

Survey on Business Operations of Foreign-affiliated Companies in Japan

Summary of Survey Results

March 2023

**Japan External Trade Organization (JETRO)
Invest Japan Department**

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1. Background and Objective of Survey

■ Background of Survey

The Japanese government has been working on investment promotion activities to contribute to economic growth and the vitalization of regional economies. In 2003, JETRO established the Invest Japan Department to attract foreign companies and support foreign-affiliated companies in Japan, offering them a variety of support menus tailored to the needs and business phases of the companies since then. In 2013, the Japanese government set a goal of doubling the FDI stock in Japan to 35 trillion yen by 2020. Through efforts made such as simplifying regulations and administrative procedures, the FDI stock exceeded 20 trillion yen for the first time in 2014. Since then, both in terms of the value and as the ratio to GDP, the FDI stock has continued to increase, and reached 39.7 trillion yen at the end of 2020, surpassing the target amount of 35 trillion yen. At the Council for Promotion of Foreign Direct Investment in Japan held in June 2021, a new “Strategy for Promoting FDI in Japan” was decided, with the policy goal of increasing the FDI stock to 80 trillion yen, or 12% of GDP, by 2030.

Inward FDI will contribute to strengthening the growth potential of the Japanese economy, vitalizing the region, etc. through innovation by integrating domestic and foreign resources, expanding investment and creating jobs in the region. On the other hand, the global economy has been slow to recover due to elevated economic uncertainty. Further efforts to promote FDI in Japan are a key to overcome economic stagnation.

■ Objective of Survey

The purpose of this survey is to grasp the current status and trends of foreign-affiliated companies* based in Japan, the attractiveness and challenges of the business environment in Japan, and the support needed, as well as to prepare data used for effective FDI promotion projects and for reference to improve business environment and promote related measures. Based on this objective, the survey scope was expanded to all foreign-affiliated companies in Japan from JETRO-supported companies only, last year. This is the second such survey.

The preparation of this report was commissioned to Tokyo Shoko Research, Ltd.

* “Foreign-affiliated companies” in this survey refer to companies in which foreign investors have a stake, regardless of the percentage of foreign capital.

2. Overview of Survey Implementation

■ Outline of survey

1. Survey target

6,607 foreign-affiliated companies in Japan (*)

2. Survey items (List of items on the last slide)

- I. Overview of the company
- II. Business environment in Japan
- III. Future business plans in Japan
- IV. Collaboration and cooperation in Japan
- V. Others

3. Survey period

October 13 to November 18, 2022

4. Collection of survey responses

Number of valid responses received: 1348 companies

Valid response rate: 20.4%

(*) Extracted based on company information held by JETRO and its commissioned partner, as well as information on the web, in addition to the companies surveyed last year.

[Reference] Definition of large enterprises and SMEs (based on capital and number of employees)

Classification	Manufacturing and others	Wholesale Trade	Retail trade	Services
Large enterprises	Companies other than medium and small-sized enterprises			
Small and medium-sized enterprises	JPY 300 million or less Or, 300 employees or less	JPY 100 million or less Or, 100 employees or less	JPY 50 million or less Or, 50 employees or less	JPY 50 million or less Or, 100 employees or less

■ Overview of respondent companies

	# of Companies	Composition ratio (%)
Total	1,348	100.0
Manufacturing	215	15.9
Electronic components and devices	38	2.8
Electrical machinery and equipment	19	1.4
Transportation machinery and equipment	19	1.4
Chemicals	17	1.3
Pharmaceuticals and cosmetics	16	1.2
Metal products	16	1.2
Production machinery and equipment	16	1.2
Business-oriented machinery and equipment	9	0.7
Plastic products	7	0.5
Food and beverage	6	0.4
Textile products and apparel	6	0.4
Rubber products	4	0.3
General-purpose machinery and equipment	3	0.2
Information and communication equipment	3	0.2
Stationery, toys, and sporting goods	3	0.2
Others (including unknown)	33	2.4
Wholesale trade / general trade	560	41.5
Retail trade	66	4.9
Services	424	31.5
Information and communications	151	11.2
Academic research, professional and technical services	62	4.6
Finance and insurance	60	4.5
Transportation and postal services	35	2.6
Real estate and goods rental and leasing	9	0.7
Construction	8	0.6
Accommodations	7	0.5
Medical care and welfare	7	0.5
Lifestyle-related services, entertainment and recreation services	7	0.5
Restaurant business	5	0.4
Education and learning support	2	0.1
Others (including unknown)	71	5.3
Large enterprises	60	4.5
Small and medium-sized enterprises	1,200	89.0

(NOTE) As some unclassified firms are included, the total numbers do not match.

