

# Low Level of Inward Foreign Direct Investment in Japan

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Shujiro URATA

Waseda University

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# Introduction

## Rapid Expansion of Global FDI: 7.3 fold from 1990 to 2011

- Factors promoting FDI
- Liberalization in FDI Policy: Attracting FDI, in order to promote economic growth, International competition to attract FDI
- Privatization of Government Enterprises
- Abundant Availability of Funds for FDI

## Low Level of Inward FDI in Japan

### Purpose of presentation

- Discuss the ways to increase inward FDI in Japan, in order to promote recovery and economic growth

# 1. Inward FDI in Japan

- Upward trend since the 1990s (Figure 1)
- Large fluctuations
- Low level of FDI with respect to GDP:
- Japan's share in World GDP is 8.4%, while the corresponding share for inward FDI stock is 1.1% (2011)
- Low Inward FDI Stock-GDP Ratio (Figure 2)
- Compared to other developed countries, the amount/cases of Mergers and Acquisitions (M&As) are low

Figure 1 Inward FDI Flows

\$US Billion

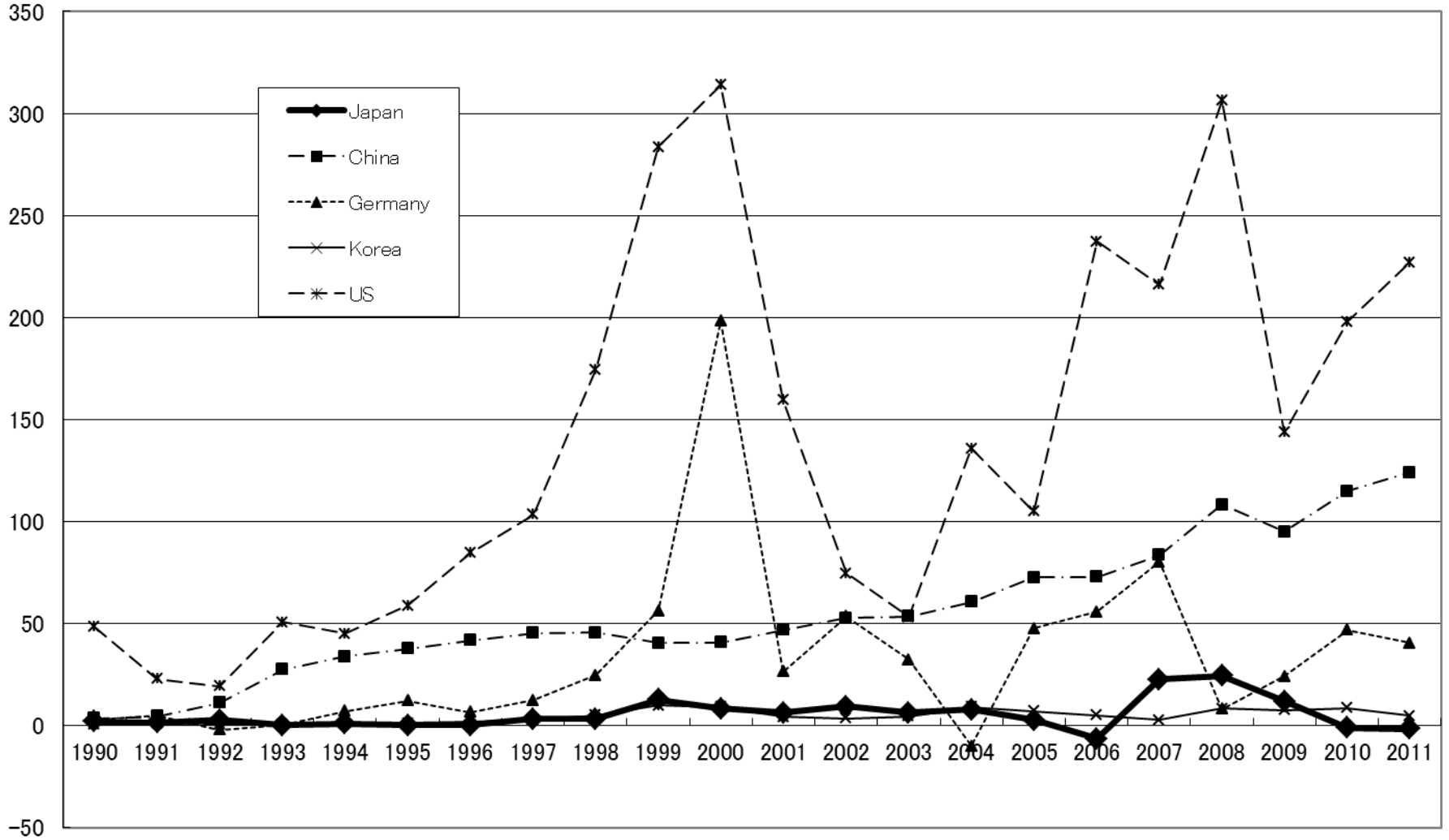
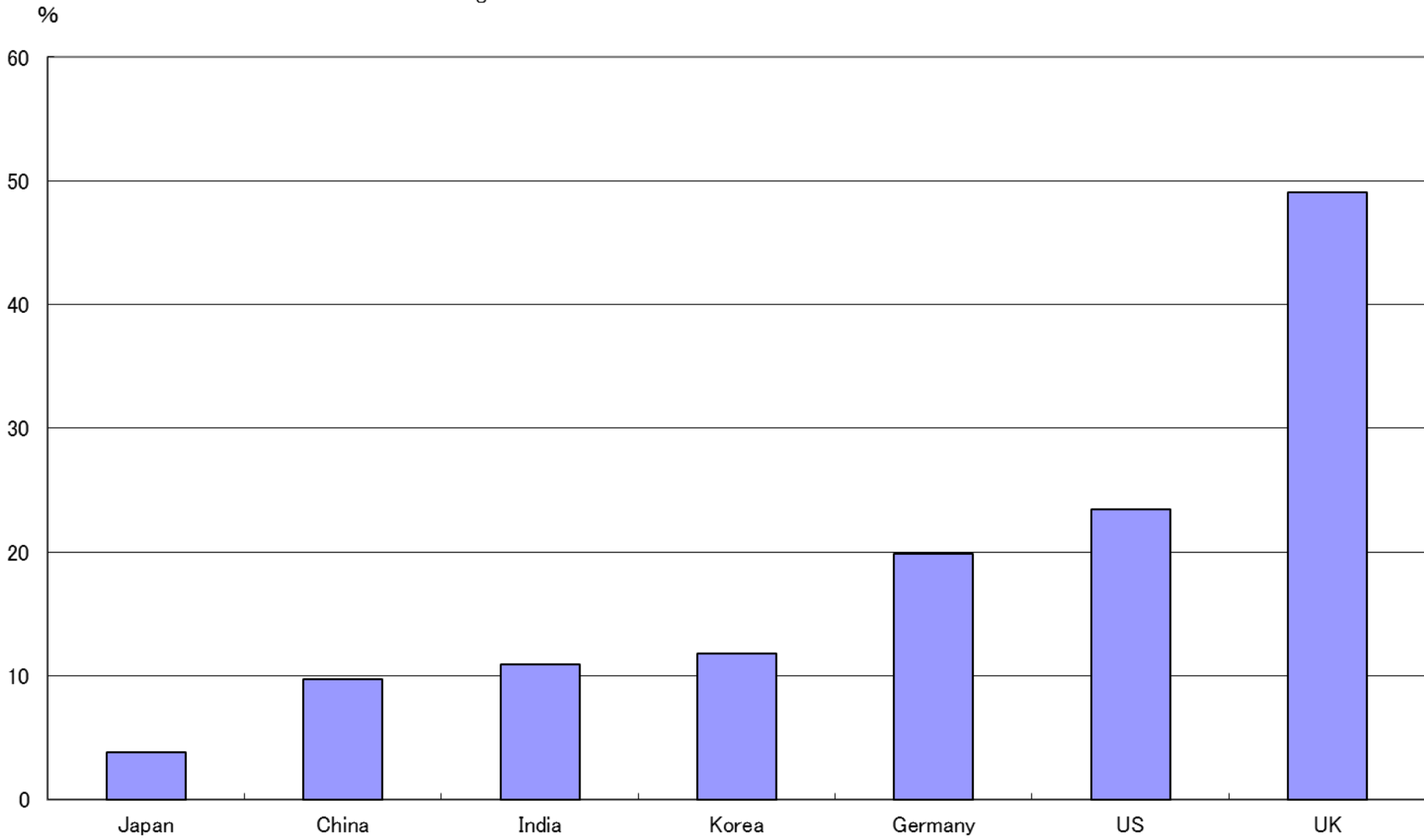


Figure 2 Inward FDI Stock–GDP Ratio : 2011



## Characteristics of Inward FDI in Japan (Table 1)

### FDI Sources

- 80% come from US and European Countries, the rest are mostly from Asia
- FDIs from Asia are increasing

### Sectoral Distribution

- Non-manufacturing 65%, Manufacturing 35%
- Non-manufacturing: Finance and insurance
- Manufacturing: Electric machinery, Transport machinery, Chemical/medical products

