



IZMIR CHAMBER OF COMMERCE

JAPAN

as

A Foreign Investment Destination



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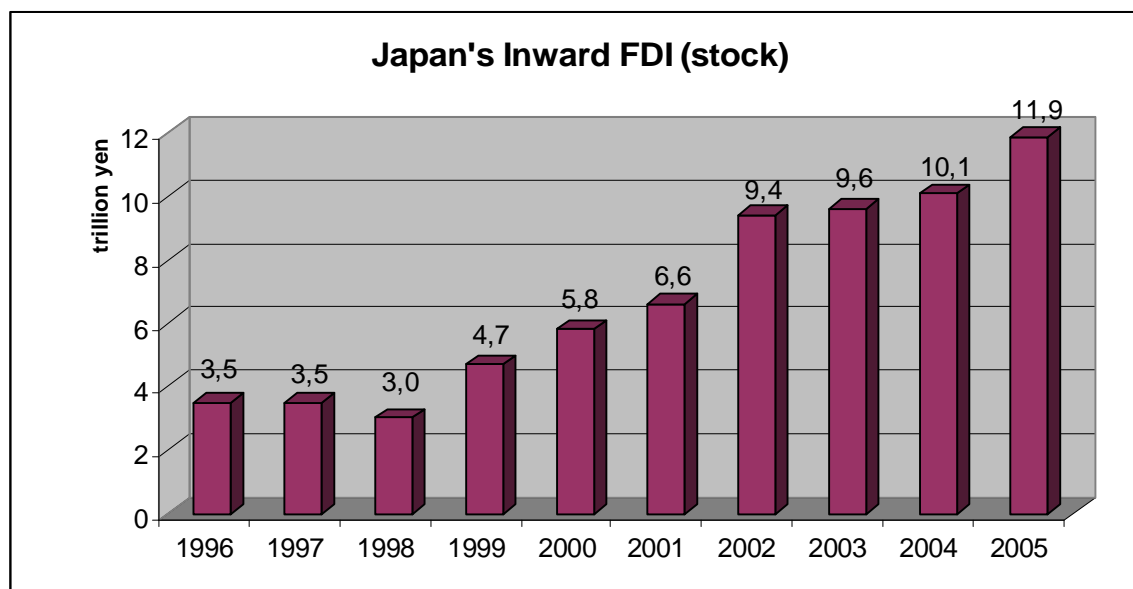
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1. Introduction

Foreign investment is necessary for creating strong economies in Japan. Although the economy is, at last, regaining ground, Japan now needs to more actively gather from overseas new management know-how and technology that are not available in Japan in order to promote structural reforms and revitalize the Japanese economy. Promoting FDI (Foreign Direct Investment) in Japan by foreign enterprises is an extremely effective way of doing that.

2. The current situation of FDI in Japan

Figure 1



In Japan, FDI has been significantly increasing since the latter half of the 1990s. Factors contributing to this growth include the expansion of business fields open to foreign enterprises as a result of deregulation. A decrease in cross-shareholdings by Japanese companies improved conditions for M&A (mergers and acquisitions) as a result of the world-wide trend of industrial restructuring, and improved attractiveness of the Japanese market as a result of reforms to bankruptcy-related laws and corporate accounting systems. In recent years, the Government of Japan, in an initiative led by the former Prime Minister Koizumi, has successfully increased FDI in Japan, resulting in FDI stocks of 11.9 trillion yen at the end of 2005. At the same time, FDI in Japan was 1.8 times larger than in the year 2001 when he declared his

target of doubling the stock of foreign direct investment in Japan in 5 years (Figure 1).

Although FDI in Japan has been increasing in recent years, its share of GDP is still extremely small when compared to that of other major advanced countries (Figure 2). Currently, the share is 2.2% in Japan, while it is 11.6% in Turkey, 12.4% in Italy, 18.0% in Germany, 28.5% in France, 37.1% in England and 13.0% in the United States. According to the World Investment Report 2005 issued by the UNCTAD (United Nations Conference on Trade and Development), Japan is ranked as low as 134th among 140 countries in terms of the ratio of FDI to GDP (Table1), although Japan’s Inward FDI Potential Index is ranked 22nd (Table2).

Figure 2

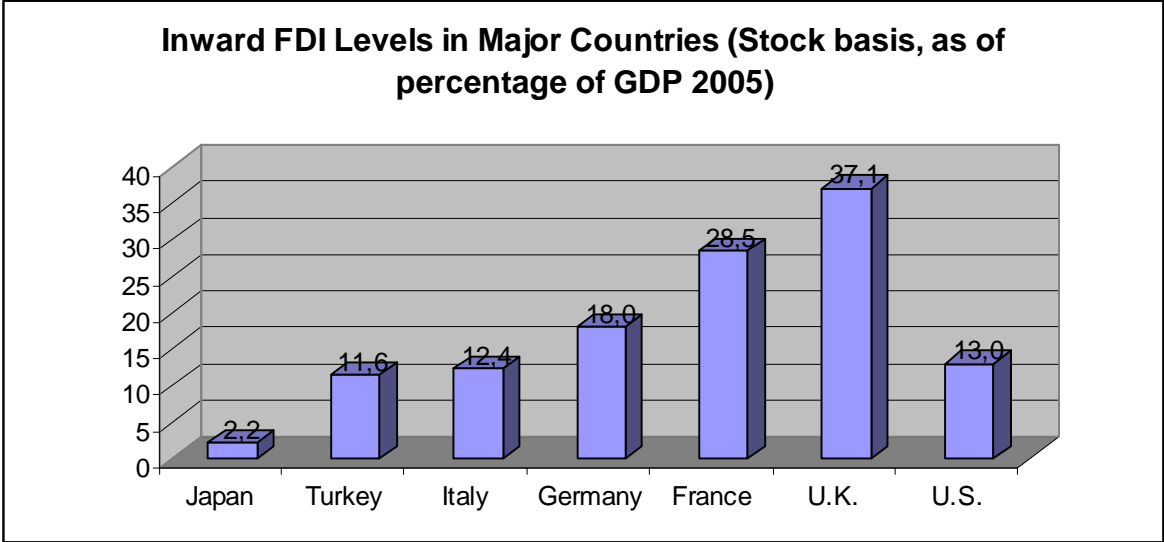


Table 1 Rankings by the Inward FDI Performance Index, 2003-2005

1	Azerbaijan	78	United Kingdom
2	Belgium and Luxembourg	80	France
3	Brunei Darussalam	98	Italy
4	Angola	111	Turkey
5	Ireland	114	United States
6	Gambia	118	Germany
7	Hong Kong, China	134	Japan
8	Singapore		
9	Mongolia		
10	Congo		

Table 2 Rankings by the Inward FDI Potential Index, 2002 - 2004

1	United States	16	France
2	United Kingdom	22	Japan
3	Canada	28	Italy
4	Luxembourg	33	China
5	Singapore	68	Turkey
6	Norway		
7	Sweden		
8	Germany		
9	Ireland		
10	Qatar		

3. Advantages offered to foreign investors in Japan

1) The World’s second largest market

Japan is a promising market, with a market scale ranking near the top of developed nations. In terms of GDP, Japan has the second largest economy in the world, next to the United States. Besides Japan’s GDP per capita in 2006 was \$34954, one of the highest in the world.

