fDi SUPPLEMENT
WWW.FDIINTELLIGENCE.COM

Japan's investment jolt

GOVERNMENT BIDS ON FDI TO REVITALISE SLUGGISH ECONOMY

PRODUCED BY
fDi Magazine
THE BUSINESS OF GLOBALISATION

CONTENTS

Published by The Financial Times Ltd,
Number One Southwark Bridge,
London SE1 9HL,
UK Tel: +44 (0)20 7873 3000.
Editorial fax: +44 (0)1858 461873.

Staff members can be contacted by dialing +44 (0)20 7775 followed by their extension number

Editor-in-Chief
Courtney Fingar 6365
courtney.fingar@ft.com

Deputy Editor
Jacopo Dettoni 4339
jacopo.dettoni@ft.com

Global Markets Reporter
Natasha Turak 6480
natasha.turak@ft.com

Production Editor
Richard Gardham 6367
richard.gardham@ft.com

Deputy Production Editor
Andrew Petrie 6230
andrew.petrie@ft.com

Executive Editor
Brian Caplen 6364
brian.caplen@ft.com

Art Director
Paramjit Virdee 6535
paramjit.virdee@ft.com

Advertisement Executive
Daniel Macklin 4120
daniel.macklin@ft.com

Global Commercial Director
Chris Knight 6718
chris.knight@ft.com

Associate Publisher
Luke McGreevy +971 (0)4 391 4398
luke.mcgreevy@ft.com

Publishing Director
Angus Cushley 6354
angus.cushley@ft.com

B2B Marketing Manager
Lauren Drew +44 (0)20 7873 4462
lauren.drew@ft.com

Marketing Executive
Jay Seenundun 6896
jay.seenundun@ft.com

Subscriptions/ Customer services
CDS Global, Tower House, Lathkill Street, Sovereign Park, Market Harborough, Leics, UK. LE16 9EF
ft@subscription.co.uk
tel: 0845 456 1516 (customer services) 01858 438417 (overseas), fax: +44 (0)1858 461 873

Subscription rates
One-year: full price
£415/€520/$670

Please contact us for details of other currencies

The Financial Times adheres to a self-regulation regime under the FT Editorial Code of Practice: www.ft.com/editorialcode

Printed by Wyndeham Group in the UK

Registered Number: 227590 (England and Wales) ISSN: 1476-301X

Will Japan unlock its growth potential?

JAPAN PRIME MINISTER SHINZO ABE HAS ATTEMPTED TO LIFT THE ECONOMIC STAGNATION THAT HAS AFFLICTED THE COUNTRY IN RECENT YEARS WITH HIS 'ABENOMICS' REFORM POLICY. **JACOPO DETTONI** EXAMINES WHY, AFTER SOME EARLY SUCCESS, THE PLAN IS SHOWING SIGNS OF STRAIN

The phantoms of stagnation still haunt Japan despite prime minister Shinzo Abe's efforts to devise a comprehensive action plan to reignite growth and dispel deflation, commonly known as 'Abenomics'.

After assuming office in December 2012 for a second stint as head of the government (he first served as prime minister between 2006 and 2007), Mr Abe emphasised his inflationary, pro-growth strategy built around three main areas: expansionary monetary policy and budget spending, combined with structural reforms.

In its first two years, Abenomics rebuilt some confidence among local businesses and consumers as a 2% inflation target seemed within reach and GDP growth accelerated. That initial boost has gradually waned as China's slowdown, the drop in oil prices and political occurrences such as Brexit and the election of Donald Trump as US president-elect have dented Japan's export potential, cooled inflationary forces and partly frustrated Mr Abe's policies.

Today, Japan is facing falling consumer prices and economic growth close to zero. A new package of reforms aimed at, among other things, opening up the job market to qualified migrants to counter an ageing and shrinking working population is expected in the coming months.

Additionally, a long-awaited interest rate hike by the US Federal Reserve should turn the tide on the yen appreciation in the currency market, gaining Abenomics more time to trigger the virtuous circle of growing wages, consumer spending and investment that the country needs to reverse its decade-long stagnation.