Table 1 Inward FDI Stock in Japan: 2011

Investing Countries/Regions	Amount		Industries	Amount	
	100 million yen	Share %		100 million yen	Share %
World	175,482	100.0	Total	175,482	100.0
Asia	20,689	11.8	Manufacturing	61,942	35.3
China	435	0.2	Food	2,450	1.4
Hong Kong	3,556	2.0	Textiles	579	0.3
Taiwan	1,864	1.1	Wood and Pulp	116	0.1
Korea	1,726	1.0	Chemicals	13,545	7.7
Singapore	12,435	7.1	Petroleum products	3,232	1.8
Thailand	86	0.0	Rubber and leather prods	174	0.1
Indonesia	48	0.0	Glass and stone products	1,788	1.0
Malaysia	427	0.2	Ferrous and non-ferrous	1,542	0.9
Philippines	55	0.0	General machinery	2,319	1.3
Vietnam	0	0.0	Electric machinery	21,171	12.1
India	40	0.0	Transport machinery	14,509	8.3
North America	56,520	32.2	Precision machinery	105	0.1
US	55,003	31.3	Non-manufacturing	113,540	64.7
Canada	1,516	0.9	Agriculture and forestry	117	0.1
Central and South America	17,607	10.0	Fishery	12	0.0
Mexico	16	0.0	Mining	56	0.0
Brazil	32	0.0	Construction	164	0.1
Cayman Island	14,322	8.2	Transportation services	759	0.4
Oceania	1,090	0.6	Communication services	3,142	1.8
Australia	875	0.5	Wholesale and retail serv	15,200	8.7
New Zealand	202	0.1	Finance and insurance	73,713	42.0
Europe	79,078	45.1	Real estate	3,426	2.0
Germany	7,486	4.3	Other services	6,764	3.9
US	12,329	7.0			
France	15,905	9.1			
Netherlands	30,978	17.7			
Italy	807	0.5			
Belgium	128	0.1			
Luxembourg	3,280	1.9			
Switzerland	4,787	2.7			
Sweden	875	0.5			
Spain	295	0.2			
Russia	55	0.0			
Middle East	161	0.1			
Saudi Arabia	12	0.0			
United Arab Emirates	24	0.0			
イラン	-2	0.0			
Africa	291	0.2			
South Africa	0	0.0			
(References)	.				
OECD countries	137,375	78.3			
ASEAN	13,059	7.4			
EU	73,143	41.7			
Eastern Europe, Russia, etc	80	0.0			

Source: Bank of Japan, Direct Investment Position by Region and Industry



## Reasons for investing in Japan (Figure 3)

- Large and high value added market, Good infrastructure, Agglomeration of companies

## Functions of Japanese Affiliates for Foreign Companies (Figure 4)

- Sales and marketing
- Manufacturing: manufacturing and processing
- Declining attractiveness of Japan compared to other Asian countries (Table 2)

