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Insights: Alerts

Japan is Primed for Increased Foreign Direct Investment

JULY 8, 2024 Written by Yota Iemura

By any metric, Japan should have great appeal for foreign investors. It is an advanced economy with a strong market, established industrial base, renowned tech sector, a reputation for quality, and a stable and secure economy. The substantial depreciation of the Yen, which hit historic lows this year, presents foreign companies with a unique opportunity to take advantage of this prime economic situation.

Yet in practice, Japan has some of the lowest rates of foreign direct investment (FDI) of its peers—just 8% of GDP value. Why? Companies often cite Japan's unique regulatory scheme and business practices. But Japan's government has promised to boost FDI 50% (80 trillion yen) by 2030. This article outlines these new initiatives and considerations for companies that wish to take advantage of this prime economic situation.

I. Current Barriers to FDI

The Japanese government is acutely aware of barriers to entry for foreign investors. This spring, the Cabinet Office held hearings with dozens for organizations, including foreign embassies, relevant ministries, local governments, and financial institutes to identify issues foreign companies face when seeking to invest in Japan. They highlighted six areas of concern:

- **Local Partners:** Foreign companies, especially startups, seek business partners in Japan and need matching support.
- **Language:** There is a shortage of English-speaking semiconductor, IT, and technical personnel.
- **Account Delays:** Both individual and corporate account opening processes are time-consuming, with some applications being rejected.
- **Corporate Establishment Procedures:** The current process is cumbersome, involving numerous Japanese-language paper documents across several ministries. There is a call for procedures to be streamlined, digitized, and available in English.
- **Individual Procedures:** Front-office procedures are neither digitized nor available in English, making online translation services inefficient. While digital tools like translation software are desired for multilingual support, data privacy concerns present challenges.
- **Lack of International Recognition:** Despite Japan's large market size and well-developed infrastructure, it is not widely recognized as an investment destination and is perceived as unfamiliar. Promoting Japan's favorable business environment internationally is crucial.

But this is not all. Obviously, understanding relevant laws, including those related to corporate forms, taxes, and labor laws is essential when setting up a business in Japan. And Japanese labor law, for example, may prove uniquely challenging for U.S. companies used to at-will employment. Under Japanese employment law, while mutual agreement on employee resignation is acceptable, unilateral dismissal by the employer is restricted, requiring "objectively reasonable grounds" and adherence to social norms. Dismissals based on a worker's lack of ability are rarely approved. Even in cases of poor job performance, dismissal is only recognized when there is no prospect of improvement after guidance and training, or when continued employment is deemed untenable. And even dismissals aimed at reducing workforce for business or economic necessity, known as redundancy dismissals, are subject to strict conditions. These dismissals are considered valid only if they meet the following four criteria: (A) the necessity of workforce reduction, (B) efforts to avoid dismissal, (C) reasonableness of the selection process, and (D) appropriateness of the procedures.

II. New Policies Overcome Barriers to FDI

To address these issues and establish Japan as a key economic player for research and innovation, the Japanese government has adopted a series of policies aimed at brining it into the future. It has launched a "National Strategy" for Web 3.0, begun piloting its own Central Bank Digital Currency, and has also formulated an "Action Plan for Attracting Human and Financial Resources from Overseas," consisting of 100 measures aimed at promoting direct investment in Japan.

These measures are organized around four pillars and directly seek to overcome the barriers to FDI in Japan:

1. Expand Investment Opportunities in Japan

- Ensure the effectiveness and awareness of key measures in the comprehensive economic strategy.
- Identify challenges to expanding secondary investment.
- Promote Japan's investment environment to foreign companies and investors through major embassies abroad.

2. Secure High-Level Talent

- Conduct comparative studies and initiatives with other countries to secure talent in critical fields such as semiconductors.
- Investigate needs and considering specific measures regarding the status of residence.
- Attract world-class researchers and increase the acceptance and employment support for outstanding international students from Southeast Asia, India, and other regions.

3. Promote Collaboration Between Domestic and Foreign Companies

- Support match domestic and foreign companies, develop case studies on collaboration, and explore corresponding measures.
- Align with international standards for venture capital fund performance evaluation and promote the disclosure of key management indicators important to investors.

4. Improve Business and Living Environments to Meet the Needs of Foreign Companies

- Streamline and offer corporate establishment procedures in English and create a one-stop service.

- Accelerate and facilitate the process of opening bank accounts.

III. Will it Work?

Only time will tell whether Japan's focus on regulatory reform will help it attract more FDI. In the meantime, the historically low value of the yen and the renewed economic strength of the Japanese economy present foreign investors with a unique opportunity. And we will be here to help companies interested in taking advantage of it and exploring investment in Japan—such as in its thriving energy and tech sectors—overcome barriers that remain.