Sluggish economic performance

Economic growth in Japan remained flat in the second quarter of 2016, while GDP did not expand beyond an annual 0.7%, according to government figures. Private consumption, which makes up about 60% of Japan's GDP, was unchanged at 0.2%.

"The business environment is still uncertain," says Thomas Östergren, a long-time expat in Tokyo and country manager for Atlas Copco, a Swedish manufacturer of industrial tools and equipment.

"You felt an improvement after Mr Abe came into power with the yen being weak, but still [the economy] has not taken off, and remained rather fragile. And today, as the yen has been strengthening after Brexit, expectations for the future are still uncertain. Of course, that will delay investment decisions."

EXPECTATIONS FOR THE FUTURE ARE STILL UNCERTAIN

Watering growth: a cargo terminal at Yokohama port in suburban Tokyo. A large slice of Japan's budgeted spending will go towards an economic stimulus package including infrastructure investment

The flat sentiment of the local business community was captured in the third-quarter 2016 Tankan survey, where the Bank of Japan (BOJ) surveys the expectations of businesses across the country. The index tracking the mood of big manufacturers remained unchanged from the previous two quarters, while the services sector showed deteriorating sentiment.

External observers such as the IMF have also issued a sober outlook on the country's economy. "Japan's growth is projected to remain weak, in line with potential, at 0.5% in 2016, before rising to 0.6% in 2017," the IMF said in the October update of the World Economic Outlook.

"Postponement of the consumption tax hike, the recently announced growth-enhancing measures, including the supplementary budget, and additional monetary easing will support private consumption in the near term, offsetting some of the drag from the increase in uncertainty, the recent appreciation of the yen and weak global growth. Japan's medium-term prospects remain weak, primarily reflecting a shrinking population," it added.

Abe's renewed support

Japanese voters have twice reiterated their confidence in Mr Abe's reform agenda, first in the early general elections of December 2014, when the coalition led by his Liberal Democratic Party (LDP) maintained a two-thirds majority in the lower house of the Diet and renewed his mandate as the head of the government.

The second occasion was in July, when the LDP coalition won a two-thirds majority in the upper house too, securing him plenty of political room to continue with Abenomics policies to shore up economic growth and wrest the country from its decade-long deflationary pattern.

Mr Abe beefed up public expenditure immediately after elections through a supplementary budget entailing about Y4110bn ($38.4bn) in extra spending that the Diet passed in October, bringing the total budgeted expenditure for the fiscal year ending in March 2017 to Y100,010bn, slightly above the Y100,000bn mark achieved in the first three years of the Abenomics programme. Almost one-third of the budgeted spending will go towards a Y28,000bn economic stimulus package including infrastructure investment and strengthened welfare service approved by the cabinet in August.

Central bank plans

The government's expansionary budget goes hand in hand with the BOJ's repeated efforts to defeat deflationary pressures through an aggressive round of quantitative and qualitative monetary easing (QQE) to defeat deflation and generate a 2% inflation rate.

The bank has pumped liquidity into the Japanese economy through massive bond-buying programmes since Mr Abe took office in 2012. The overall monetary base, including cash in circulation and the balance of current account deposits held by financial institutions at the bank, stood at more than Y417,600bn at the end of October, from Y130,600bn at the end of 2012, according to BOJ figures.

The BOJ board even decided to follow in the steps of the European Central Bank when it agreed to negative interest rates on banks' excess funds held on deposit at the central ▶

Shinzo Abe's 'Abenomics' action is showing signs of strain

bank in January, in an effort to encourage commercial banks to increase loans.

However, the BOJ's QQE, widely considered the most aggressive easing ever attempted by a central bank, is not translating into fast-growing credit lending as banks are hoarding cash to strengthen their own balance sheets rather than passing on to the real economy the massive flow of cheap money offered by the central bank.

As a result, despite years of aggressive monetary expansion resulting in a booming monetary base, deflation remains a tangible reality across the country, with consumer prices falling by 0.5% in August 2016 from a year earlier.

