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## INVEST

### FOREIGN DIRECT INVESTMENT

FDI flows to Japan remain low compared to most other developed nations across the world and are relatively unstable. According to UNCTAD's [World Investment Report 2023](#), FDI inflow rose by 31.9% in 2022 - the highest level ever recorded - totalling USD 32.5 billion, making the country the thirteenth-largest recipient worldwide. In the same year, the total stock of FDI stood at USD 225.3 billion, around 5.3% of the country's GDP. Japan is also one of the major foreign investors, with the total stock of outward FDI at USD 1.94 trillion (the second in the world after the U.S.). The major investing countries in terms of FDI stock are the U.S. (22.3%), the UK (16.7%), Singapore (10.4%), the Netherlands (7.3%), France (7%), and Hong Kong (5.7% - data Japan External Trade Organization). Investments are mainly oriented towards finance and insurance, transportation equipment production, electric machinery, communication, and chemicals and pharmaceuticals. According to the latest government figures, FDI inflows totalled USD 18.7 billion in the first three quarters of 2023.

Japan maintains a supportive legal and regulatory environment for investors, continually aligning regulations with international standards. Intellectual property rights are well-protected, with robust enforcement mechanisms in place. The capital markets are deep and accessible to foreign investors, with nearly all foreign exchange transactions freely permitted, including profit transfers and capital repatriation. However, foreign investors encounter challenges such as a historical reluctance towards mergers and acquisitions in Japanese corporate culture, weak corporate governance leading to low returns on equity, and cash hoarding. Additionally, inflexible labour laws and a regimented system of labour recruitment and management contribute to increased costs and complexities in human resource management for investors and business owners. Typically, the sole requirement for foreign investors entering Japan is to submit an ex post facto report to the relevant ministries. However, legislation introduced in 2020 has reduced the ownership threshold for pre-approval notification to the government for foreign investors, from 10% to 1%, particularly in industries deemed to pose potential risks to Japanese national security. Japan's overall good business climate is confirmed by the country's ranking in the [Global Innovation Index 2023](#) (13th among the 132 economies) and in the [2023 Index of Economic Freedom](#) (38th out of 184 countries). Moreover, Japan stands at the 3rd position in Kearney's [Foreign Direct Investment Confidence Index 2023](#).

Foreign Direct Investment	2020	2021	2022
<b>FDI Inward Flow</b> <i>(million USD)</i>	10,703	24,652	32,509
<b>FDI Stock</b> <i>(million USD)</i>	250,070	241,125	225,367
<b>Number of Greenfield Investments*</b>	216	198	224
<b>Value of Greenfield Investments (million USD)</b>	7,631	22,082	6,051

Source: UNCTAD - Latest available data.

Note: \* Greenfield Investments are a form of Foreign Direct Investment where a parent company starts a new venture in a foreign country by constructing new operational facilities from the ground up.

Country Comparison For the Protection of Investors	Japan	OECD	United States	Germany
<b>Index of Transaction Transparency*</b>	7.0	6.5	7.0	5.0
<b>Index of Manager's Responsibility**</b>	6.0	5.3	9.0	5.0
<b>Index of Shareholders' Power***</b>	8.0	7.3	9.0	5.0

Source: Doing Business - Latest available data.

Note: \*The Greater the Index, the More Transparent the Conditions of Transactions. \*\*The Greater the Index, the More the Manager is Personally Responsible. \*\*\* The Greater the Index, the Easier it Will Be For Shareholders to Take Legal Action.

## WHAT TO CONSIDER IF YOU INVEST IN JAPAN

### Strong Points

Advantages for FDI in Japan:

- In addition to having the third largest economy in the world, Japan has very strong purchasing power and therefore strong domestic demand.
- As a leader in high technology, research and development (with the largest number of patents in the world), Japan has had a steadily growing economy and rock solid stability for several decades.
- Because of its geographical location, any foreign investor operating in the Japanese market has a facilitated entry to other Asian markets.
- The business environment is clearly favourable and reinforced by a stable political system.
- The workforce is highly skilled and the Japanese are known as great workers dedicated to their company.
- The ageing of its population opens up great opportunities for products and services geared towards older age groups (health care technology, medical devices, entertainment, pharmaceuticals, etc.).
- Japan has signed Trade agreement with the EU and Transpacific Partnership (December 2018).

Further arguments in favour of investing in Japan can be found on the website of the [Japanese investment agency \(JETRO\)](#).

### Weak Points

Here is a non-exhaustive list of the main obstacles to FDI in Japan:

- Excessive regulation that hinders economic growth as it increases the cost of starting activities
- The difficulties the country faces in restoring public finances and deflation
- International competition restricted by a very insular local business culture: Japanese prefer to do business (especially M & A transactions) with known partner companies. In the same way, it is preferable to establish networks and alliances with companies and national professional organizations.
- Cultural and linguistic challenges that can be complicated to overcome for an SME
- Low productivity of Japanese SMEs.
- Still insufficient female labor participation, lack of child care
- Ageing population at risk of jeopardizing the social security system

## Government Measures to Motivate or Restrict FDI

Japan offers a number of national and local tax incentives that are available to foreign investors in Japan. These incentive schemes have been created for the benefit of both foreign investors and all Japanese companies.

These incentives include the following:

- Tax incentives for comprehensive special zones - The government offers tax benefits in the form of special depreciation rules and other deductions related to investment in equipment and plant related to special sectors.
- Tax incentives for strengthening local business.
- Tax incentives for wage and productivity improvement. These programmes offer tax incentives to increase employees' salaries and for investing in information technology.
- Local tax incentives

For more information, visit the Japan External Trade Organization [JETRO site](#).

## INVESTMENT OPPORTUNITIES

### The Key Sectors of the National Economy

Medical equipment, pharmaceutical products, biotechnology, dietary supplements, electronic components, software, aviation and spare parts, engineering services, new energy production, tourism, education and training services, safety equipment, telecommunications equipment, the fashion market, real estate products.

### High Potential Sectors

Business opportunities related to the Olympics and the Paralympics, smart robots, biopharmaceuticals and biosimilars, smart agriculture, VR/AR, renewable energy, tourism-related business, electricity and renewable energy, life Science, information and communication technologies. [The JETRO details the attractiveness of these sectors.](#)

### Privatization Programmes

Privatisation of the operations of New Chitose, Wakkanai, Kushiro, Hakodate, Asahikawa, Obihiro and Memanbetsu airports started in January 2020 and was finalised in March 2021. There are plans to privatise Niigata airport.

### Tenders, Projects and Public Procurement

[JETRO - Japan External Trade Organisation](#), [Tenders Asian Development Bank](#), [Procurement Plans in Asia](#), [Tenders Info](#), [Tenders in Japan](#), [dgMarket](#), [Tenders Worldwide](#)

## Sectors Where Investment Opportunities Are Fewer

### Monopolistic Sectors

The monopolistic sectors are:

- postal services

- water
- telecommunications : foreign investors are not allowed to hold more than 1/3 of the rights to vote in « Nippon Telegraph » and « Telephone Corporation » (NTT)
- arms, explosives, atomic energy, aviation industries and aerospace

## **Sectors in Decline**

Agriculture

## **Finding Assistance For Further Information**

### **Investment Aid Agency**

Japan External Trade Organisation, JETRO  
Invest Japan Business Support Centres (IBSC)  
Kansai Bureau of Economy, Trade and Industry  
Japan Investment Council

### **Other Useful Resources**

Venture Japan

### **Doing Business Guides**

Japan Doing Business Guide - Export to Japan  
Doing business in Japan - UHY