3. Key Findings

1. Business expansion in Japan in the future

- About half of respondents report sales increase compared to the previous year, indicating a clear recovery trend.
- 56.1% intend to "strengthen or expand" their business in Japan in the future, up 3.5 points from the previous survey.
- Intentions to establish new bases/strengthen existing bases also increased from the previous survey, indicating an upward drive.

2. Attractiveness and challenges of the business environment in Japan

- The most attractive feature of Japan selected was its “market scale,” while “clustering/presence of customer and related industries” was the highest for the manufacturing industry.
- Companies whose parent companies have only recently been established and companies that have recently entered the Japanese market tend to consider medium-to long-term growth potential in their own business fields as attractive.
- Simplification/digitalization of administrative procedures and communication in foreign languages saw improvement in recent years.
- Expectations are particularly high for improvement of environment regarding "securing human resources."

3. Securing human resources and facilitating the employment and residence of international personnel

- While hiring Japanese mid-career workers is the mainstream, the intention to hire international students are observed especially among Asian companies.
- “IT/technical personnel” and “sales/marketing personnel” were cited difficult to secure. Lack of foreign language skills such as English is a bottleneck.
- Simplification/digitization of administrative procedures and relaxation of status of residence were most cited in order to facilitate smooth employment and residence of excellent foreign human resources.

4. Collaboration/cooperation and its enhancement

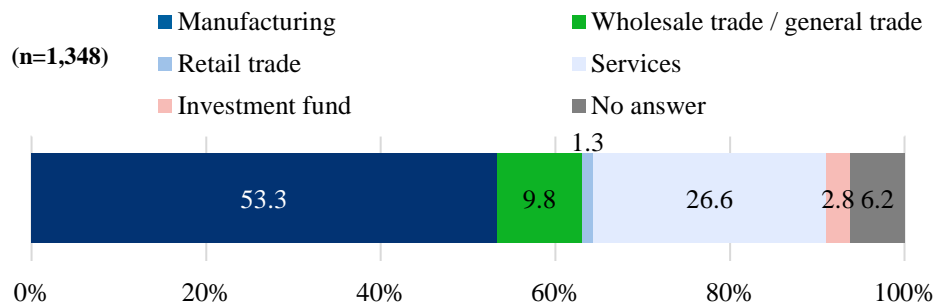
- 33.0% are implementing or considering collaboration/cooperation with Japanese partners, in which especially pharmaceuticals, cosmetics, and information and communication industries are showing significantly proactive engagement.
- Many companies seek technology and R&D capabilities of collaboration/cooperation partners, and have high expectations for those capacities from Japanese companies and universities.
- Challenges vary depending on the status of collaboration/cooperation, and support is needed according to the stage.

OVERVIEW OF RESPONDENT COMPANIES

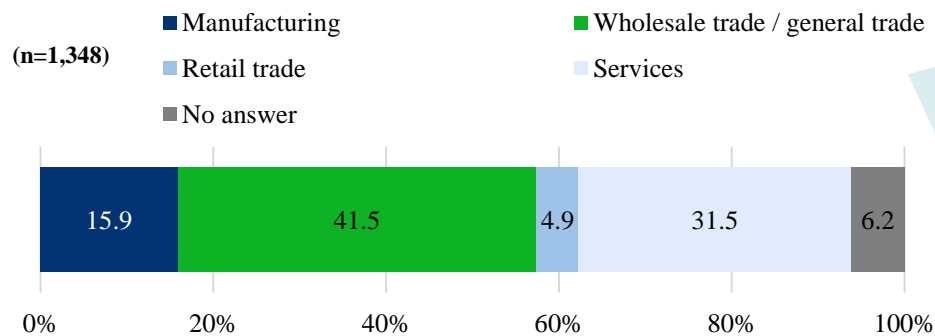
1| Over 50% of foreign parent companies are in manufacturing industry, while more foreign-affiliated companies in Japan operate as wholesale trade/general trade companies.

- Of the respondent companies, more than half have foreign parent companies engaged in manufacturing. On the other hand, wholesale trade/general trade companies accounted for the largest percentage of the foreign-affiliated companies in Japan at 41.5%. Although many foreign manufacturers have only sales bases in Japan, 15.9% of the respondents have manufacturing or processing functions.
- The service industry also accounted for a relatively high percentage of foreign-affiliated companies in Japan, at over 30%. Looking at the breakdown of the service industry, “information and communications” accounted for about a third at 35.6% . “Academic research, professional and technical services” and “finance and insurance” accounted for just over 14% respectively.