Figure 3 Attractiveness of Japanese Market (# of responding firms = 2855) : 2010

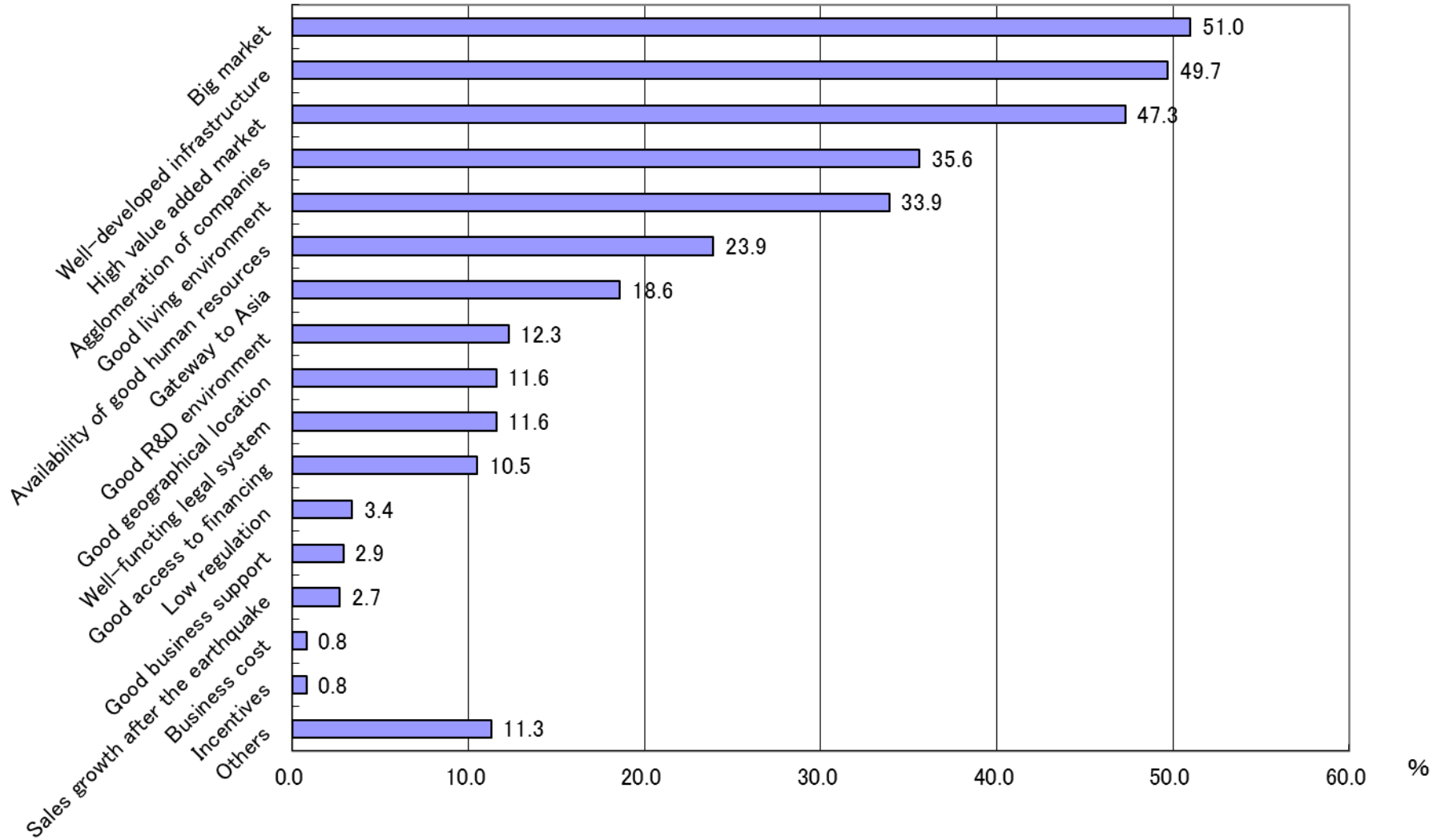


Figure 4 Number of Establishments of Foreign Companies in Japan by Function

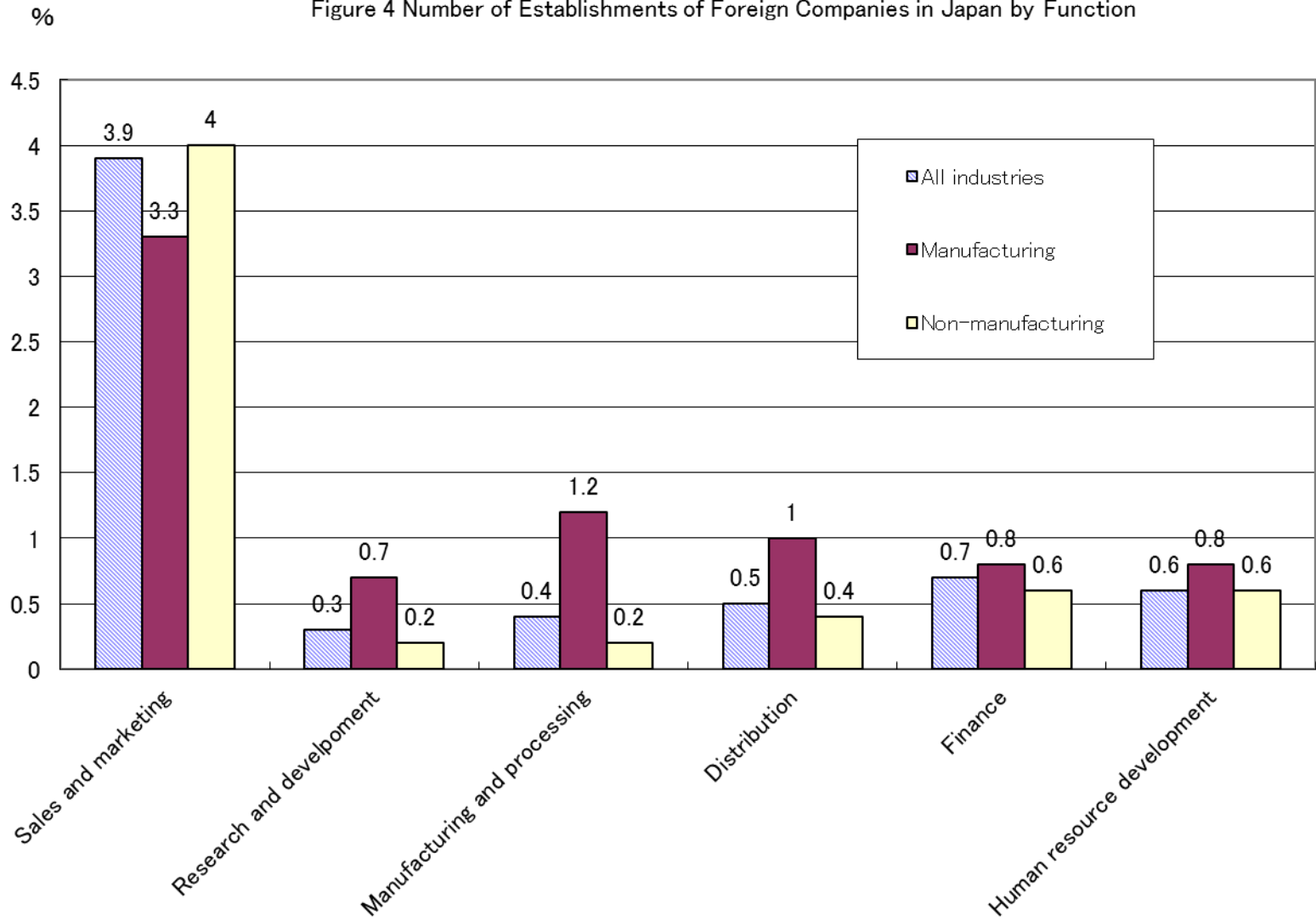


Table 2 Attractiveness of the Countries for Foreign Companies (%)

	Japan		China		Singapore		Hong Kong		India		Thailand		Korea	
	2007	2011	2007	2011	2007	2011	2007	2011	2007	2011	2007	2011	2007	2011
R&D	35	27	23	48	11	15	5	0	14	6		0	3	0
Regional head quarters	27	16	18	33	19	17	20	17	5	5	1	2	3	0
Sales base	-	17	-	34	-	14	-	16	-	5	-	2	-	0
Financial base	-	14	-	34	-	16	-	14	-	5	-	2	-	1
Back-office	18	10	23	35	15	11	14	13	14	9	1	2	3	0
Distribution base	13	5	43	64	11	6	13	3	6	1	4	5	5	0
Manufacturing base	4	6	66	67	2	4	4	0	11	3	2	8	3	0

Note: Each responding company selected a country for each base. Those cells in shades indicate top-ranking.

