

Foreign Capital Welcome

Itsushi Tachi, the Cabinet Office's deputy-director general for economic and fiscal management, explains the importance of promoting investment in Japan.

Investment in Japan does more than merely bring in risk money. It is an extremely important tool in terms of revitalizing the Japanese economy as it also provides the country with new technology and new business models and creates jobs for local people.

A look back at recent trends in investment in Japan reveals that the 2001 plan to double incoming investment proved successful over the five-year period from 2001 to 2006. In an effort to accelerate investment even further after that, the government then set out the target of doubling investment as a percentage of GDP to 5% during the period from 2006 to 2010. In spite of such substantial increases however, the level of investment in Japan is still low relative to other members of the international community. With investment in the United Kingdom and other European countries coming in well over the 20%

mark, the level of investment in Japan will still be on the low side even if it is doubled.

The issue that we need to address is what sort of specific action to take to promote investment in Japan. We are therefore actively working to promote regional investment as part of such a program of accelerated investment in Japan, through initiatives such as providing support for local authorities via JETRO, using special zones to create an environment conducive to foreign investment in regional economies, enacting the Companies Act and working to establish an R&D tax system.

As part of our promotional efforts, we have established the Expert Committee on Foreign Direct Investment (FDI) Promotion, chaired by Chiba University of Commerce President Haruo Shimada. The committee put together a set of recommendations in May 2008, revolving chiefly around five key points.

The first of these points is M&A, which has become one of the prime methods of promoting investment in Japan. This means that M&A have to be able to proceed smoothly to ensure progress in terms of foreign investment. The committee therefore recommended that acquisition rules should be coordinated and clarified to facilitate M&A. In the business world in Japan, there is still a lingering sense that acquisitions are to be regarded as something of a threat. In fact however, Japanese companies continue to engage in extensive M&A in other countries, something that has enabled them to rapidly expand their business activities. Japanese companies also use M&A to develop their businesses and move into new fields. Even within Japan, companies are starting to realize that accepting M&A from overseas companies is an extremely important

way to revitalize their businesses. In addition to promoting this sort of awareness, we also need to create an environment in which takeover defense measures benefit society as a whole and all those concerned, and where M&A are able to proceed in such a way that they have a positive impact on the community in terms of enhancing corporate value and creating employment, and make the entire M&A process more transparent. In that respect, the committee is essentially recommending the creation of the right sort of environment.

Despite the introduction of a forward triangular merger system to enable cross-border M&A, there has only been one case of the system being put into practice to date. The committee's recommendations underline the need to look into improving this system in order to bring it into wider use. They also refer to the aforementioned aversion to M&A in Japan. In particular, the further out you go into rural areas, the stronger this aversion to M&A tends to become. It is essential to do away with such notions and establish a nationwide understanding that M&A can benefit each and every one of us and help revitalize regional economies. The committee recommends that top government officials, including the prime minister and cabinet ministers, heads of local authorities and leading economic figures all need to send out the message that Japan welcomes overseas investment.

Simple Rules

The second key point revolves around the need for comprehensive studies into optimum regulations on foreign capital. Despite the fact that Japan imposes regulations on foreign capital in accordance with those set out in the OECD Code and also transparently enforces the Foreign Exchange Law, regulations still need to be made easier to understand for overseas investors. As highlighted at the Toyako G8 Summit in Hokkaido, the basic principle behind the introduction of regulations on foreign capital is that regulations should be unrestrictive and non-discriminatory. Needless to say,



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in exceptional cases in which regulations on foreign capital *are* required, regulations must be enforced transparently based on definite boundaries and clear grounds.

The government is currently making preparations to conduct the necessary studies. Revisions to the Airport Act are one example that has made the news recently, with even a review panel chaired by the Chief Cabinet Secretary expressing a view that we need to formulate and introduce foreign capital regulations that do not discriminate between domestic and overseas companies. The Cabinet Office established the director-general level meeting for comprehensive studies on FDI regulations, which comprises all concerned ministries, in December. The study will continue until the end of this fiscal year.