Industry of foreign parent companies



Industry of foreign-affiliated companies in Japan



Detailed industry sectors of foreign-affiliated companies in Japan

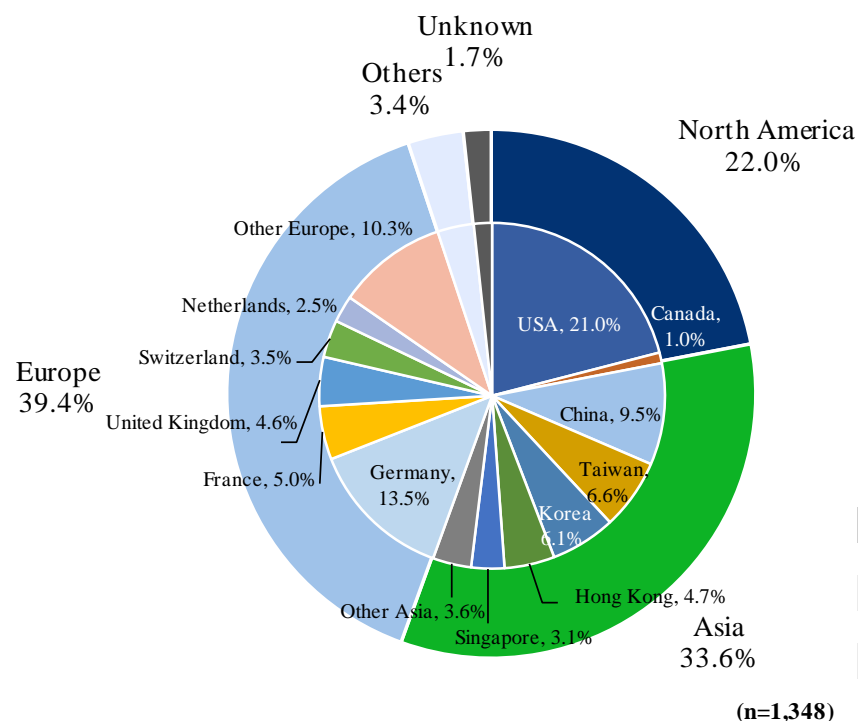
Products handled in manufacturing, wholesaling, and retailing		(number, %)
Electronic components and devices	88	10.5
Electrical machinery and equipment	72	8.6
Production machinery and equipment	69	8.2
Business-oriented machinery and equipment	68	8.1
Chemicals	59	7
Transportation machinery and equipment	53	6.3
Metal products	49	5.8
Food and beverage	45	5.4
Pharmaceuticals and cosmetics	40	4.8
Textile products and apparel	30	3.6
Information and communication equipment	24	2.9
Plastic products	21	2.5
Stationery, toys, and sporting goods	19	2.3
Household and living Goods	16	1.9
Rubber products	9	1.1
General-purpose machinery and equipment	8	1
Others	159	18.9
No answer	12	1.4
Total	841	100.0

Detailed industry of the service industry		
	(number)	(%)
Information and communications	151	35.6
Academic research, professional and technical services	62	14.6
Finance and insurance	60	14.2
Transportation and postal services	35	8.3
Real estate and goods rental and leasing	9	2.1
Construction	8	1.9
Accommodations	7	1.7
Medical care and welfare	7	1.7
Lifestyle-related services services	7	1.7
Entertainment industry	5	1.2
Restaurant business	5	1.2
Education and learning support	2	0.5
Others	70	16.5
No answer	1	0.2
Total	424	100.0

2| Over 60 percent of foreign parent companies have subsidiaries in China.

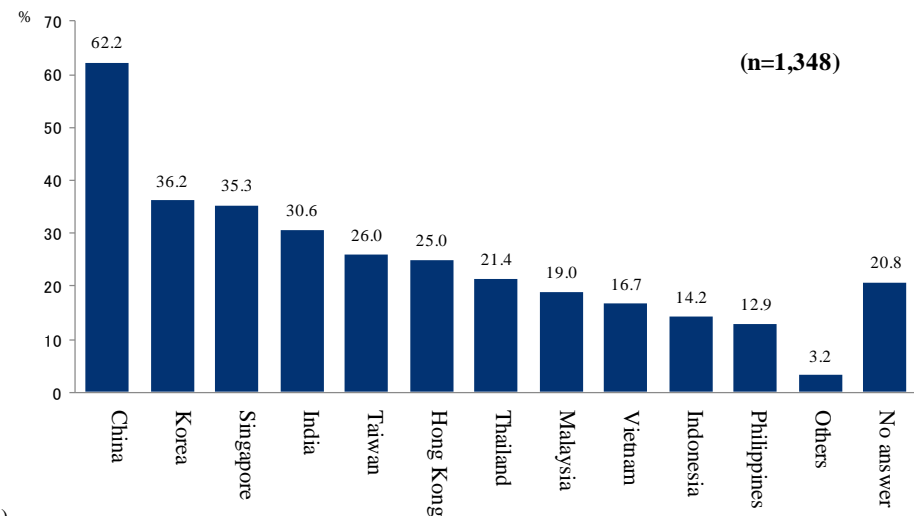
- Looking at the home countries/regions of the respondents' parent companies, the United States accounted for 21.0%, followed by Germany at 13.5%, and China at 9.5%. By region, Europe accounted for about 40%, North America for over 20%, and Asia for over 30%.
- As to subsidiary distribution of respondents' parent companies in Asia, over 60% of them have subsidiaries in China. Among those with parent companies in the manufacturing industry, over 70% of them have subsidiaries in China. In the service industry, a higher percentage of companies have subsidiaries in Singapore at over 40%.