Figure 3

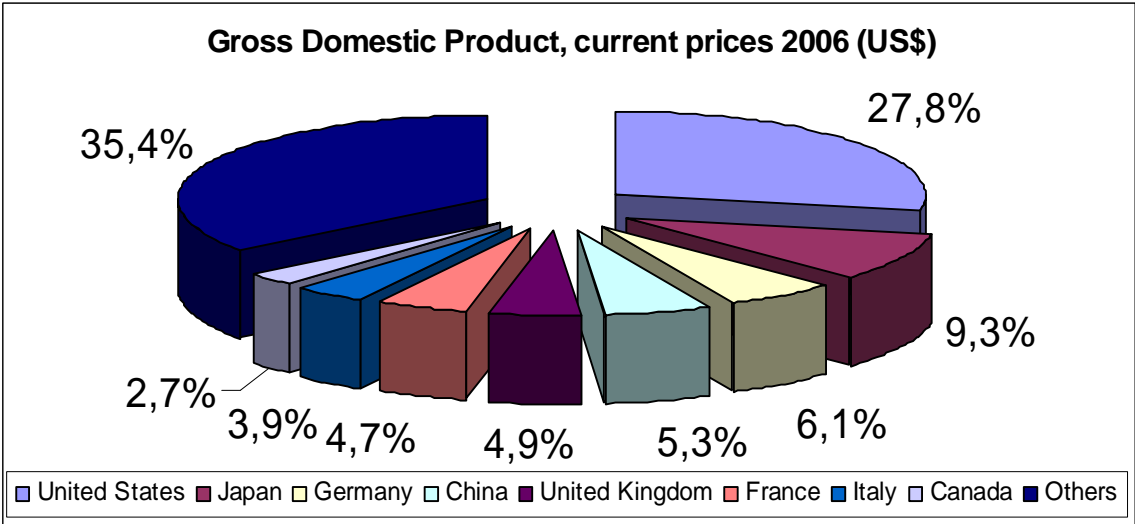
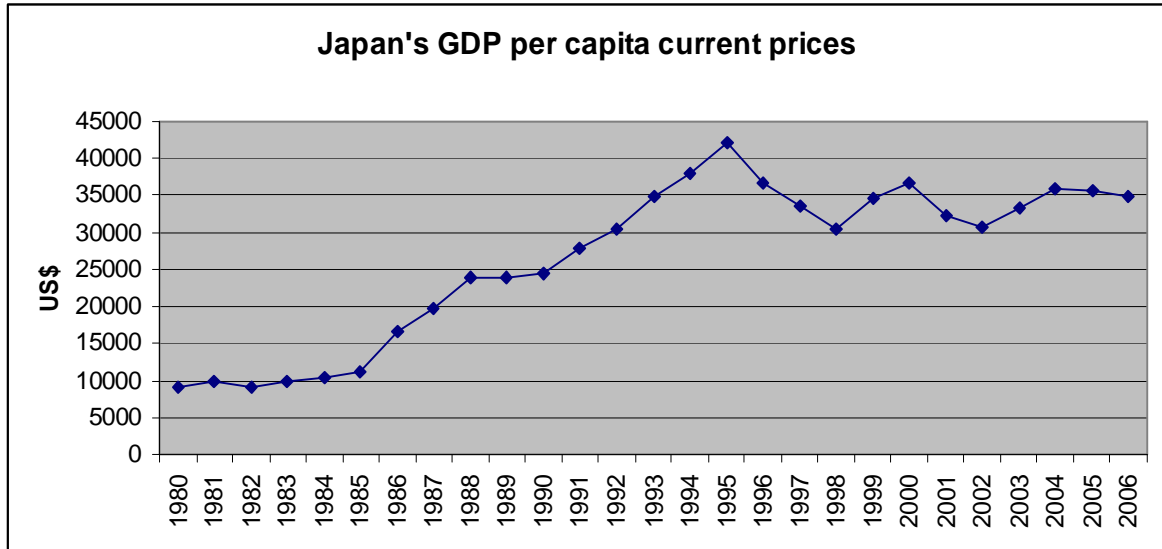


Figure 4



2) Sophisticated consumers with high purchasing power

Japanese consumers are early adopters and move fast to stay on the cutting edge of the latest technologies. Most companies in Japan listen carefully to consumer demands when developing new products, as many products in common use around the world have originated in Japan. Japan thus makes an ideal test market for new products and services.

Figure 5

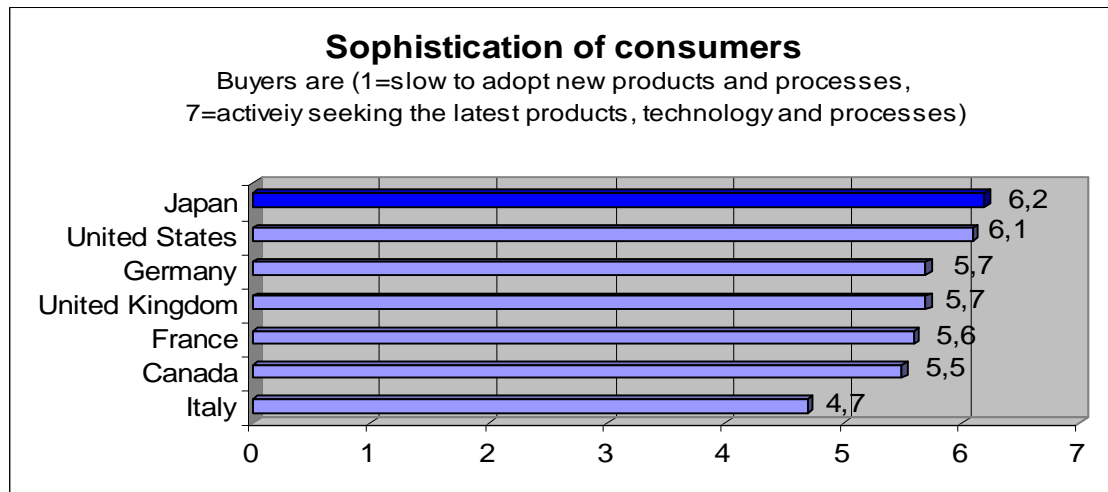
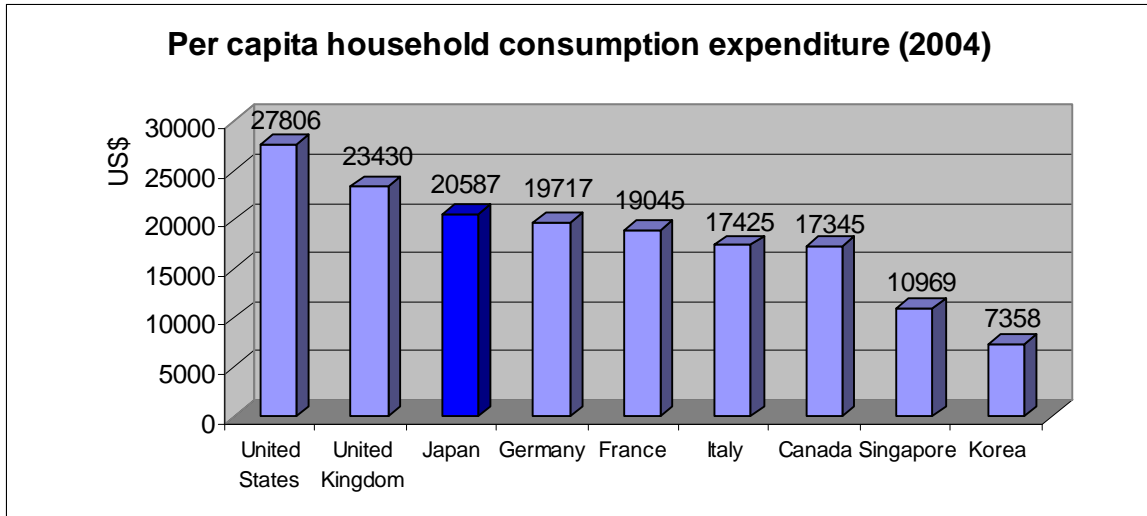


