	5,049	3,841	2,284
Asia	3,705	4,904	5,889	6,702	8,247
China	80	90	90	102	100
Hong Kong	1,460	1,793	2,136	2,612	1,928
Taiwan	1,379	1,591	1,605	1,391	1,475
Korea	210	244	537	313	423
Singapore	480	1,039	1,380	2,159	4,205
Thailand	17	49	48	42	42
EU-25	33,350	39,273	41,779	38,101	42,367

Germany	4,142	4,978	3,915	5,904	4,582
U.K.	2,695	1,692	2,310	3,033	4,983
France	10,348	12,321	13,693	10,777	11,549
Netherlands	9,868	13,541	14,210	11,654	12,175
Switzerland	2,778	2,646	3,172	2,106	3,536
L. America	2,408	4,764	3,004	8,218	12,123
Mexico	3	5	5	4	4
Brazil	12	14	33	31	30
Cayman Is.	1,749	4,186	2,666	5,599	8,400
TOTAL	78,490	89,838	97,305	101,322	107,663

Source: <http://www.jetro.go.jp>

Table 4: FDI in Japan, by industry (Unit: million dollars)
(net flow reporting basis for 2002 – 04, balance of payment basis for CY 2005 - 06)

	JFY2002	JFY2003	JFY2004	CY2005	CY2006
Manufacturing (total)	6,749	4,310	952	-2,191	254
Machinery	2,220	2,489	402	--	--
General machinery	--	--	--	164	-24
Electric machinery	--	--	--	-1,195	32
Trans. equipment	--	--	--	32	-1,408
Precision machines	--	--	--	-59	598
Chemicals	3,416	970	199	--	--
Chemicals and pharmaceuticals	--	--	--	-1,168	1,538
Metals	136	25	7	--	--
Iron, non-ferrous metals	--	--	--	-34	60
Rubber & leather	--	--	--	1	35
Petroleum	508	114	166	-44	37
Textiles	33	10	83	188	58
Foods	68	448	32	-211	-717
Glass & ceramics	3	7	--	103	193
Others	365	248	63	--	--
Non-manuf. (total)	11,186	14,412	36,507	5,414	-7,043
Farming & forestry	--	--	--	-1	11
Fish/ marine products.	--	--	--	0	-39
Mining	--	--	--	0	1
Finance/ Insurance	5,306	9,005	27,693	645	2,265
Trading	2,118	3,265	999	--	--
Wholesale & retail	--	--	--	1,157	-387
Services	2,025	955	1,263	178	122
Real estate	239	609	213	15	72
Telecommunication	1,412	535	4,338	--	--
Communication	--	--	--	912	-9,715
Transportation	22	15	1,947	2,108	28

Construction	19	10	31	41	37
Others	45	18	24	--	--
TOTAL	17,935	18,722	36,507	3,223	-6,789

Source: <http://www.jetro.go.jp>

Table 5: Japanese Direct Investment Overseas, by country
(Unit: million dollars; net and flow; balance-of-payment basis)

	CY2002	CY2003	CY2004	CY2005	CY2006
North America	8,509	11,003	7,601	13,169	10,188
U.S.A.	7,441	10,691	7,559	12,126	9,297
Canada	1,068	313	42	1,042	892
Asia	8,177	5,028	10,531	16,188	17,167
China	2,622	3,980	5,863	6,575	6,169
Hong Kong	229	-62	491	1,782	1,509
Taiwan	451	217	473	828	491
R. Korea	437	333	771	1,736	1,517
Singapore	1,884	-457	138	557	375
Thailand	528	678	1,867	2,125	1,984
Indonesia	307	484	498	1,185	744
Malaysia	257	-504	163	524	2,941
Philippines	1,074	114	6	442	369
India	146	124	139	266	512
Europe	9,721	7,943	7,097	7,509	18,029
Germany	571	714	645	270	1,128
U.K.	2,033	2,468	1,649	2,903	7,271
France	3,987	1,153	25	541	842
Netherlands.	1,447	3,454	3,337	3,315	8,497
Sweden	-327	119	-70	82	416
Spain	87	-145	183	363	136
Latin America	3,965	3,150	3,120	6,402	2,547
Mexico	225	372	191	629	-2,603
Brazil	743	1,068	-65	953	1,423
Cayman Isles	3,316	1,636	2,726	3,915	2,814
Oceania	1,440	1,139	1,856	943	723
Australia	1,151	964	1,651	640	466
Middle East	89	-38	-63	542	242
UAE	25	-47	-19	19	-56
Saudi Arabia	81	20	-38	494	254
Africa	223	430	378	25	899
South Africa	108	121	124	-17	466
TOTAL	92,039	28,767	30,962	45,461	50,165

