



## Overview of Recent Policies and Measures to Attract Foreign Direct Investment into Japan

In recent years, the government of Japan has been implementing various kind of policies and measures to facilitate foreign direct investment (FDI) for the purpose of revitalizing the domestic economy, fostering the country's competitiveness in the global economy, and promoting innovation and technology development in Japan. In 2013, the Japanese government set a KPI target of "doubling inward foreign direct investment to 35 trillion yen by 2020". This target was achieved when FDI, at the end of December 2020, reached 39.7 trillion yen (appx. US\$260 billion). In 2021, the government set a next target of doubling FDI to 80 trillion yen (appx. US\$530 billion) by 2030 and has been implementing new policies and measures to further attract FDI.

Under these circumstances, in April 2024, Microsoft and Oracle Corporation Japan have respectively announced that they will make significant investments for cloud computing and AI infrastructure building in Japan. Further, in May 2024, Carlyle Group announced that the group was raising JPY 430 billion (appx. US\$2.8 billion) for its new Japan buyout fund. In light of these new trends, we would like to provide a brief overview of these new policies and measures for foreign businesses who are considering to invest in Japan.

### 1. Action Plan for Attracting Human and Financial Resources from Overseas

On April 26, 2023, the Cabinet decided on the "Action Plan for Attracting Human and Financial Resources from Overseas"<sup>1,2</sup> (hereinafter referred to as the "Action Plan") which aims to actively attract people, goods, money, and ideas from overseas with the goals of positioning Japan as a production and research center (knowledge exchange), promoting R&D and innovation, and strengthening growth capabilities through increased investment in Japan.

The Action Plan includes the following five specific initiatives:

- (1) Stimulating investment in strategic sectors and restructuring global supply chains in light of changes in the international environment which are based on: promoting investment and enhancing the attraction of local areas in important fields such as semiconductors, DX, GX and bio-healthcare; and expanding nationwide human resource development consortium through a collaboration of industry, academia and government.
- (2) Strategies to form Asia's largest startup hub by concentrating support for 8 Startup Ecosystem Base Cities and making visas for foreign entrepreneurs more convenient.
- (3) Attracting highly skilled foreign professionals and improving the system for establishing a center of global knowledge exchange by establishing a new residency qualification system for highly-skilled foreign professionals.

<sup>1</sup> [http://www.invest-japan.go.jp/committee/action\\_plan\\_en.pdf](http://www.invest-japan.go.jp/committee/action_plan_en.pdf)

<sup>2</sup> [http://www.invest-japan.go.jp/documents/pdf/action\\_plan\\_gaiyou\\_en.pdf](http://www.invest-japan.go.jp/documents/pdf/action_plan_gaiyou_en.pdf)

- (4) Improving the business and living environment to attract human resources and investment from overseas by enhancing the functions of an international financial center, promoting GX investments and loans, improving the educational environment of international school students, building a nationwide platform that provides information on hospitals with multilingual services and expanding inbound tourism by attracting MICE (meetings, incentive travel, convention and exhibitions).
- (5) Strengthening an all-Japan effort to execute the Action Plan by establishing various task forces, executing a PDCA cycle and holding business summits with the participation of top executives from foreign companies.

With a changing economic and social environment in Japan and abroad, the Japanese government views this situation as an opportunity for growth and aims to achieve the FDI stock in Japan to JPY 100 trillion (appx. US\$670 billion) at an early stage by accelerating efforts based on the Action Plan.

## **2. Policy Plan for Promoting Japan as a Leading Asset Management Center**

The Policy Plan for Promoting Japan as a Leading Asset Management Center<sup>3</sup> outlines the strategies and initiatives that aim to foster a conducive environment for investment, enhancement of asset management capabilities, and promoting sustainable economic growth.

The current Cabinet, the Kishida administration, aims to encourage investment of household financial assets into productive channels that increase corporate value and subsequently benefit the households. Several measures have been taken to strengthen the investment chain, which include expanding tax exemption programs for retail investors.