Country/region of the foreign parent company



Q3 "Country/region of the foreign parent company"

Foreign parent companies' expansion in Asia by industry (countries/regions with subsidiaries other than Japan) (MA)



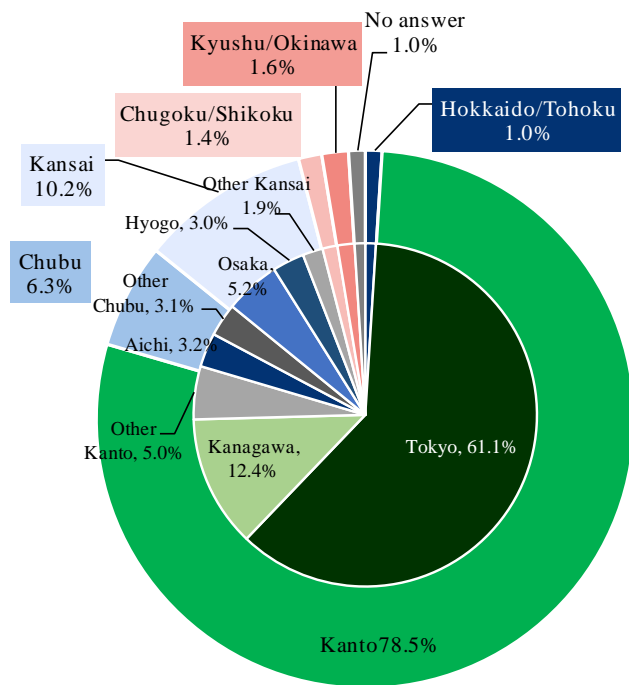
(%)	China	Korea	Singapore	India	Taiwan	Hong Kong	Thailand	Malaysia	Vietnam	Indonesia	Philippines	Others	No answer
Total (n=1,348)	62.2	36.2	35.3	30.6	26.0	25.0	21.4	19.0	16.7	14.2	12.9	3.2	20.8
Manufacture (n=719)	73.0	42.1	33.8	36.6	28.9	21.1	25.0	20.9	18.1	14.2	11.0	1.5	15.7
Wholesale trade / general trade (n=132)	49.2	25.8	30.3	16.7	22.7	29.5	19.7	18.9	20.5	12.1	15.9	9.1	25.0
Retail Trade (n=18)	55.6	44.4	27.8	16.7	22.2	50.0	16.7	11.1	5.6	11.1	16.7	0.0	22.2
Services (n=358)	49.7	33.0	42.2	27.4	26.0	29.9	17.9	18.7	15.4	16.8	14.5	5.0	27.7
Investment fund (n=38)	34.2	13.2	34.2	15.8	2.6	21.1	7.9	2.6	2.6	7.9	10.5	0.0	34.2

Q4 "Countries/regions other than Japan where the foreign parent company has subsidiaries in Asia"
 Q1 "Industry of foreign parent companies"

3| Tokyo and Kanagawa being dominating HQ locations; the Kansai region gains increasing attentions.

- Nearly 80% of the respondent companies are headquartered in the Kanto region, with the majority in Tokyo (61.1%) and Kanagawa Prefecture (12.4%). In addition, Osaka (5.2%), Aichi (3.2%) and Hyogo (3.0%) are relatively common.
- On the other hand, looking at the tendency by the group of business history of the parent company, younger companies are more likely to be located in the Kansai region, particularly companies established less than five years ago, which account for about 20% of them.