The third key point is the establishment of sector-specific priority strategies. Although it is important to promote investment in Japan from an overall perspective, the committee's recommendations highlight key sectors on which the government should be focusing on a priority basis, underlining the need to put together a program of action targeting sectors that are of particular importance in order to improve people's lives in Japan and revitalize the Japanese economy. In the medical device and pharmaceutical sector, the committee looked into the formulation of a priority action program targeting medical devices in particular. One of the major issues that emerged was Japan's so-called device lag. Devices inserted into the body, such as pacemakers and insulin injectors for diabetes sufferers, and other advanced medical equipment in use in other countries are currently being de-

veloped at a tremendous rate, making it possible to provide patients with advanced treatment that precisely meets their needs. In Japan, on the other hand, there are delays of between five and ten years before such devices can be used, depending on the device in question. The reasons behind this lag include an exceptionally fragile governing framework, overseen by the Pharmaceuticals and Medical Devices Agency (PMDA), the Japanese equivalent of the Food and Drug Administration (FDA) in the United States, and public awareness with regard to the potentially harmful effects of certain drugs. Medical devices may pose risks, but they also bring benefits. It is crucial to establish a framework whereby the risks can be effectively weighed against the benefits and devices brought into use quickly. In response to this issue, the government has pledged to formulate an action program to resolve Japan's device lag before the end of the year.

At the 4th Expert Committee on FDI Promotion held in December, the Ministry of Health, Labour and Welfare published "The Action Program for Speeding up of Reviews for the Approval of Medical Devices."

The fourth key point revolves around reducing business costs and improving institutional transparency. The committee recommended that Japan needs to establish a system of taxes and business costs that will make it a more attractive investment proposition to companies and investors amidst increasing global competition. In reality, from an international standpoint Japan has the highest nominal rate of corporate tax out of all of the OECD member countries. The committee therefore recommends that

Japan should look into reviewing and substantially overhauling its tax system based on the rate of corporate tax for which companies are liable.

On a related note, the committee also addressed the need to drastically improve the "no-action letter" system and written reply procedures for taxes.

Revitalizing the Regions

The fifth and final point raised by the committee deals with the need to revitalize regional economies through foreign investment and reinforce the message that foreign capital is welcome in Japan. Acting alone, individual towns, villages or even prefectures can struggle to communicate what their respective regions have to offer to overseas companies effectively and efficiently. As each region only has access to limited resources, they need to work together across a wider area in order to efficiently appeal to foreign investors. One example devised with this in mind is the Greater Nagoya Initiative. In conjunction with organizations such as the local Bureau of Economy, Trade and Industry and JETRO and working in cooperation with the likes of local economic leaders and local authorities, the initiative is aimed at showcasing the wider area around Nagoya to overseas investors, with efforts to attract foreign capital and overseas sales activities already underway. It is vital that strategic activities aimed at attracting foreign investment are also extended to other wider economic areas in the same way.

The final goal of regional revitalization in Japan is one of the most pressing issues facing the Aso administration. The situation with regard to Japan's regional economies is particularly critical, as the number of areas suffering from rapid depopulation as a result of the country's aging population continues to rise. Japan is already in a position whereby producers in such areas no longer have any real prospect of achieving growth in the future or even maintaining their current level of business based on local markets alone. This is a major issue, characterized by the fact that it is extremely difficult for regional economies to identify their comparative ad-

Kaga Hyakumangoku Project

Tamamo Ange Saito's mother, Emiko Saito, set up the Kaga Hyakumangoku Project in order to showcase Kanazawa city to the rest of the world and strengthen exchange with other countries.