In acknowledgment of the limited results achieved with the last round of QQE, the BOJ abandoned its goal of increasing the monetary base in September to focus on controlling the 10-year yield curve and thus keep mid-term interest rates at about zero in a renewed effort to push banks to lend.

Structural reforms

Mr Abe's third strategic area of focus, structural reforms and deregulation, has probably proceeded at the slowest pace so far.

"In Japan there are a number of rules and regulations that are very specific to the country, which makes it more complicated to bring in international development because we have to adjust to tight Japanese standards. That may prove a bit difficult, and eventually slow down the pace of investment," says Alan Combier, vice-president for the north-east Asia cluster of French industrial gases producer Air Liquide.

The government reduced the corporate tax rate by 2.51% in 2015, and then by another 2.14% in April 2016, bringing it down to 29.97%. It also pushed through an overhaul of the corporate governance of listed companies to make room for independent board members. However, much has yet to be done in key areas such as deregulation and labour.

With an ageing population and shrinking workforce, combined with little immigration and foreign investment, many are calling for the country to introduce measures to boost wages and productivity to support consumption and increase the profit margins of its companies.

"Whether Japan's economy will grow in the long run depends on whether the country's labour market can successfully adapt to this changing environment," said BOJ governor Haruhiko Kuroda in a speech in October.

"Indeed, labour market reform is a vital part of the current government's policy agenda. As for the long-term economic outlook, given Japan's ageing population and low birth rate, an increase in labour force participation and a further rise in labour productivity are both essential if Japan is to lift sustainable long-run growth; in other words, to raise its growth potential," he added.

Changing the workforce?

In September, Mr Abe established a panel to examine possible solutions for pay gaps between 'regular' and growing 'non-regular' workers, to cut extreme working hours, and to help older people get back to work. The panel will also address ways for the country to better engage with foreign workers to cover the current demographic shortages.

The government is already working on a green card system for skilled foreign workers (see interview with Jetro CEO on page 12), but any measure to allow in foreign, low-skilled labour remains highly sensitive in a country that has seen very little immigration in recent years. The panel is expected to file its final proposals in March 2017.

Japan's ageing population poses a great fiscal challenge, demanding massive welfare spending. This has led to a deficit that has been gradually falling over recent years, but remained at 5% of GDP in 2015. Besides this, the country has the world's largest outstanding public debt, which is expected to hit 250.4% of GDP at the end of 2016, according to IMF estimates.

Mr Abe's reform ambitions, particularly fiscal, inevitably need to acknowledge this widening double deficit. He increased the consumption tax to 8% from 5% in 2014, but eventually decided to delay to 2019 another hike to 10%, which was originally due in June.

Despite the current uncertainties over the effectiveness of his strategy, the prime minister remains defiant over his next steps. "We'll further accelerate Abenomics and maximise the pace of moving out of deflation," he said in September during the opening of the autumn parliamentary session.

He has two years left of this term to ensure that Abenomics gains some traction and finally revitilises the Japanese economy. ■

Sticker price: Japanese car manufacturer Suzuki has bought back its stake held by Germany's Volkswagen, worth about Y500bn

Abe's FDI bet yet to pay dividends

SHINZO ABE'S GOVERNMENT IS STRIVING TO LIFT BARRIERS TO FOREIGN INVESTMENT IN JAPAN, AND ASIAN INVESTORS ARE ALREADY MAKING THE MOST OF THE IMPROVING BUSINESS ENVIRONMENT. HOWEVER, AS **JACOPO DETTONI** REPORTS, OVERALL BUSINESS SENTIMENT AMONG FOREIGN INVESTORS REMAINS SUBDUED, ALTHOUGH GRADUALLY IMPROVING

Japan's attitude towards overseas investment has often drawn criticism in the past as local companies actively chased opportunities abroad, while the domestic market remained well sealed to foreign investment.

Former EU trade commissioner Peter Mandelson emphasised this "paradox" in a visit to Tokyo in 2008, when he labelled Japan as "the most closed investment market in the developed world".