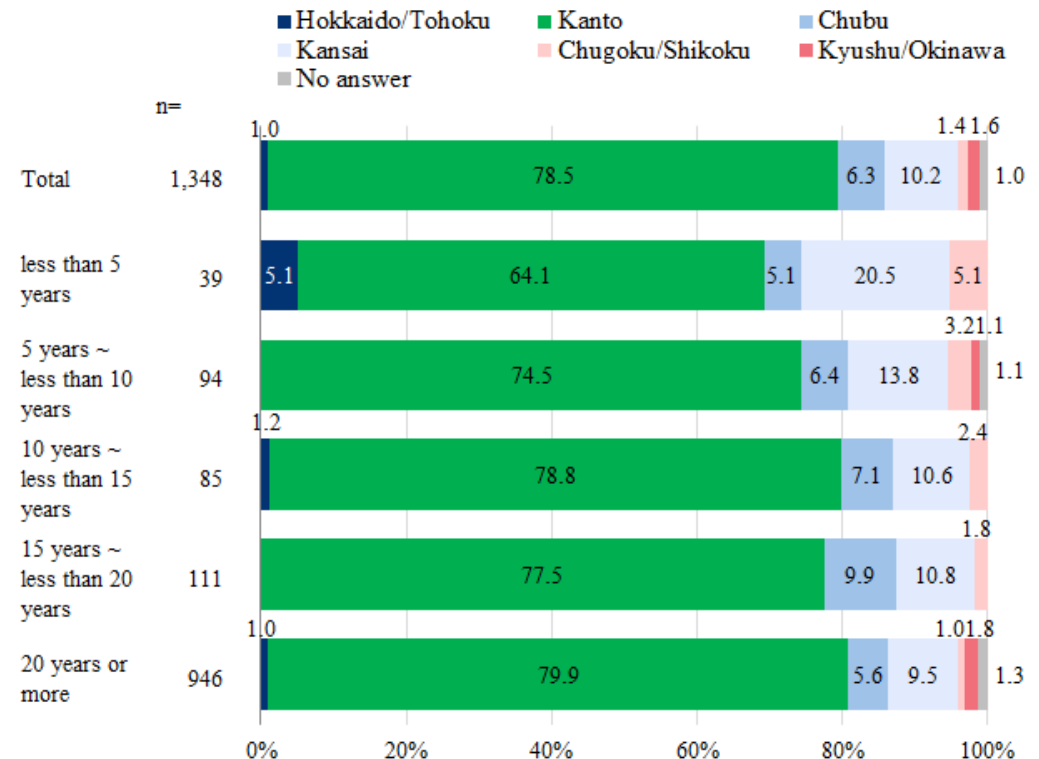
Head office location of foreign-affiliated companies in Japan



(n=1,348)

“Head office location of respondent companies”

Head office location by business history of foreign parent company

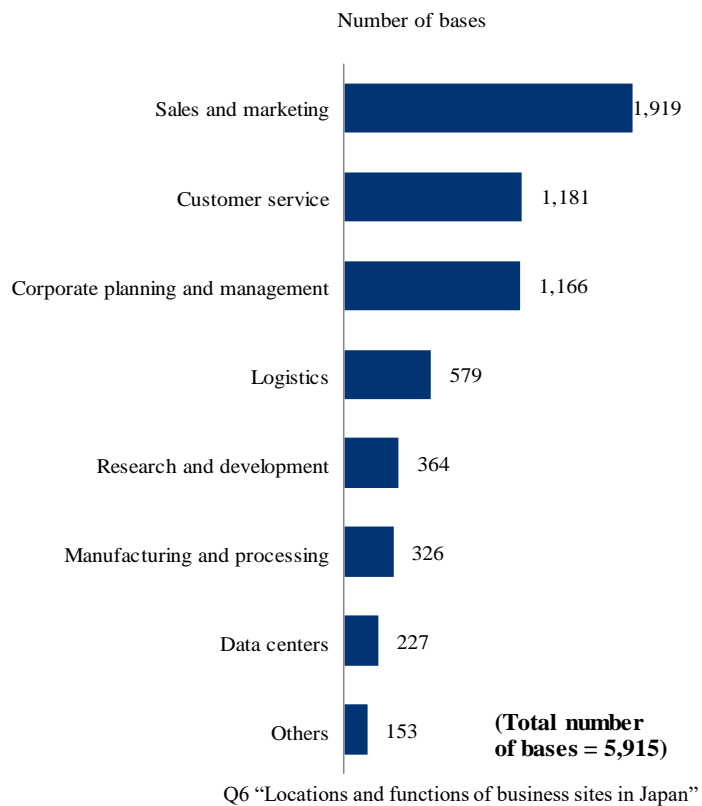


“Head office location of respondent companies” × “Q5 Number of years since the establishment of the foreign parent company”