She first visited Kanazawa at the invitation of a friend and got her first taste of the local culture around ten years ago. Located in the Hokuriku area of Japan, Kanazawa has a similar feel to Kyoto and is one of the country's most popular sightseeing destinations after Kyoto itself and Nara. The traditional forms of culture with which Emiko came into contact there, including Kaga Yuzen fabric, Kutaniyaki ceramics and gold leaf work, are all works of art that typify the Japanese sense of beauty. These are all examples of what is known as Kaga traditional culture, after the area of Kanazawa that was named Kaga during the Edo period (1603–1867). The Kaga area continues to support local industry even today, not only in terms of tourism but also handicrafts.

"It was more than the traditional culture of Kaga though," explains Emiko, "I was really moved by the spirit of hospitality in Kaga." She is referring to the hushed sense of beauty and tranquillity that everyone who visits the area experiences, in everything from being welcomed into a traditional Japanese inn to the unpretentious beauty of the designs on the kimonos worn by people you pass in the street or the elegant dishes and style in which food is served.

In the ten years since she started coming to Kanazawa, Emiko has met people in other countries who are familiar with Kyoto and Nara, but hardly any who have heard of Kanazawa.

She was confident that sharing the Kaga spirit of hospitality with the rest of the world would enable not only Kanazawa but also other areas away from the well-known tourist spots to show people the world over everything they have to offer. It was this belief that prompted her to set up the project.

Given the nature of music as a universal language and her own long-standing involvement with classical music as a result of her daughter's activities as a violinist performing in cities such as Paris and Berlin, Emiko put the idea to Professor Yves Henry from the National Conservatory of Music in France that fusing classical music with Japanese culture would give the music a little something extra.

Emiko showed Professor Henry a new sample of Kaga Yuzen fabric and asked if he could use it as inspiration to compose a piece that would capture the soul of Japan.

He responded by producing a beautiful, richly diverse piece evoking the tenderness and strength of Japan, its spirit of hospitality and the vibrancy of modern Japanese women, all woven together in the shimmering style of Kaga Yuzen fabric. Simply entitled *Kaga Yuzen*, the piece is scheduled to feature in concerts and other performances from next year onwards.

Emiko has continued to undertake a range of activities, including opening a shop to showcase and give people a taste of Kaga culture, in conjunction with the local chamber of commerce, local authorities and university staff amongst others.

"I hope that the project will go beyond Kaga Yuzen and help promote exchange between Kanazawa and the rest of world and strengthen mutual understanding," she enthuses. "I hope that it will provide the momentum to help revitalize the local economy."


Hitoshi Chiba, The Japan Journal

vantages within a global environment and seek out overseas markets.

One solution to this issue is to work together with foreign companies that are familiar with overseas markets so as to rediscover regional resources that are most attractive to overseas investors through the eyes of experts from other countries. If they promote such resources and translate them into exports or use them to attract foreign tourists, communities have a perfectly good chance of survival. Promoting this sort of investment is becoming extremely important.

A specific example of this approach comes in the form of the Kaga Hyakumangoku Project in the Ishikawa Prefecture city of Kanazawa on the shores of the Sea of Japan (see **box**). International female violinist Tamamo Ange Saito and her mother, Emiko, are both involved in a range of activities designed to help revitalize the area. Saito is a talented young performer who has been invited to take part in the Bach Festival next year, the first Japanese person to do so. She is even trying to bring something new to overseas classical music by combining it with traditional Kaga culture. Based primarily around music, the aim of the Kaga Hyakumangoku Project is to organize activities that showcase the appeal of the local area to people in other countries through works of art.

If activities such as these were to spread throughout the country and Japan's highly attractive, diverse and distinctive regions were to work together with other regions around the world, it would undoubtedly enable Japan to grow and develop whilst also reinforcing exchange with other countries in terms of both markets and human resources.

All of the above recommendations were incorporated in the revised "Program for the Acceleration of Foreign Direct Investment into Japan" this fall. The program was reported to the 4th Expert Committee on FDI Promotion this December. The Government of Japan aims to achieve the goal of doubling FDI stock through steady implementation of the Program. 

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