Eight years later, the country's government has taken meaningful steps to increase its FDI appeal. As prime minister Shinzo Abe made FDI a key ingredient of his growth recipe, restrictions have been lifted and reforms pushed through.

Public authorities such as the Japan External Trade Organization (Jetro) have been tasked with showcasing to would-be investors opportunities offered by the country's huge economy, still the world's third largest, and its deep scientific and technological know-how.

Boosting investment

Despite these efforts, the road ahead is still uncertain. Japan's overall stock of accumulated FDI remains by far the lowest among OECD countries, and investors' mixed feelings over the ongoing changes at policy level are reflected in volatile FDI figures.

Japanese authorities are stepping up to the challenge and remain confident that the Abenomics reforms will eventually deliver on increasing the stock of accumulated FDI to somewhere around the Y35000bn ($309bn) mark and thus assert the country's appeal in key sectors such as R&D, energy, healthcare and tourism.

Japan's stock of FDI stood at $170.7bn, or 4.18% of GDP at the end of 2015, according to figures from Unctad, which is only a fraction of that recorded by other major world economies such as the US (31.2%), China (10.94%), Germany (34%), the UK (51.3%) or the OECD average (36.14%).

Two factors

The country's historically poor performance in attracting FDI comes down to two main factors, says an expert group, led by the minister for economic and fiscal policy, which was tasked by Mr Abe with drafting policy recommendation for FDI promotion.

The first is low profitability. "Challenges include systems and practices peculiar to Japan, lack of human resources that play an active role in the global arena, and corporate governance," the group wrote in a document published after meeting with foreign companies and interested parties on five different occasions in the first half of 2014.

Second, it said, were "high costs: cited as issues on the reverse side of low profitability are business costs, tax burdens, high time and labour costs".

With these two issues in mind, Mr Abe outlined a number of reforms and measures aimed at improving the conditions for foreign investors in Japan and closing the competitiveness gap with its neighbours.

The government cut the corporate tax rate in different steps to the current 29.97%, from 37% in 2013. It pushed through a corporate governance reform opening up the board of Japanese companies to independent directors; drafted a Japanese version of a green card visa system for highly skilled foreign labour; further liberalised a number of key sectors such as energy, life sciences and tourism; and drafted a five-point roadmap to make the life of foreign investors easier.

The five points are to: overcome language barriers at retailers and restaurants; facilitate better internet connectivity; accommodate business jets at local airports; enhance the educational environment for expatriate children; and strengthen advisory and consultation services to ▶

THE INCREASING TREND OF DIRECT INVESTMENT IN JAPAN FROM ASIAN COUNTRIES IS EXPECTED TO ACCELERATE IN THE FUTURE

support foreign businesses. The aim of these steps is to develop an environment for foreign-affiliated companies to do business easily and improve the living environment for international workers.

Mixed results

These measures have produced mixed results in terms of attracting FDI so far. The country recorded negative net FDI inflows for $2.25bn in 2015, down from a positive $2.1bn in 2014 and $2.3bn in 2013, according to Unctad figures.

"Overall, negative flow was higher, caused by large-scale capital recoveries by multinational enterprises, which is represented by Suzuki's buying back of its stake held by Volkswagen of Germany – 19.9% or about Y500bn," Jetro wrote in its Invest Japan Report 2016.

"Investments from Europe were significantly negative as a consequence of these capital recoveries, whereas investments from North America maintained the positive flow at the level of the previous year as a result of investments in the electronic industry by companies such as Amkor Technology, and investments in the tourism market, including Bain Capital's acquisition of Ooedo-Onsen Holdings operating Japanese inns at hot-spring resorts."

Rise of Asian partners

FDI inflows have bounced back in the first half of 2016, however, when they reached Y2600bn, increasing eightfold from a year earlier, according to Jetro figures. Investment from Asian partners has played a key role in shoring up FDI figures in 2016 and is gradually replacing waning commitment from Western investors.