Figure 6



What foreign-affiliated companies are saying about their business in Japan.

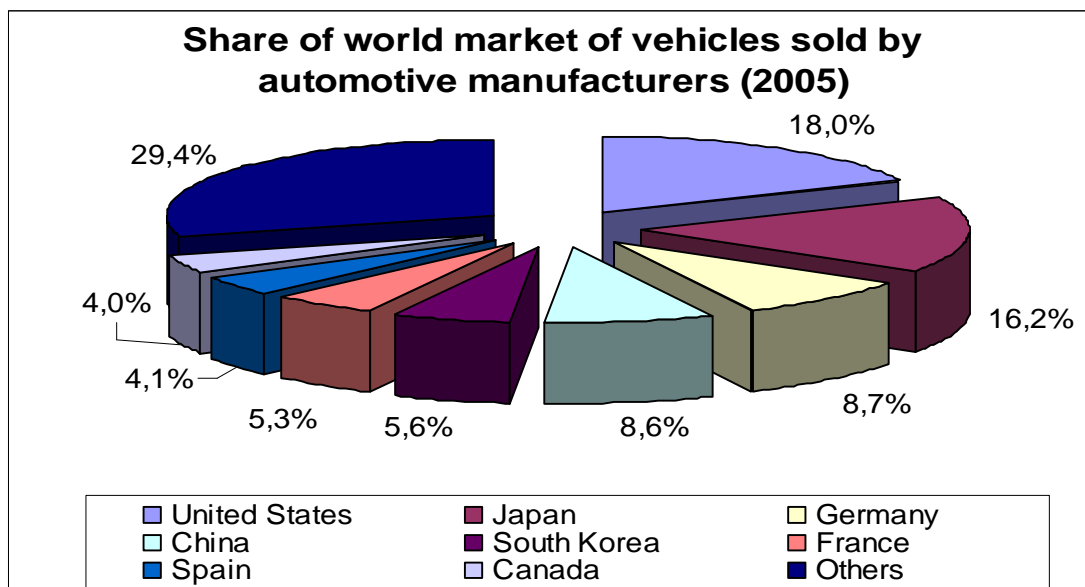
“Japan is a consumer society where quality is highly valued. Companies that deliver strong quality and have a clear vision of their purpose can succeed and earn a fair price for their products” (Real estate provider)

“Japanese customers will, I think, pay money to try using a new technology. Cell phones with built in digital camera are the classic example” (Software developer)

3) World-class companies and SMEs (Small and Medium-sized enterprises) with unique technologies












Japanese companies of all sizes (from small ventures to major multinationals) produce unique and innovative products and services. For example, number of vehicles sold by Japanese automotive manufacturers is ranked second among the world.

Figure 7



Many Japanese companies have established subsidiaries, branches and production bases throughout the world, and are continuing to expand their networks in all areas, from procurement of materials to production and marketing. Japan's strong technology-based industries offer a multitude of opportunities for foreign companies looking to partner with Japanese firms at all stages.

Table 3

	Company	Domestic (billion yen)	Overseas (billion yen)	Total (billion yen)	Ratio of overseas sales (%)
1	Hitachi 	5825	3640	9465	38,5
2	Matsushita 	4611	4283	8894	48,2
3	Sony 	2169	5307	7476	71,0
4	Toshiba 	3260	2576	5836	44,1
5	NEC 	3481	1344	4825	27,9
6	Fujitsu 	3200	1592	4792	33,2
7	Canon 	856	2898	3754	77,2
8	Mitsubishi Electric 	2556	1049	3605	29,1
9	Sharp 	1397	1400	2797	50,1
10	Fuji Photo Film 	1329	1338	2667	50,2
11	Ricoh 	972	943	1915	49,2

4) Loyalty and commitment to long term partnerships

Foreign-affiliated companies have long found their partnerships with Japanese companies to be ones of loyalty and commitment. Such relationships not only provide companies stability in the long-term but also offer cost reduction and quality improvement that often result from combining operational capabilities.

Table 4

Overseas company(country)	Japanese company	Details of cooperation
Microsoft(U.S.)	NEC	R&D in next-generation educational environment using IT.
British Telecommunications(U.K.)	KDDI	Establishment of joint venture in field of management of corporate communications networks.
Thyssen Krupp Steel(Germany)	JFE Steel	Establishment of joint venture. Joint participation from the initial stage of vehicle development in the area of automotive steel sheet technologies.