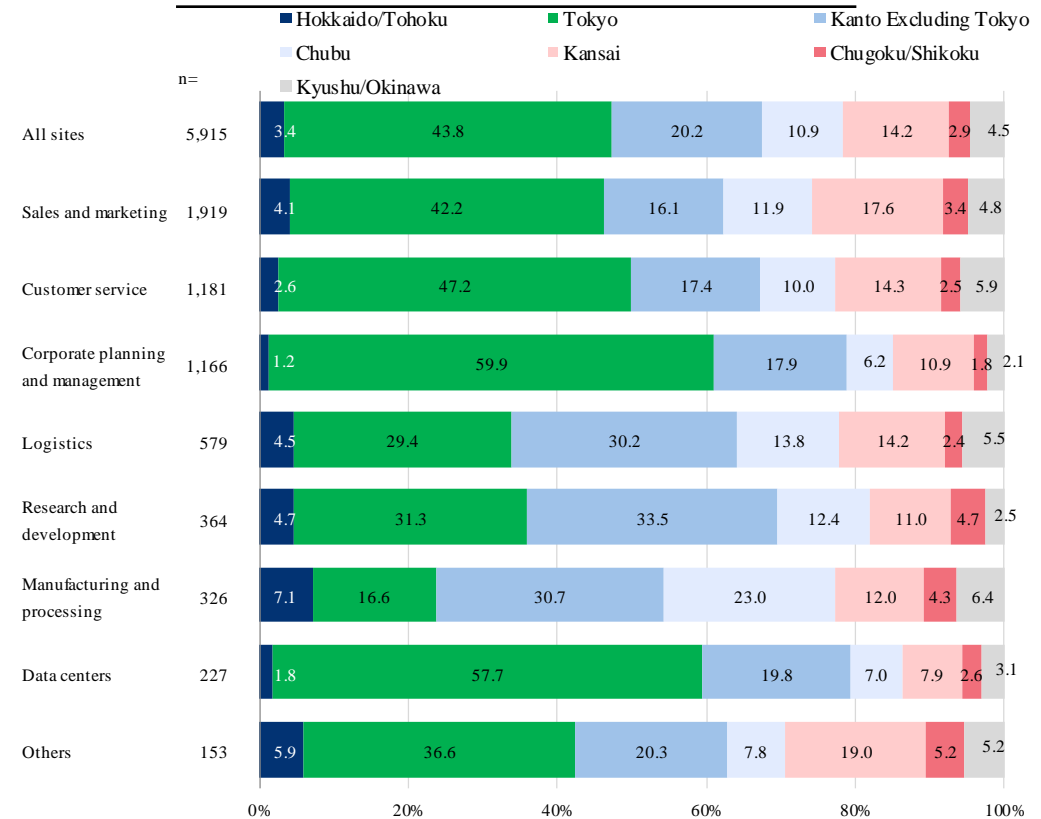
4| Sales/marketing bases account for the highest number of sites in Japan, and manufacturing/processing bases are relatively dispersed.

- Sales and marketing are the most common functions that respondent companies have in Japan, followed by customer service and corporate planning/administrative functions.
- Nearly 60% of corporate planning and management functions and data centers are located in Tokyo, nearly 80% in the Kanto region.
- The manufacturing and processing functions are relatively dispersed with over 80% of the manufacturing/processing bases located outside Tokyo. Particularly in the Chubu region, they are concentrated compared to other functions. R&D functions and logistics functions also tend to be dispersed, with about 70% of them located outside Tokyo respectively.

Business site functions of foreign-affiliated companies in Japan



Distribution of business sites in Japan by function

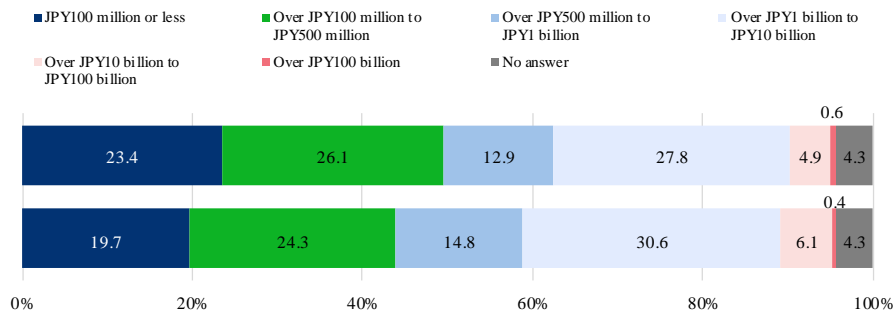


BUSINESS EXPANSION IN JAPAN IN THE FUTURE

1| About half of the companies reported annual sales growth; the performance of foreign-affiliated companies in Japan shows recovery.