Pledges by Asia-Pacific partners made up more than 55% of total announced investment into greenfield projects in the first nine months of 2016, up 33% from the same period in 2015, partly compensating for falling levels of US and European investment, according to figures from greenfield investment monitor **fDi** Markets.

"The increasing trend of direct investment in Japan from Asian countries is expected to accelerate in the future," said the Jetro report.

Asian investors are particularly focusing on Japan's tourism and energy sectors, which combined made up 85% of the $2.46bn of greenfield investment they announced in the first three quarters of 2016. Backed by the growth of the tourism market thanks to increasing visitor numbers from Asia, real estate investment trusts and other investment funds embarked upon strategies to acquire properties such as commercial buildings and hotels.

Overall, they announced nine new real estate greenfield developments worth $1bn in the first nine months of 2016, according to **fDi** Markets. At the same time, they announced eight projects worth more than $1bn in the renewable energy sector.

If Asia-Pacific investors are becoming more active players in the Japanese market, mirroring a trend across the continent for intra-Asia crossborder investment, sentiment towards Japan in the overall community of foreign investors remains somehow subdued, although gradually improving.

More than 40% of the 197 foreign investors surveyed by Jetro in mid-July said the business climate has 'somewhat improved', or had become 'significantly better', from 32.9% a year earlier. On the other hand, only 0.5% of the surveyed firms said the business climate is 'becoming worse', from 5.4% a year earlier.

Still subdued

However, more than 60% said the business climate 'has not changed much' in the previous 12 months, which highlights the room for improvement across the board.

"Foreign investors in the Japanese market can still face numerous challenges, many of which relate more to prevailing social practice rather than government regulations," the US Department of State wrote in its 2015 Japan Investment Climate Statement.

"These include high tax rates, including social security taxes; an insular and consensual business culture traditionally resistant to M&A; a lack of independent directors on many company boards (although this is changing); and cultural and linguistic barriers. However, the current government is pursuing initiatives intended to address each of these challenges, and hopes these policies will contribute to an increasingly open and investor-friendly business environment."

Mr Abe has lots of political room to move forward with his reform agenda. The election of Donald Trump in the US has also lifted some pressure off the yen's shoulders as the dollar gained ground against all major currencies in November.

But it now appears time for foreign investors to make a move – and for domestic players to lift some of those soft barriers typical of the Japanese culture, which have often mitigated the real effect of government reforms on FDI. ■

Gas in the tank: French industrial gas supplier Air Liquide is opening a local R&D centre to support its Japanese operations

Awakening the R&D giant

JAPAN HAS BEEN AT THE FOREFRONT OF TECHNOLOGICAL DEVELOPMENT FOR YEARS, AND HOPES A NEW INCENTIVE PROGRAMME TO LURE FOREIGN INVESTORS INTO SETTING UP LOCAL R&D OPERATIONS WILL ENSURE IT REAPS THE REWARDS OF THIS FERTILE ENVIRONMENT. **JACOPO DETTONI** REPORTS

Japan's technological know-how and skilled labour force are no secret, but so far have not translated into much of a catalyst for foreign investment into R&D. The government is committed to change this and connect the country's broad base of researchers and cutting-edge technologies with foreign companies willing to establish local R&D operations.

Major foreign investors such as Johnson & Johnson, BASF and 3M have established local research centres, and other heavyweights such as Apple and Air Liquide are following suit. A subsidy programme handled by the Japan External Trade Organization (Jetro) is expected to further boost inflows of investment at the higher end of R&D activities.

Investment in R&D is a key component in prime minister Shinzo Abe's plan to revitalise and upgrade the Japanese economy. The government aims to increase investment in R&D to 4% of GDP, with public investment accounting for 1% of this and the remainder coming from the private sector. Japan is already towards the top of the global ranking for R&D spending with 3.47% of GDP in 2013, behind only South Korea (4.15%) and Israel (4.09%), according to World Bank figures. This translates into levels of patent applications and number of researchers that constantly feature at the top end of the global R&D indicator rankings.