What foreign-affiliated companies are saying about their business in Japan

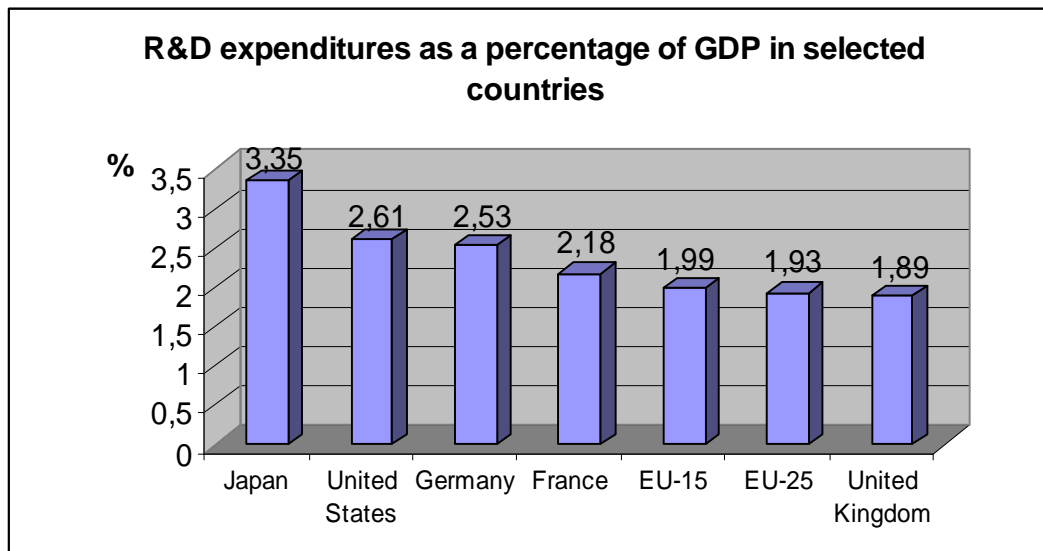
"Japanese companies are open to non-Japanese companies, and as long as you can provide good products it does not matter where you are from. But, on the other hand, Japan is home to a high concentration of manufacturers of all sorts with highly advanced technical capabilities, and it is difficult to compete with such

rivals in this market with a 'normal' level of technical prowess. If, however, a company possesses creative and highly advanced technologies, it has the same opportunities as anyone else to do business successfully in Japan." (Industrial machinery maker)

5) World's center for technological innovation and product development

Partnerships with Japanese companies enable foreign-affiliated companies to leverage their respective talents, which is vital to remaining globally competitive. Furthermore, Japanese companies emphasize enhancing product development and manufacturing efficiency, making Japan the ideal arena for innovation.

Figure 8

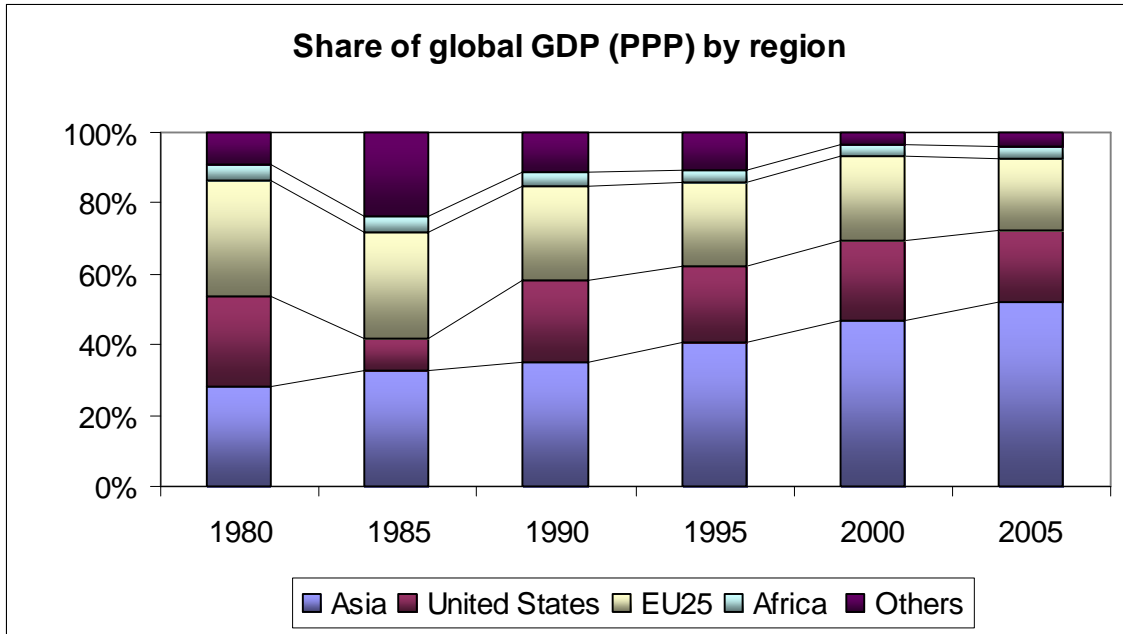


6) Access to new Asian markets

Geographically, Japan is positioned to function as an international business hub for the fast-growing East Asian region. In addition to this potential, Japan's stable social and economic conditions make the country one of the top investment choices for foreign companies seeking business opportunities in Asia.

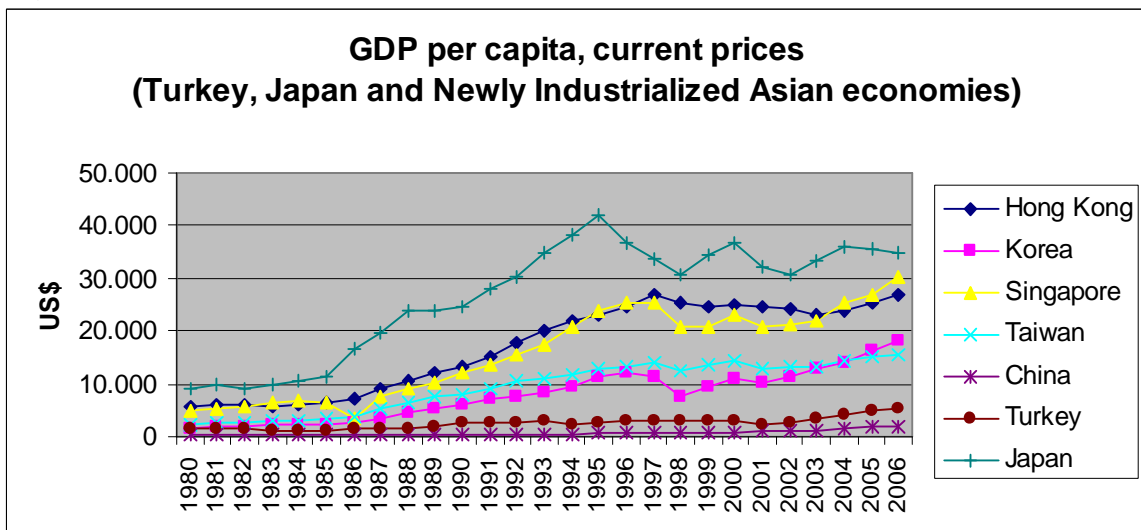
East Asia continues to grow at an astonishing pace and economic integration in the region continues to increase. In 1980, Asia's share of global GDP stood at 24.1%. In 2005, the figure stands at 53.6%, due to the robust economic growth of Asia, where Japan continues to have a strong presence.

Figure 9



As East Asia grows, economies are becoming more service-oriented. Common tastes are developing and lifestyles are converging, in particular in urban areas. Many consumer products that gain popularity in Japan, including movies, anime, game software, clothing and cosmetics, go on to become popular in East Asia in general. Success in Japan is a litmus test for success in East Asia.