Following these measures, the government seeks to reform the remaining pieces of the investment chain, asset management business and asset ownership, which are responsible for managing household financial assets, etc. The policy has five pillars, the key points being as follows:

- i. Reforming the Asset Management Sector:
  - Emphasis is placed on enhancing asset management capabilities, improving governance, and promoting stewardship activities among asset owners and management companies.
  - Measures include developing productive governance principles, promoting new entry of domestic and overseas firms into the sector, and establishing special zones for financial and asset management businesses.
- ii. Reforming Asset Ownership:
  - Asset Owner Principles will be developed to guide asset owners in managing assets effectively and transparently.
  - Efforts will focus on improving the management capabilities of corporate pension funds which are defined benefit corporate pension plans (DBs) and defined contribution pension plans (DCs.)
- iii. Promoting Growth Financing and Diversification of Investment Opportunities:
  - Initiatives will promote investment in startups and unlisted equities, as well as diversifying investment opportunities through alternative and sustainable investments.
- iv. Effective Implementation of Stewardship Activities:
  - Efforts will be made to enhance engagement between investors and companies to increase medium to long term corporate value.
- v. Strengthening Public Relations and Communications:
  - An Asset Management Forum will be launched to facilitate dialogue among stakeholders and promote Japan as a leading asset management center.

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<sup>3</sup> <https://www.fsa.go.jp/en/policy/pilamc/20231214.html>

For those who are interested in investing in asset management industries in Japan, the first pillar, Reforming the Asset Management Sector, will be beneficial. Currently, it is often pointed out that there are several unique Japanese business practices and entry barriers which have prevented new entry of financial firms into the Japanese asset management sector. Such practices and barriers are planned for removal. Moreover, in special zones for financial and asset management businesses, consideration will be given to both local initiatives and national support that include tax and financial support and enhancement of administrative services which include greater availability of services in English.

In terms of Effective Implementation of Stewardship Activities, it is worth noting that a recent bill to amend the large shareholding reporting rule was passed by the Japanese Diet on May 15, 2024. The large shareholding reporting rule requires shareholders whose holding ratio exceeds 5% of the issued and outstanding shares of a listed company to disclose their positions by filing a report. Under the rule, it is clarified that shareholders may become “joint holders” of shares in a listed company from the reporting rule perspective, if there is an agreement among them to exercise voting rights or other shareholder rights together (e.g., if they jointly submit a formal request to the listed company to convene an EGM). In these circumstances, the joint holders are required to aggregate their shareholding and disclose the same on a joint basis. It was pointed out that the unclear scope of “joint holders” under the previous large shareholding reporting system had been an obstacle to engagement activities by institutional investors. The government will promote effective engagement efforts by making those rules clearer.

### 3. Act for Promotion of Japan as an Asian Business Center

The Act for Promotion of Japan as an Asian Business Center<sup>4</sup> aims to encourage multinational corporations to establish affiliated companies in Japan that conduct research and development (R&D) and/or perform supervisory functions over other affiliated companies. The Act provides the following key support measures to attract inbound investment:

- i. Assistance for Fund Raising: The Small and Medium Business Investment & Consultation Co., Ltd. provides fund-raising assistance for small/medium-sized companies (including companies capitalized not less than JPY 300 million) newly established by the multinational corporation to conduct R&D or supervisory business.
- ii. Acceleration of Patent Examination: In Japan, an ordinary patent examination takes approximately 22 months. Instead, for the patent applicant who has developed an invention in the course of implementing the R&D plans certified by the relevant authorities, this measure shortens the examination period to approximately 2 months.
- iii. Shortened Investment Procedures: Generally, foreign investors are required to give prior notification to the competent authorities and wait for 30 days after giving of such notice before investing in Japanese entities operating in regulated industries under the Foreign Exchange and Foreign Trade Act. This measure shortens the waiting period to 2 weeks instead of 30 days.
- iv. Acceleration of Residency Examinations: Foreign nationals wishing to work in Japan may receive accelerated examinations for acquiring the status of residence (approximately 10 days instead of 1 month).

To be eligible for the support measures described above, the multinational corporation must obtain certification by the relevant authorities for its R&D or supervisory business plan to be implemented by the newly established entity in Japan. For further details concerning support measures and certification procedures, please refer to the METI’s website.<sup>5</sup> We, A&S lawyers, are more than happy to provide comprehensive support ranging from certification procedures, setting up new entities and regulatory compliance (i.e., the applicable licence/permit requirements).