Moving in

Nonetheless, foreign investors have barely registered the country's R&D potential. Over the past 10 years, Japan has attracted 32 greenfield R&D projects from foreign investors, worth a total of $1.1bn, which represents just a fraction of the FDI that flowed into R&D operations in other Asian heavyweights such as China (249 projects for $15.8bn) and India (190 projects for $9.3bn), according to greenfield investment monitor **fDi** Markets.

Mr Abe's strategy to open up to foreign investment, including in R&D operations, has already borne some fruit. Apple took over a 25,000-square-metre facility previously owned by Panasonic in the outskirts of Yokohama and is transforming it into a technical development centre slated to open doors in 2017. French global industrial gas supplier Air Liquide is in the process of setting up an R&D centre in the country too.

"Today Japan is a technology powerhouse, innovation is very strong in the country, people are very skilled, and we want to be in this ecosystem," says Air Liquide vice-president for the north-east Asia cluster Alain Combier. "In this way we can develop and co-develop innovation with academies and other companies to bring forward the technologies of the future in fields such as hydrogen mobility or new gases and advanced material to manufacture more powerful chips."

Subsidies available

The government's efforts to maximise foreign investment in the sector have also created a subsidy programme managed by Jetro, which the organisation's website says is offering subsidies for "innovation centres, experimental studies and feasibility studies with respect to regenerative medicine or the Internet of Things, in collaboration with Japanese companies and other organisations in Japan, with the aim of drawing investments and excellent management resources from overseas by promoting the location of high value-added sections of overseas companies such as R&D facilities, and making Japan a high value-added hub and innovation base for global value chains".

The programme covers up to one-third of the costs related to the establishment of global innovation centres, up to two-thirds of the costs for experimental studies and up to Y10m ($89,000) for feasibility studies. Global powerhouses such as Philips Electronics, Siemens Healthcare, GE Healthcare and Pfizer are among the beneficiaries of the programme. ■

Q&A: HIROYUKI ISHIGE

A more investable Japan

WITH THE ABE GOVERNMENT AIMING TO INCREASE JAPAN'S STOCK OF FDI TO Y35,000BN BY 2020, BUSINESS AND IMMIGRATION REFORMS ARE A KEY PILLAR OF ITS STRATEGY TO IMPROVE THE BUSINESS ENVIRONMENT FOR FOREIGN INVESTORS, AS HIROYUKI ISHIGE, CEO OF THE JAPAN EXTERNAL TRADE ORGANIZATION, TELLS **JACOPO DETTONI**

Q How do you assess the current investment climate in Japan?

A FDI has been growing, especially since prime minister Shinzo Abe came in power [in 2012]. He announced the growth strategy in June 2013. Since then we have experienced growth [in FDI inflows].

The Japan External Trade Organization [Jetro] started off in 2003, and we have supported a total of 15,000 investment projects since then, which resulted in 1500 projects actually materialising across the country. We have almost tripled the number of investment promotion staff – to 180 – over the past two years as this area has become an important policy target for us.

Q Mr Abe aims to increase the stock of accumulated FDI to Y35,000bn [$310bn] by 2020, from Y26,700bn in 2016. How are you planning to achieve it?

A In order to increase FDI we have to meet four conditions: a better macroeconomic conjuncture; improvement of the business environment surrounding foreign companies; delivering information about an improving business environment; and strengthening investment promotion organisations such as Jetro.

Since Mr Abe took office, the macroeconomic environment has improved substantially, at least in his first two years in office. Last year, the economy didn't improve too much, but we hope that the recovery continues. Mr Abe is trying to trigger a virtuous circle: increase wages, which will drive an increase in consumption, which increases investment and FDI, which eventually creates GDP growth, drives further salary growth and so on. We are still in the process [of developing this].

Q How is this translating into a better business environment for foreign investors?

A The business environment surrounding local and foreign companies has improved as this administration carried out substantial regulatory reforms: among others, agriculture reform, participation in the [proposed] Trans-Pacific Partnership [TPP] deal, fundamental reforms in the retail power market, and on the development of new medicines and medical equipment. It also pushed through a corporate governance reform requiring [listed] companies to have at least two independent directors on their boards.