Figure 10



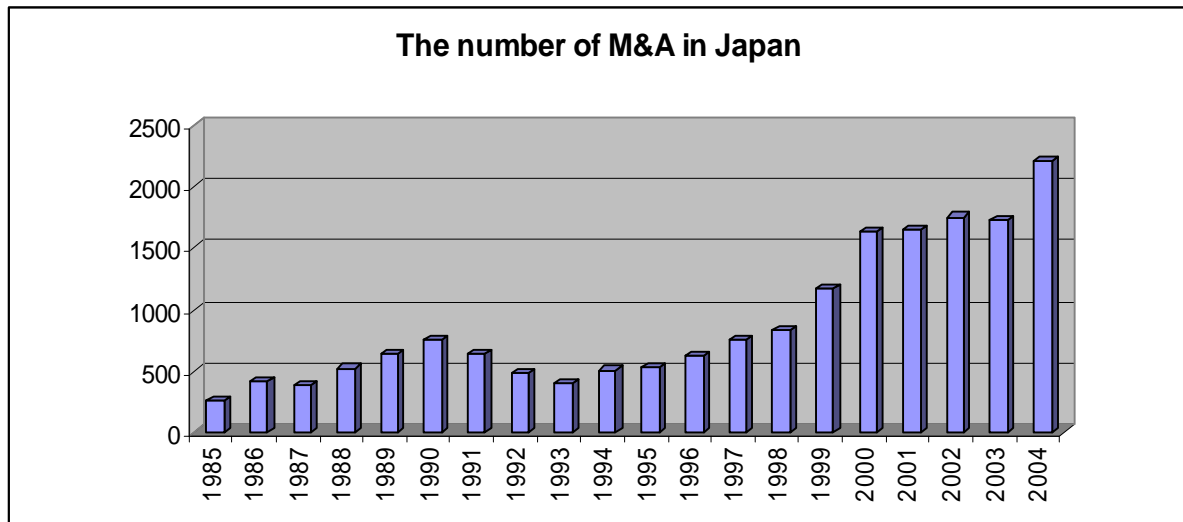
7) Favorable business climate

Japan's attractiveness as an investment destination is increasing, as the government works to improve the business environment.

M&A activity has also been increasing in Japan in recent years. Acquisitions of Japanese companies by foreign companies are expected to continue to increase following the expected enactment in May 2007 of new rules to give greater

flexibility in merger compensation schemes (enabling cash-out mergers and triangular mergers). The increase of M&A is driven by business globalization, intensifying international competition, deregulation and more favorable regulatory conditions. In this dynamic environment, especially in the medical-related industry, foreign investment must be essential for Japan and this tendency is not a temporary phenomenon.

Figure 11

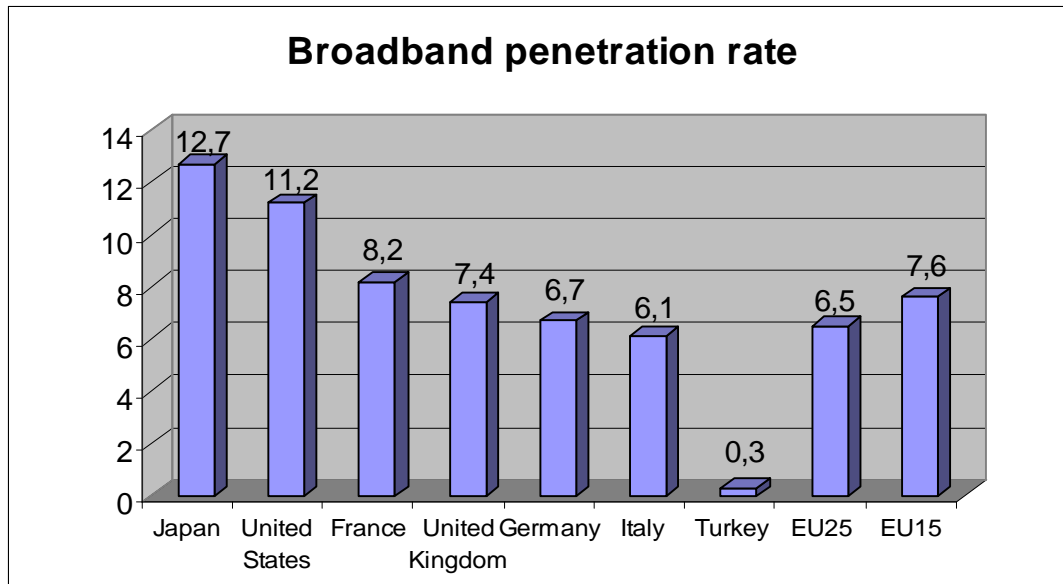


Changes will also occur in areas that are not directly affected by the new Corporate Law. For example, public services such as water supply businesses, nursing care centers, home-based welfare services and schools will be privatized. Foreign companies will also be able to participate in the provision of these services. In addition, there have been improvements to the system for entry to and residence in Japan ; for example, the period of residence permission for technical workers has increased from three to five years, and the scope of mutually recognized domestic and overseas qualifications in the field of information processing has also increased. The government is also progressing with the introduction of systems enabling administrative procedures to be conducted electronically, the translation of laws and regulations into foreign languages, and the provision of services in foreign languages.

8) Rapidly growing broadband society

Japan has the world's fastest and most cost-effective broadband environment and is rapidly moving towards becoming a true ubiquitous society.

Figure 12



9) Expanding environmental market

Japan's environmental market has rapidly expanded since the second half of the 1990s due to the government's advancement of environmental laws. In addition, the Aichi EXPO which successfully ended on 25th September 2005 aroused public interest to environmental issues. An increasing number of environmentally-friendly products and services are being sold in response to the growing awareness of environmental issues including global warming and ozone layer depletion.

One of the common topics in the news these days is the "eco-car", an environmentally friendly automobile featuring high fuel efficiency and low-impact emissions. One of the more promising categories of the eco-car is the hybrid, an automobile equipped with two or more types of power sources, typically a gasoline engine and an electric motor. Toyota Motor Corp. came out with the world's first mass-produced hybrid passenger vehicle, the Prius, in 1997. Its fuel efficiency was double that of existing gasoline-powered cars. What's more, it emitted only one-half volume of carbon dioxide and just one-tenth the volume of nitrogen oxides emitted by conventional cars.