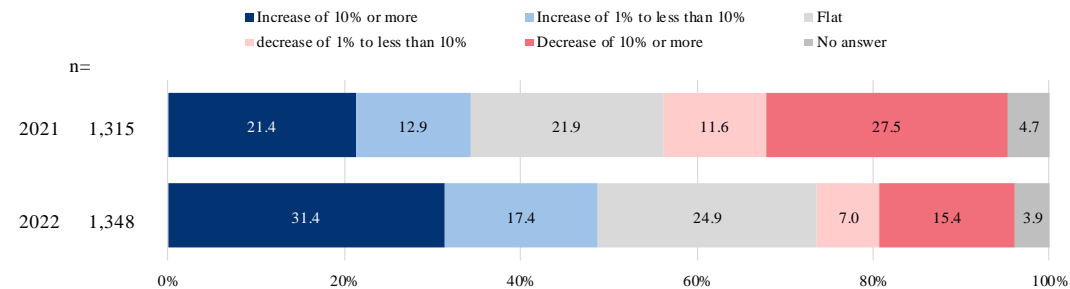
- Compared to the 2021 survey, the share of companies with sales of over 500 million yen has increased, and the overall sales scale is expanding.
- Looking at the year-on-year changes in sales for the most recent fiscal year, nearly 50% of companies reported an increase of 1% or more. On the other hand, only just over 20% of the companies experienced a decrease. Compared to the 2021 survey, the percentage of those reported an increase of 1% or more was up 14.5 points, and the share of those with an increase of 10% or more was up 10.0 points, clearly indicating a recovery trend in sales of foreign-affiliated companies in Japan.

Sales Distribution (vs. the 2021 survey)



Q11 “Annual sales amount for the most recent fiscal year of foreign-affiliated companies in Japan”

Changes in sales from the previous year (vs. the 2021 survey)

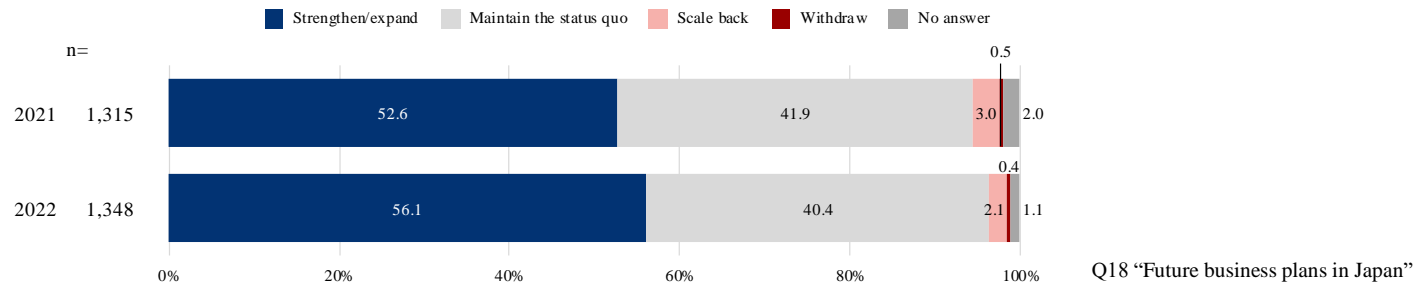


Q12 “Year-on-year increase/decrease in sales for the most recent fiscal year of foreign-affiliated companies in Japan”

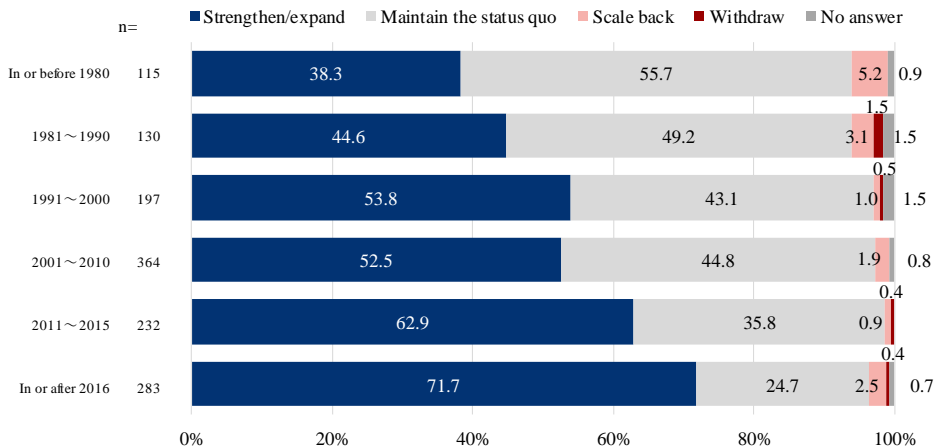
2| More than half of the respondents plan to strengthen or expand business in Japan, getting more proactive in expansion with the business recovery.

- Regarding the future business plans in Japan, 56.1% intend to strengthen or expand their business, up 3.5 points from the 2021 survey. This indicates a growing desire to strengthen or expand business in line with the recovery of sales.
- Companies that entered the Japanese market in 2011 or later are particularly keen on expanding business. By industry, business expansion is more sought among retailers.