Now there is a Japanese green card system under assessment, potentially extending to researchers, managers and other highly skilled labour. A political decision has already been taken on this, and we expect it to be in place in 2017.

Q Are you satisfied with this set of reforms?

A As Jetro, we are not yet satisfied. Regulatory reforms should be pursued endlessly – it's a never-ending story. Japan has to compete with our neighbours such as China, South Korea, Hong Kong, Singapore and Taiwan. When foreign companies invest in Japan, they evaluate investment conditions in all these countries so Japan has to be the most business-friendly country in the world, or at least in east Asia.

Q What are the main priorities that have yet to be addressed?

A Regarding the green card system, the possibility to extend it to maids and nannies has not yet been included. On a more general level, only 2% of the Japanese population speaks English, although this administration is already assisting people in improving their English. At the same time, a new package of reforms is due by the end of 2016.

Q How are you trying to communicate these ongoing improvements to the international business community?

A Mr Abe has given six speeches at investment forums in foreign countries, something that has not been done by any other prime minister. At the same time, Jetro has organised 120 investment seminars in the past 18 months. People abroad don't know Japan. They don't have appetite for investment in the country; they don't know that things have been changing.

Q What are the opportunities for foreign investors in Japan today?

A First and foremost, R&D centres. A significant number of foreign companies have already decided to establish an R&D centre in Japan. They can easily find good partners in local universities and companies, as well as hire good researchers. With 10.5 researchers per 1000 inhabitants and R&D expenditure of approximately 3.4% of GDP per year, Japan boasts the second highest ratio among the top 15 countries by GDP, and is second only to the US for number of Nobel laureates in natural sciences [from 2000 to 2016].

In addition to that, Japanese women are very demanding consumers, which is why companies such as Johnson & Johnson release new items onto the Japanese market first. And products developed in Japan can now be sold to countries elsewhere in the region because their levels of income have grown significantly and they can afford products from Japan.

At the same time, Japan offers foreign companies high levels of intellectual property protection, which is a significant factor compared with neighbouring countries.

Q Is there any specific incentive to cover the risks related to R&D research?

A We are offering grants for up to Y1bn for companies doing experimental research and establishing R&D centres, and have already backed 11 projects.

Q What other sectors offer opportunities for foreign investors?

A Medicine and medical equipment is another sector with opportunities for foreign investors. Japan has an ageing population, which means a huge demand for the industry. And the government has liberalised the development of new drugs, making approval periods shorter.

Tourism-related sectors also have potential. We have many tourists, with Chinese and Singaporean companies servicing visitors from their countries. For hotels, travel agents, finance and other related services, it's a very promising sector.

Q Japan is perceived as an expensive place to live and do business in. Is this hampering its FDI potential?

A This is an obsolete idea. Tokyo's cost comparison with cities such as Hong Kong, Singapore and Shanghai is very competitive, which means that other second-tier cities are even more competitive. Foreigners tend to see Japan as expensive, but costs are not that high, and since deregulation was introduced, the business environment surrounding foreign companies has dramatically changed.

Q How can foreign investors bridge the culture gap that is also perceived as a challenge to develop partnerships with local businesses?

A It's not easy, but if Japanese companies become more familiar with foreign peers, then cultural differences in fields such as corporate governance will disappear. Our SMEs have cutting-edge technology, but they are unfamiliar with foreign companies – this will gradually disappear moving forward.

The TPP agreement [could give] them a very important chance to change their mindset. Potentially their market [would be] not only Japan but a market of 3 billion [on both sides of the Pacific Ocean]. *(NB: This interview took place before Donald Trump's US election victory.)*

Q Tokyo is hosting the 2020 Olympic games. Is this another chance for Jetro to promote the country's business proposition abroad?