Figure 13

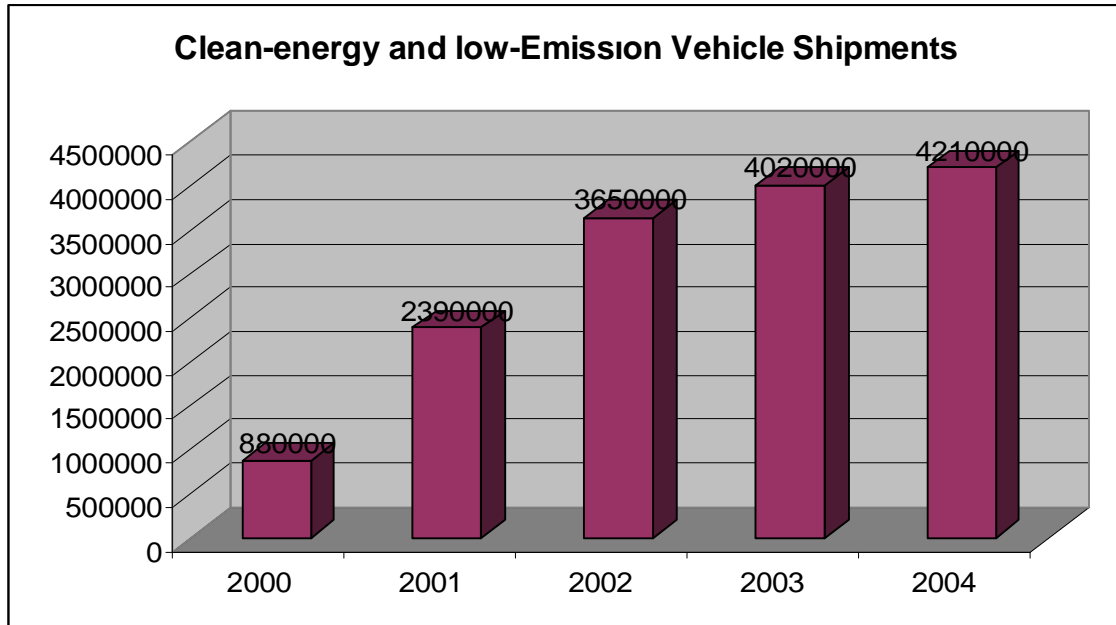
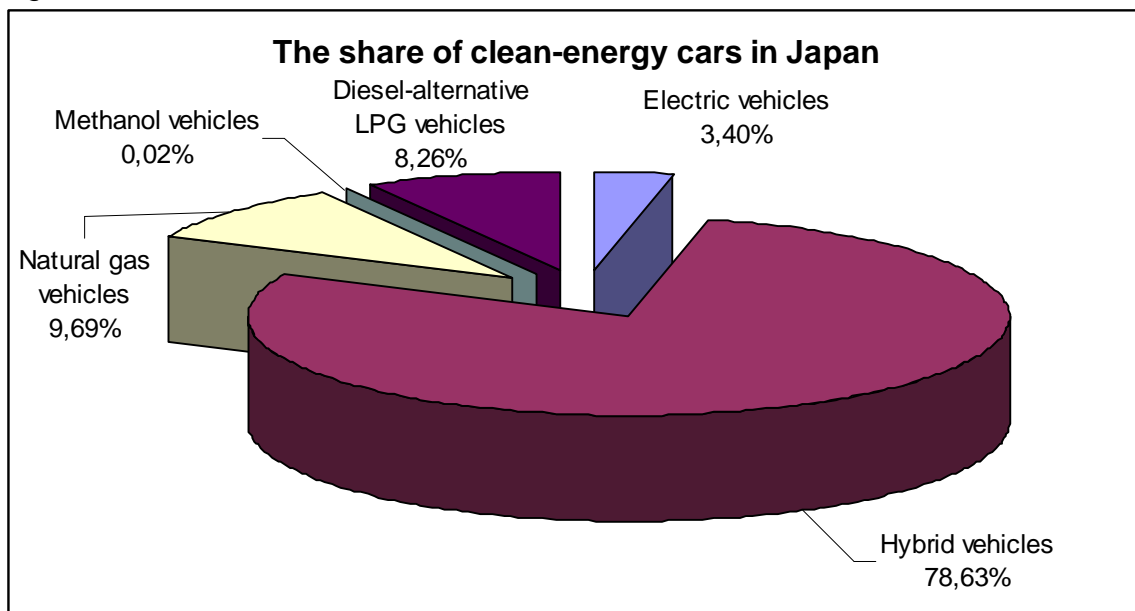


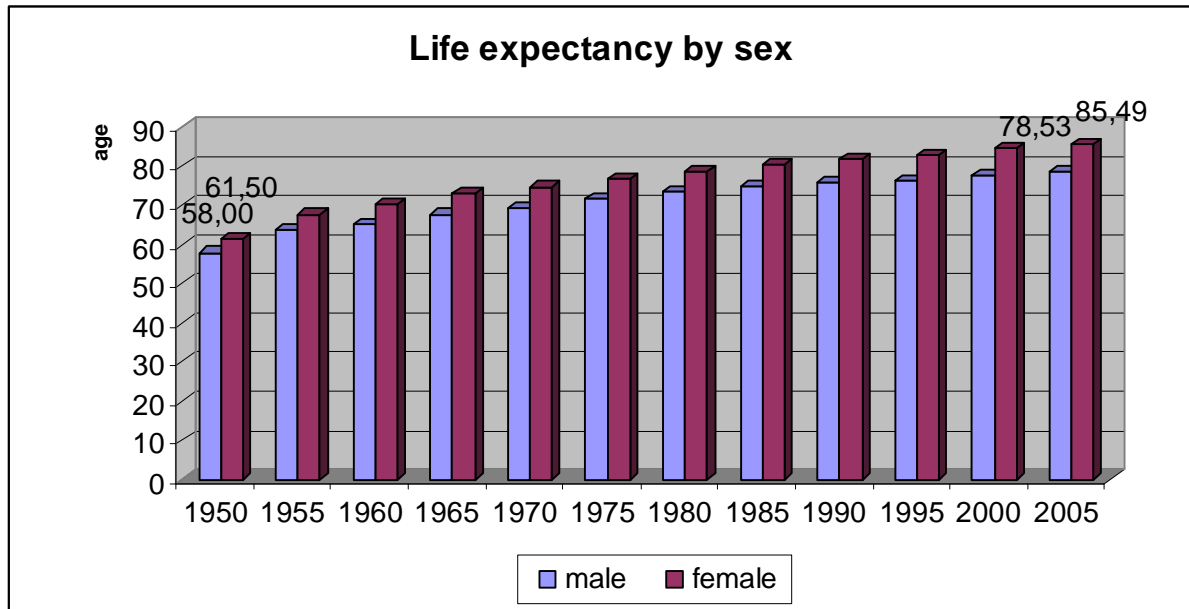
Figure 14



10) Booming business in silver care and retirees

Japanese society has been aging more rapidly than other advanced industrialized societies. By the year 2050, it is projected that one out of every three Japanese will be a senior citizen. This will expand the need for greater medical and nursing care services, with the market for these services expected to grow to reach 75 trillion yen by 2010.