The number of responding firms for 2007 and 2011 surveys are 209 and 207, respectively

Source: Accenture

## 2. Significance of Inward FDI for the Japanese Economy

### Expected Contribution to the Japanese Economy

- Economic growth
- Expansion in employment, fixed investment, foreign trade (quantitative contribution)
- Technology transfer, R&D, increase in productivity (qualitative contribution)

### Current Situation (Table 3)

#### Quantitative aspects

- Employment: 523,598 employees, 1.3% of total employment
- Fixed investment: 1.7% of total fixed investment
- Exports: 8.2% of total
- Imports: 12.6% of total

#### Qualitative aspects

- High profit rate (Figure 5)
- High productivity

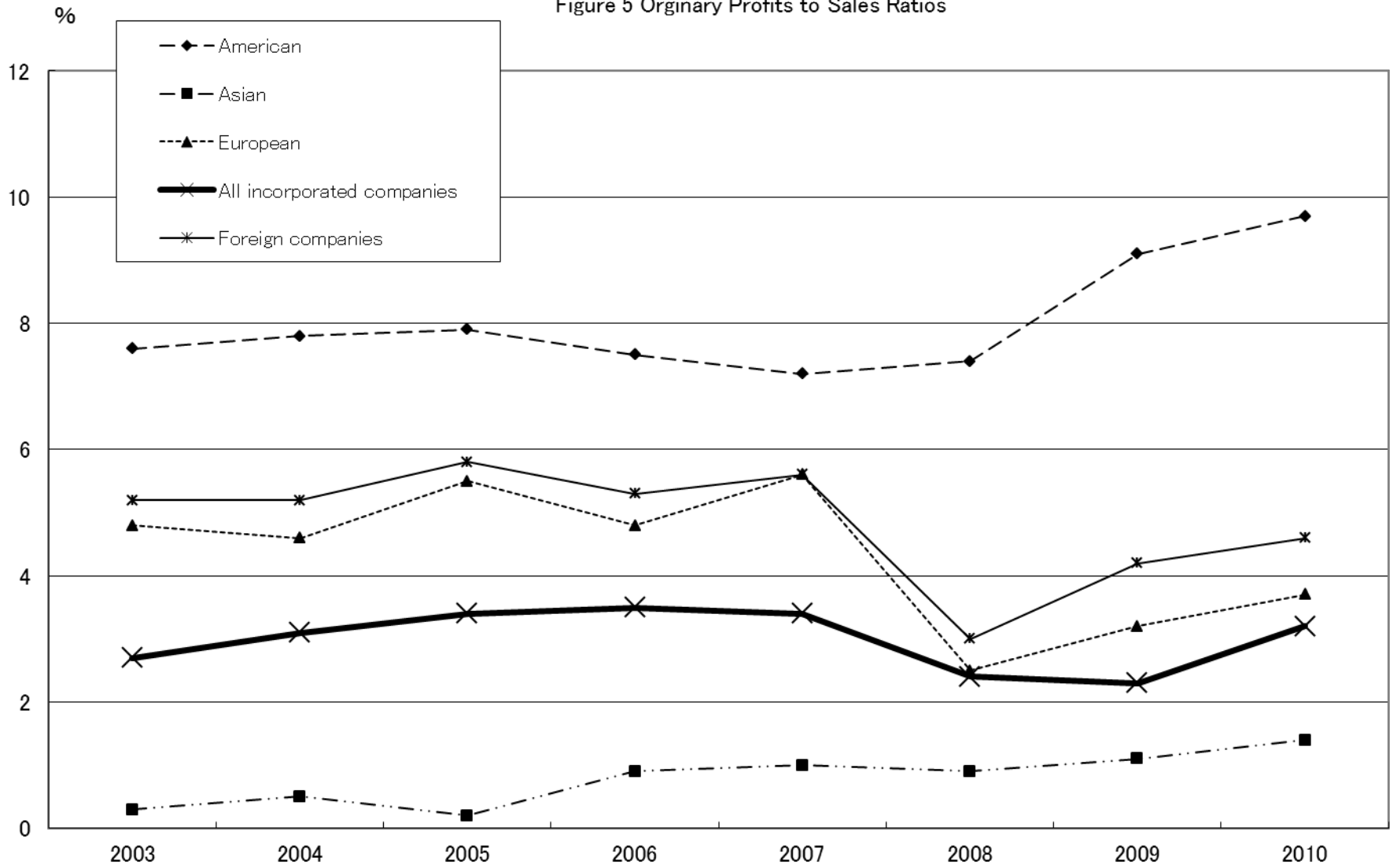
Table 3 Foreign Firms' Operation in Japan: 2010