A This is a great chance to disseminate information regarding Japan. We are trying to deliver the message and the Olympics offer a great chance for the government and companies to share their thinking and to spread the word. The UK has been very successful in doing this with the games in London; we want to do the same. ■

CURRICULUM VITAE

HIROYUKI ISHIGE

2011

Japan External Trade Organization

Chairman and CEO

Previously

Permanent Mission of Japan to the International Organizations, first secretary; Sompo Japan Insurance, adviser

Rising sun seekers

ANNUAL VISITORS TO JAPAN LOOK SET TO EXCEED THE 20 MILLION MARK FOR THE FIRST TIME EVER IN 2016, CREATING NEW TOURISM INVESTMENT OPPORTUNITIES, AS **JACOPO DETTONI** REPORTS

Peak viewing: soaring numbers of overseas visitors to sights like Mount Fuji are good for Japan's investment climate

Japan's tourist industry is flourishing as the number of visitors attracted to the land of the rising sun and cherry blossom, particularly those from Asian countries, continues to grow year on year beyond even the most optimistic expectations.

The government, led by prime minister Shinzo Abe, is now looking to capitalise on the growing trade and investment opportunities this new wave of Asian tourists brings, and has already eased several regulations to encourage further visits and consumption.

The number of foreign visitors to Japan reached a record 19.7 million in 2015, up from 13.4 million and 10.4 million in 2014 and 2013, respectively, according to figures from the Japan National Tourism Organization (JNTO). They continued to rise throughout 2016, and are on track to set new records as visitors reached 11.74 million in the first half of the year, exceeding the 10 million mark for this period, JNTO estimates show. On top of this, the figure for July alone was 2.3 million visitors.

Asian visitors

Seven in 10 tourists visiting Japan come from Asian countries, particularly from China, which accounted for 4.99 million visits in 2015, South Korea (4 million), Taiwan (3.68 million) and Hong Kong (1.52 million).

"The increase shows that Japan's reputation as a tourist destination is taking root despite the tendency of a strong yen," the Japan External Trade Organisation (Jetro) said in its 2016 Invest Japan Report.

"The rapid increase of tourists may be a result of various measures including a relaxing of visa requirements for 14 countries with a focus on the Association of South-east Asian Nations [region]; a great increase in the landing slots at Haneda and Narita Airports; and an expansion of exemption of consumption tax for foreign tourists to cover consumables including foods, drinks and cosmetics."

Investment opportunities

The growing number of Asian visitors to Japan is quickly translating into growing consumption levels. Their total spending in the country increased to Y3500bn ($30.6bn) in 2015, up by 47% from a year earlier. The government is now aiming at reaching 40 million visits, with total spending of Y8000bn, by 2020.

"In order to continue the increase of foreigners visiting Japan experienced in these [past few] years, it is necessary to make their trips more comfortable by revising our tour guide-interpreter system, deregulating vacation rental rules, further relaxing visa requirements, utilising high-speed transportation, and improving the convenience of our airports, in addition to unearthing local tourism resources and developing tour routes," Jetro suggests in its report.

"Some of the issues, such as the regulation of the tour guide-interpreter system, have already been taken up by the Council for Regulatory Reform, and a bill to eliminate the monopolistic status of tour guide-interpreters is scheduled to be proposed in parliament. The point is to increase visitors from regions outside Asia, repeat tourists and long-term visitors."

Foreign interest

The growth in visits from Asian countries is also driving new investment into the tourist sector from foreign investors looking to capitalise on the renewed interest in Japan from its neighbours. Among others, China's Shanghai Spring Investment Management teamed up with Sun Frontier Fudousan to open an urban hotel in the Aichi prefecture to tap into the growing demand for hospitality services there.

Ctrip, China's largest online travel agency – which has just taken over UK travel price checking business Skyscanner for £1.4bn ($1.76bn) – increased its footprint in the country with a second office in Osaka, in addition to the company's Tokyo operations. Rival Trip Advisor has also opened up in Japan with a Tokyo office. Meanwhile, another Chinese investor, consumer electronics and home appliance retailer Suning Commerce group, has unveiled plans to open 26 new duty-free shops across Japan. ■