Figure 15



4. The aging society in Japan

According to the statistics bureau of the Ministry of Internal Affairs and Communications (MIC)'s population projections, the total population of Japan as of October 1, 2005 is 127.76 million. Though showing a 20,000 (0.02%) decrease from the previous year overall, the number of the elderly aged 65 and over grew to 25.60 million – an increase of 0.03% over the previous year – a record high: the ratio of the elderly to the entire population reached 19.7%. A comparison with other major countries was made. The latest data shows Turkey has 5,4% Italy 20.0%, Germany 18.6%, France 16.6%, the UK 16.0% and the US 12.4% as the ratio of the elderly to the entire population. This indicates that the level of aging in Japan is the highest among such major countries.

Moreover, another notable characteristic concerning Japan is that it has rapidly aged over the past decade. In 1950, the ratio of the elderly still remained lower, a mere 5%. In 1970, the ratio of the elderly surpassed 7%, entering the “aging society”. It was in 1994 that Japan entered the “aged society” – with the ratio of 14% or higher. (a society where the ratio of the elderly to the general population is beyond 7% is referred as an “aging society”. Thus, Japanese society – with a ratio of over 20% - can undoubtedly be termed and “over-aged society”).

From now on, the population of the elderly will increase through the year 2020, then after that is expected to level out. Meanwhile, the lower childbirth rate will decrease the population figure overall(Figure16), so against the total figure the ratio of the elderly will increase even after 2020. As a result, from 2015 the ratio will be 26.0% but in 2050 this will jump to 35.7%, where a rough calculation will show that one in every three Japanese will be an elderly person.

Such an over-aged society has made, the development of the Japanese medical-related industry is a national necessity. This sector not only requires investors from home but also abroad. More importantly, this market can indeed be seen as a potentially attractive investment target.

Figure 16

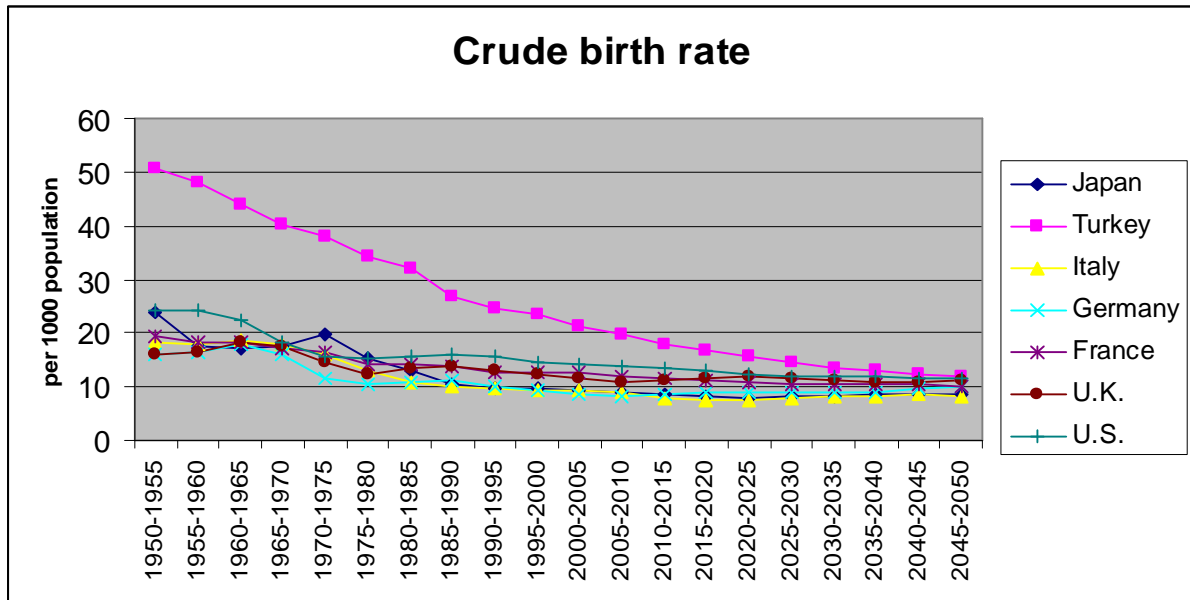
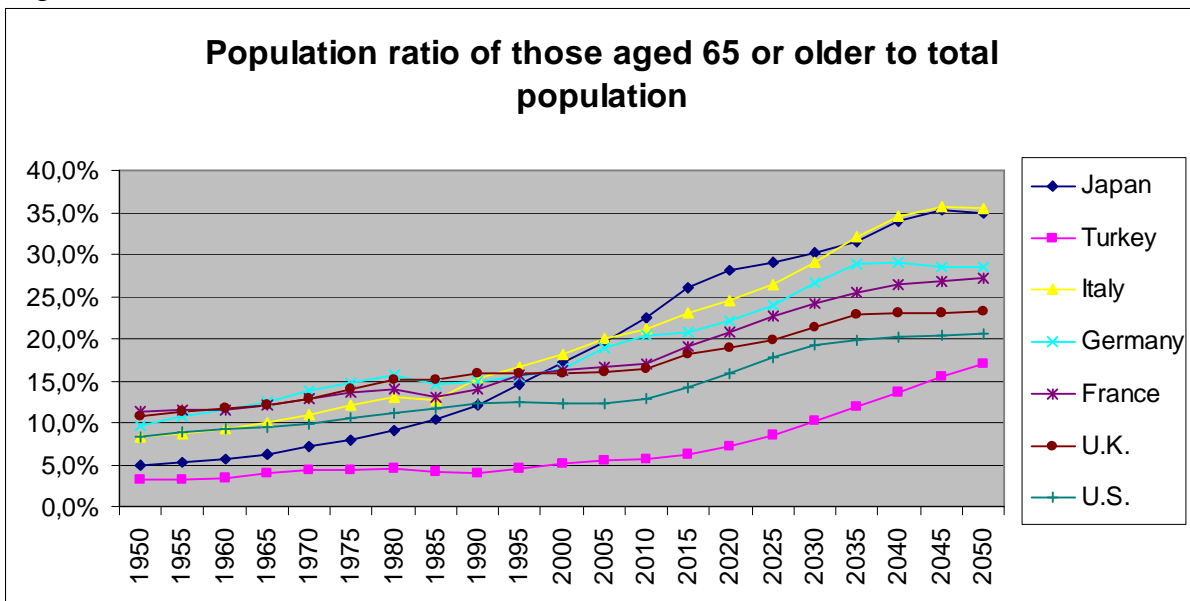


Figure 17



5. Necessity of investment to medical-related market

In terms of investment into Japan, one of the most keenly-eyed industries from this point will be that of medical-related industry. As a backdrop to foreign firms scrutinizing the medical-related business in Japan is the fact that Japan has become a society, unprecedented in the recorded history of the world, where the population has aged at an incredible pace. Nevertheless the Japanese medical-related industry still has room to grow, while the entry of foreign firms into this sector has been relatively low.