							Units, number, 100 million yen			
		Number of companies	Number of employees	Foreign employees	Fixed investment	R&D	Sales	Exports	Imports	
All industries		2,908	523,598	12,273	8,351	7,980	430,760	55,487	82,560	
All industries (ex. Finance, insurance and real estate)		2,745	454,104	10,584	7,961	7,979	360,684	55,466	82,545	
Manufacturing		482	205,878	1,980	6,472	7,585	223,577	46,549	42,322	
	Food	13	2,068	19	44	4	1,342	3	46	
	Textiles	7	748	72	5	1	187	14	22	
	Wood and pulp	5	265	x	2	x	344	x	83	
	Chemical products	84	12,119	109	357	220	12,364	1,927	1,637	
	Medical products	27	35,518	136	216	1,284	25,298	337	5,770	
	Petroleum products	10	5,994	21	625	93	76,965	5,333	22,858	
	Ceramic and stone products	20	4,076	127	57	39	2,328	501	417	
	Iron and steel	3	381	x	6	x	300	x	x	
	Non-ferrous products	15	2,579	26	47	30	1,647	240	131	
	Metal products	16	1,178	6	9	5	397	42	36	
	General machinery	25	5,834	61	23	18	1,944	319	396	
	Production machinery	36	7,151	129	50	125	3,940	2,546	449	
	Office equipment	31	3,697	24	55	21	784	271	186	
	Electric machinery	34	4,812	89	872	121	1,942	341	396	
	Information and communication equipment	52	30,790	366	2,330	446	24,692	2,056	5,307	
	Transportation machinery	53	83,128	730	1,719	5,148	66,779	32,285	4,275	
	Other manufacturing	51	5,540	x	57	29	2,325	264	x	
Non-manufacturing		2,426	317,720	10,293	1,879	395	207,183	8,937	40,239	
Non-manufacturing (exc. Finance, insurance and real estate)		2,263	248,226	8,604	1,489	395	137,106	8,917	40,223	
	Communication services	312	27,676	2,664	278	54	13,709	140	2,555	
	Transportation services	100	10,543	241	51	x	3,910	367	324	
	Wholesale services	1,219	60,666	2,256	450	166	86,527	7,548	35,197	
	Retail services	139	32,118	430	153	14	11,102	189	1,877	
	Other services	400	47,456	975	226	157	14,334	668	151	
	Finance and insurance	138	68,114	1,670	307	x	69,424	19	16	
	Real estate	25	1,380	19	83	-	653	x	-	
	Other non-manufacturing	93	69,767	2,038	331	3	7,524	x	119	

Notes: "x" indicates that the figure is not disclosed. "--" indicates the absence of the figures