Source: http://www.jetro.go.jp/en/stats/statistics/bpfdi_01_e.xls

Table 6: Japanese Direct Investment Overseas, by industry
 (Unit: million dollars, net and flow; reporting basis for JFY2002 – 04,
 balance of payment basis for CY 2005 - 06)

	JFY2002	JFY2003	JFY2004	CY2005	CY2006
Manufacturing (total)	14,689	16,246	13,750	26,146	34,513
Electrical	3920	5,005	2,039	--	--
Chemicals	1,916	4,749	3,530	--	--
Chemicals and Pharmaceuticals				3,363	4,413
Transport	4,916	3,013	3,601	--	--
Food	222	428	1,088	1,685	1,025
Metal	633	1,078	1,391	--	--
Iron, non-ferrous & metals				1,331	1,795
Machinery	1,288	956	1,108	--	--
Gen. Machinery				1,296	1,663
Electric machinery				4,377	7,041
Transportation equipment				8,611	8,597
Precision machinery				1,419	1,420
Rubber and leather				831	1,107
Lumber & pulp	240	28	119	826	420
Textiles	199	178	172	416	180
Petroleum				531	2,921
Glass & ceramics				258	2,759
Other	1,354	810	702	--	--
Non-manuf. (total)	21,860	19,599	21,010	19,315	15,652
Finance/Insurance	12,801	7,639	11,613	9,227	5,562
Trade	3,694	4,315	1,884	--	--
Wholesale & retail	--	--	--	4,623	5,483
Real estate	1,449	1,494	370	-851	-811
Services	1,836	1,940	2,360	1,086	188
Transportation	1,503	1,876	1,286	824	1,507
Mining	367	1,915	2,054	1,372	1,577
Construction	121	258	280	148	-64
Farming/ forestry	7	158	38	23	42
Fisheries	56	4	24	-44	28
Communications	--	--	--	1,712	-3,368
Other	27	--	--	--	--
TOTAL	36,858	36,092	34,548	45,461	50,165

Source: http://www.jetro.go.jp/en/stats/statistics/rnfdi_02_e.xls
http://www.jetro.go.jp/en/stats/statistics/bpfdi_05_e.xls

Table 7: FDI Inflow Relative to GDP (balance-of-payment basis)

	CY2001	CY2002	CY2003	CY2004	CY2005	CY2006
(a) GDP/Nom (trillion yen)	469.8	489.6	490.5	496.1	502.9	507.7
(b) FDI Inflow	0.76	1.16	0.73	0.85	0.31	-0.76

(trillion yen)						
b/a (pct)	0.16	0.24	0.15	0.17	0.06	-0.15

Source: <http://www.mof.go.jp/bpoffice/bpdata/fdi/fdi2bop.htm>

Table 8: Select New or Additional Foreign Direct Investment into Japan
December 2006 - October 2007

<u>Industry</u>	<u>Company</u>	<u>Country of Origin</u>
<u>ICT/ Software</u>		
	ARM K.K.	U.K.
	Cisco Systems	U.S.
	Founder International, Inc.,	China
	Graphisoft Japan Co. Ltd.	Hungary
	Wipro Technologies	India
	China TechFaith Wireless Communication Tech. Ltd.	China
	Polaris Software Lab Ltd.	India
<u>Manufacturing</u>		
	Henkel Japan Ltd	Germany
	Applied Materials Japan, Inc.	U.S.
	Campagnolo Japan Ltd.	Italy
	FARO Japan Inc.	U.S.
	Magna International Japan	Canada
	Rotex Japan Limited	U.K.
	SAINT-GOBAIN K.K.	France
	Texas Instruments	U.S.
	TMD Friction	Germany
<u>Medical Care</u>		
	Karl Storz Endoscopy	Germany
<u>Wholesale/Retail</u>		
	Coach Japan, Inc.	U.S.
	ZARA Japan	Spain
	L.L. Bean	U.S.

Source: www.jetro.go.jp/en/invest/success_stories/

Web Resources

[Return to top](#)

For the promotion of foreign direct investment (FDI) in Japan:

Invest Japan Business Support Center

www.investment-japan.net/index.htm

or

Japan External Trade Organization (JETRO)

www.jetro.go.jp/investjapan/

For additional FDI statistics:

www.jetro.go.jp/en/stats/statistics/

www.jetro.go.jp/en/invest/success_stories/

<http://www.mof.go.jp/bpoffice/bpdata/fdi/>