According to “Conduct plan for reform and creation of economic structure” that was adopted by the cabinet council, the size of the medical-related industry in Japan

(including the welfare industry) is predicted to more than double to 9.1 trillion yen by the year 2010. Due to factors such as the rapidly growing elderly population; progress in advanced medical research; and technological innovations, the medical-related industry is expected to be the largest business sector in the 21st century in terms of market size and employment. Therefore, as the entire medical-related industry expands, the markets for medical equipment, medical materials and pharmaceutical products are also expected to grow.

6. Good case of foreign investmet in pharmaceutical industry – Pfizer Japan Inc.

The scale of Japan’s pharmaceutical market, which is second only to that of the U.S. grew from US\$ 52.1 billion in 1993 to 62.2 US\$ billion in 2005. Against this backdrop, foreign-based companies in recent years have enlarged their Japanese market shares through direct participation. This involvement began in 1984, when America’s Merck&Co., Inc. Acquired Banyu Pharmaceutical Co., and reorganized it as a subsidiary. More recently, the Swiss giant F.Hoffmann-LaRoche in 2001 bought our Chugai Pharmaceutical Co., and Pfizer Inc. Merged Pharmacia K.K. into its fold in 2003.

Table 5 World Market - Pharmaceuticals

World market by geographic region		Value £bn	% of total
U.S.		132,0	44
Europe		86,8	29
	Germany	16,4	5
	France	15,9	5
	UK	10,5	3
	Italy	9,9	3
Japan		32,5	11
Asia Pacific		20,5	7
Latin America		13,7	4
Middle East, Africa		9,8	3
Canada		7,0	2
Total		302,3	100

Pfizer, the world’s biggest pharmaceuticals company by sales, is thereby increasing staff and emphasis on Japan. Promoting local initiatives for better living worldwide, Pfizer established six Pfizer Global Research & Development (PGRD) research facilities, recruited 12,000 colleagues to staff them, and sets them on a mission to make drugs safer. Pfizer’s R&D operation in Aichi prefecture has been conducting clinical trails for therapies to treat pain since 1992 and gastrointestinal disorders since 2000. Aichi remains the only PGRD site working in the increasingly competitive field of gastrointestinal disease treatment. With continuous, sustained investment, Pfizer is expected to become Japan’s prescription pharmaceutical industry leader.

Although it generally takes between 15 and 25 years to bring a new drug to market, and involves investigation of millions of different compounds, Pfizer’s Formula for success is simple : put excellent tools in the hands of excellent people. Thus, Pfizer researchers recruited from major universities and pharmaceutical companies in

Japan and abroad have at their disposal cutting-edge facilities and world-class colleagues in the U.S. and Europe, who they collaborate with continually.

Pfizer's quest for new painkillers can go a long way toward easing a lot of suffering. Primary painkillers used in clinics at present are non steroidal anti-inflammatory drugs, such as aspirin, which have greatly improved the quality of patients' lives over the years. However, as populations in developed nations age at unprecedented rates and lifestyles become more diverse, larger numbers of people suffer from a wider range of pain. Traditional painkillers often have insufficient efficiency and undesirable side effects that prevent continued use.

Since all of Pfizer's discovery research in the area of gastrointestinal disorders is conducted at its Taketoyo laboratories, PGRD Nagoya will generate medicines for Pfizer to lead this field. As gastrointestinal illnesses are likely to increase as environmental changes accelerate bodily stress, there is plenty of room for new therapies. PGRD Nagoya applies information derived from the human genome to discover drugs that help control the psychological effects of stress. Many gastrointestinal diseases are painful, so Pfizer researchers in the fields of gastrointestinal and pain research work closely together.

Rigorous checking and re-checking ensure safety before a drug can be administered to patients. Pfizer's Drug Safety Evaluation group empowers the PGRD organizations in Japan, the United States, and France to perform this crucial function. Also, governmental approval is required prior to marketing a pharmaceutical product in any country. In order to deliver Pfizer medicines to Japanese patients as quickly as possible, the Nagoya laboratories streamline application processes to enable simultaneous submissions for the markets of Japan, the United States and Europe.

Their operations help to ensure the high quality which Pfizer customers have come to expect from the world's largest pharmaceuticals firm. With each advance, Pfizer Japan deepens its commitment to more healthful living everywhere over the long run.

7. Deregulation - Revision of the Pharmaceutical Affairs Law (PAL)

Although medical-related industry has always been more regulated than other sectors due to its primary objective of protecting the lives and health of the nation's citizens, deregulation is steadily under way in the medical and nursing care sectors, aimed at promoting more efficient management and enhanced services. A series of reforms and deregulations should lead to the establishment of an effective medical cost compensation system; the liberalization of hospital management; and improvement in the healthcare system, compared to that in Western countries. Along with these changes, industrialization (commercialization) of various medical-related industry should occur, thus making it possible to establish a system in which hospitals, medical personnel and businesses can collaborate and cooperate with each other.

Recent revisions in the Pharmaceutical Affairs Law (PAL) have made it easier for international firms to market pharmaceuticals in Japan. These revisions simplify the approval process importing and manufacturing pharmaceuticals. Similarly, the process for obtaining a manufacturing and marketing license has been integrated

and simplified. As a result, international firms will now need only one license to conduct manufacturing and marketing activities in Japan. Additionally, companies with this license can now outsource all manufacturing processes to domestic and overseas manufacturers. Until recently, licenses for in vitro diagnostic devices and drugs were granted only by the approval of the Ministry of Health, Labour and Welfare (MHLW). However, such licenses can now be granted by designated certification organizations for specified items.

The latest revisions to the PAL are meant to address the enhancements in the development and safety of new medical products in the 21st century. According to the MHLW, the revised PAL is intended to strengthen the safety measures related to medical devices, enhance government regulations with respect to the application of biotechnology and genome technology in developing medical products and fortify post marketing safety measures and the review system for approval and license while taking international conformity into account. The revised PAL is a done deal, but MHLW has yet to flesh out many of the regulation-level details. Thus, many of the proposed changes are currently in high-level "Parliamentary Act" form. The ministry will announce regulation-level details gradually over the next several years through what they call enabling notifications.

The new revision of the Japanese PAL will significantly alter the medical product regulatory environment in Japan. The PAL changes will also affect the decisions and strategies of foreign medical product manufacturers when entering the Japanese marketplace. While the revisions may initially disrupt the current flow of regulatory procedures, these changes will hopefully help Japan's medical regulatory system "manage" the medical products of the future as well as enhance safety for consumers. In the long run, the revisions will bring Japan's medical regulations closer in line with international standards. In the meantime, medical manufacturers in Japan must keep abreast of the current and upcoming PAL revisions in order to navigate the medical regulatory environment successfully in Japan.

8. Conclusion

Investment in Japan is needed to revitalize the Japanese economy. There are a large number of examples where foreign countries have used FDI to overhaul their industrial structures and strengthen their international competitiveness. In Japan too, foreign enterprises have been bringing vitality to the Japanese economy. Especially the medical-related industry in Japan is a promising sector that is expected to continue growing with the trend toward the aging society.

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