Source: METI

Figure 5 Ordinary Profits to Sales Ratios

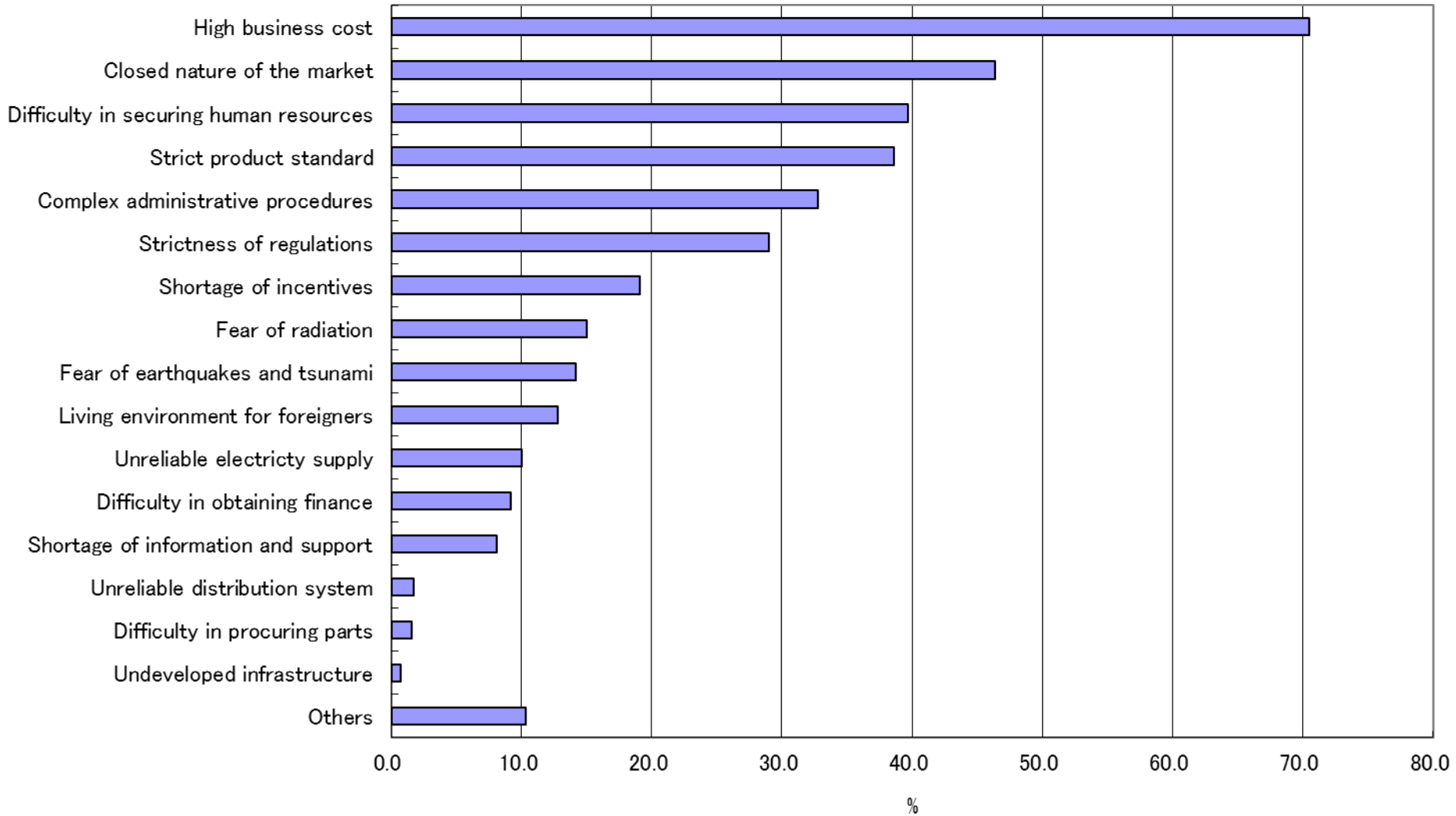


### 3. Obstacles for Foreign Firms in Making Investment in Japan (Figure 6)

- High business cost: office rental rates, wages, corporate income taxes, etc.
- Closed nature of markets: Strict regulation (Figure 7), complex administrative procedures, strict product standard
- Difficulty in securing human resources: language, management
- Shortage of investment incentives : 50<sup>th</sup> out of 59 countries, IMD, World Competitiveness Yearbook