### 4. Recent notable FDI activities in Japan

Under the circumstances above, there have been various recent cases of notable FDI in Japan which include:

<sup>4</sup> [https://www.meti.go.jp/english/policy/external\\_economy/investment/act\\_information.html](https://www.meti.go.jp/english/policy/external_economy/investment/act_information.html)

<sup>5</sup> [https://www.meti.go.jp/english/policy/external\\_economy/investment/act\\_information.html](https://www.meti.go.jp/english/policy/external_economy/investment/act_information.html)

- May 2024: Carlyle Group, a U.S. private equity firm, announced that it had raised US\$2.8 billion (JPY430 billion) for its fifth Japan buyout fund, Carlyle Japan Partners V, its largest investment vehicle for Japan<sup>6</sup>.
- April 2024: Microsoft announced that it will invest US\$2.9 billion (JPY400 billion) within the next 2 years to develop Japan's cloud computing and AI infrastructure, educate Japan's AI capability, open its first Microsoft Research Asia lab in Tokyo, and deepen its cybersecurity collaboration with the government of Japan<sup>7</sup>.
- April 2024: Oracle Corporation Japan announced that it plans to invest more than US\$8 billion (JPY 1.2 trillion) over the next 10 years to meet the need for cloud computing and AI infrastructure in Japan, and it will significantly expand its operations and support engineering teams with Japan-based personnel<sup>8</sup>.
- February 2024: Taiwan Semiconductor Manufacturing Co. (TSMC) celebrated the opening of its majority-owned subsidiary Japan Advanced Semiconductor Manufacturing, Inc., which is its first semi-conductor plant in Kumamoto Prefecture, Japan, and has plans to construct a second plant with a subsidy of US\$4.9 billion (JPY 730 billion) by the government of Japan<sup>9,10</sup>.
- January 2024: Amazon Web Services (AWS) announced its plans to invest US\$15.2 billion (JPY 2.3 trillion) in Japan by 2027 to strengthen its data center as a basis of cloud computing infrastructure, with an expectation that data processing will explosively increase due to the spread of generative AI<sup>11</sup>.

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<sup>6</sup> <https://www.carlyle.com/media-room/news-release-archive/carlyle-raises-jpy-430-billion-fifth-japanese-buyout-fund>

<sup>7</sup> <https://news.microsoft.com/apac/2024/04/10/microsoft-to-invest-us2-9-billion-in-ai-and-cloud-infrastructure-in-japan-while-boosting-the-nations-skills-research-and-cybersecurity/#:~:text=Microsoft%20to%20invest%20US%242.9%20billion%20in%20AI%20and,to%20strengthen%20Japan%E2%80%99s%20cybersecurity%20defenses%205%20Leadership%20statements>

<sup>8</sup> <https://www.oracle.com/news/announcement/oracle-to-invest-more-than-eight-billion-in-cloud-computing-and-ai-in-japan-2024-04-17/>

<sup>9</sup> <https://pr.tsmc.com/english/news/3113>

<sup>10</sup> <https://asia.nikkei.com/Business/Tech/Semiconductors/Japan-prepares-4.9bn-in-funds-for-TSMC-s-2nd-Kumamoto-chip-plant>

<sup>11</sup> <https://www.reuters.com/technology/amazons-aws-invest-15-bln-expand-cloud-computing-japan-2024-01-19/>

## Authors/Contacts

**Rikiya Okuhara**

Partner

E: rikiya.okuhara@aplaw.jp

**Yuka Daimon**

Associate

E: yuka.daimon@aplaw.jp

**Shinichi Nozaki**

Associate

E: shinichi.nozaki@aplaw.jp

**Osamu Fujiwara**

Partner

E: osamu.fujiwara@aplaw.jp

**Sho Tsuzuki**

Associate

E: sho.tsuzuki@aplaw.jp

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[www.aplawjapan.com/en/](http://www.aplawjapan.com/en/)

**Tokyo Office:** Fukoku Seimei Bldg., 2-2-2 Uchisaiwaicho, Chiyoda-ku, Tokyo 100-0011, Japan

**Fukuoka Affiliate Office:** Tenjin Bldg. 10F, 2-12-1 Tenjin, Chuo-ku, Fukuoka-shi, Fukuoka 810-0001 Japan

**New York Affiliate Office:** 1120 Avenue of the Americas, 4th Floor, New York, New York 10036

**London Office:** 85 Gresham Street, London EC2V 7NQ, United Kingdom

**Brussels Office:** CBR Building, Chaussée de la Hulpe 185, 1170, Brussels, Belgium

**Frankfurt Affiliate Office:** OpernTurm (13F) Bockenheimer Landstraße 2-4, 60306 Frankfurt am Main, Germany

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