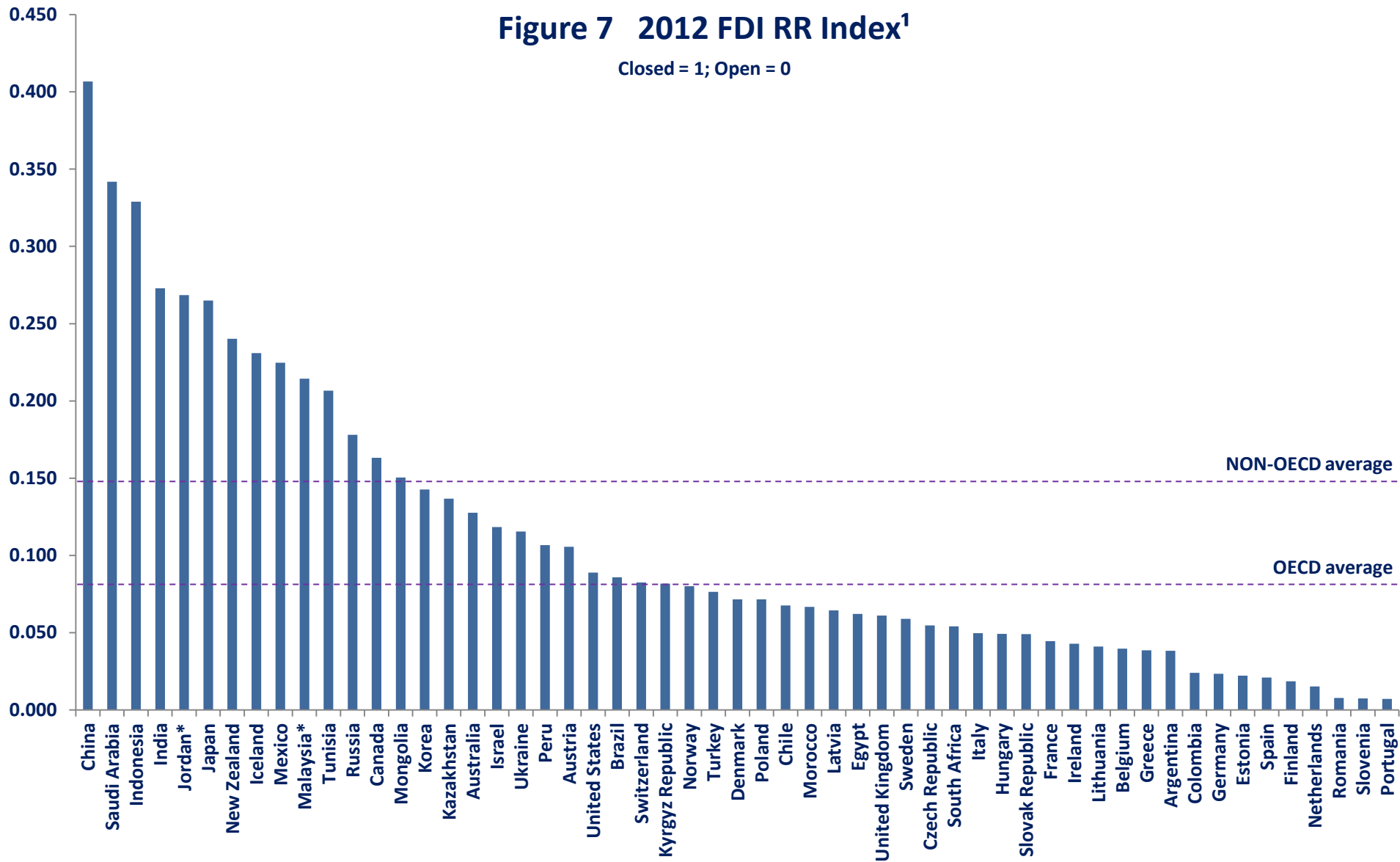


Figure 6 Problems Encountered by Foreign Firms in Japan



# Figure 7 2012 FDI RR Index<sup>1</sup>

Closed = 1; Open = 0



Notes: <sup>1</sup> Incorporates restrictions up to September 2012.

\*Preliminary scores.

## 4. Japanese Government Policy toward Inward FDI

### Central government

- Low interest loans, preferential tax treatment, government guarantee, provision of information
- Japan Investment Council (1994, Prime Minister was the chair, established Foreign Investment in Japan Development Corporation (FIND)
- Inward Investment Promotion Program (2003, target was to double the amount in 5 years)
- DPJ (2010) New Growth Strategy: Blueprint for Revitalizing Japan, doubling inward FDI was one of the target
- 2011: Round Table on the Promotion of Inward Investment, Inward Investment Promotion Program, Conference to Promote Japan as an Asian Business Center and Direct Investment into Japan

### Local government

- Preferential tax treatment, Subsidies, Sales promotion by Prefectural Governors, etc.

## 5. Toward Expansion of Inward FDI in Japan

1. Liberalization/Deregulation: expand the sectors for inward FDI, establish/enforce non-discriminatory treatment for foreign firms
2. Liberalization/Deregulation in foreign trade (improve testing procedures for medicine, medical devices, etc) in inflow of foreign personnel
3. Develop capable human resources
4. Increase attractiveness of research environment
5. Review the past investment promotion policies and draw lessons
6. Increase investment promotion campaigns (by Prime Minister)