Future business plans in Japan (vs. the 2021 survey)

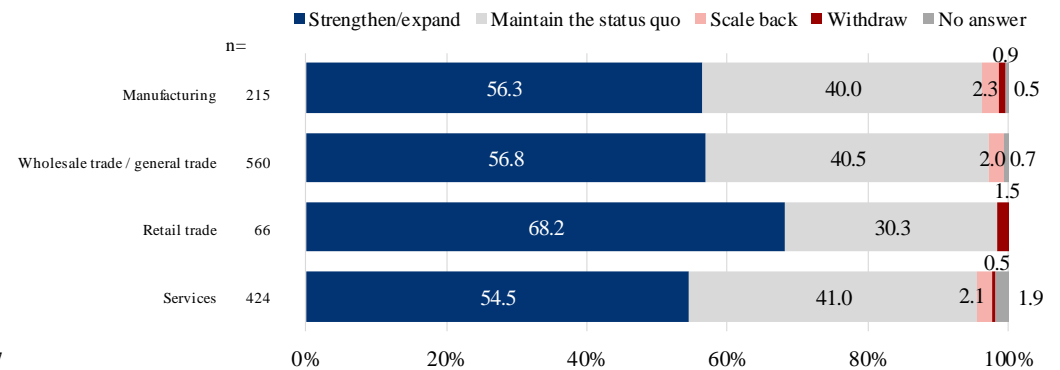


Future business plans in Japan (by timing of investment)



Q18 "Future business plans in Japan" ×
Q7 "Timing of establishment or investment of foreign-affiliated companies in Japan"

Future business plans in Japan (by industry)

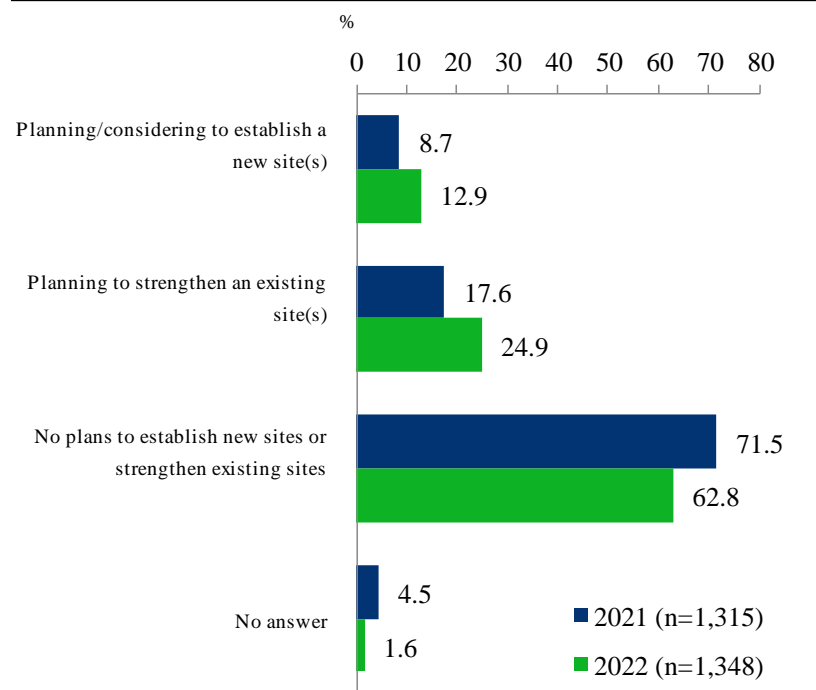


Q18 "Future business plans in Japan" ×
Q1 "Industry of foreign-affiliated companies in Japan"

3| Increasing desire to establish new business sites and strengthen existing ones.

- The survey also showed a positive attitude toward establishing new sites or strengthening existing sites, and the percentage of the companies that answered that they are planning or considering to set up new sites or strengthen existing sites in the next three years or so increased by 4.2 points and 7.3 points, respectively, from the 2021 survey.
- By industry, companies in the retail and manufacturing industries tend to be more active in establishing or strengthening business sites. By region of the parent company, companies from Asia and Europe showed a more positive intention to expand their business in Japan.

Establishment or expansion of sites for the next three years or so (vs. the 2021 survey) (MA)



Q19 “Plans to establish a new business site(s) or strengthen an existing business site(s)”

Establishment or expansion of sites for the next three years or so (by industry and region of parent company) (MA)

		Planning/considering to establish a new site(s) (%)	Planning to strengthen an existing site(s) (%)	No plans to establish new sites or strengthen existing sites (%)
	Total (n=1,348)	12.9	24.9	62.8
Industry	Manufacturing (n=215)	16.3	26.5	59.5
	Wholesale trade / general trade (n=560)	10.7	24.3	64.8
	Retail trade (n=66)	19.7	33.3	48.5
	Services (n=424)	13.2	24.5	63.9
Parent company region	North America (n=296)	8.8	19.6	71.3
	Asia (n=453)	15.0	28.9	58.3
	Europe (n=531)	13.7	24.7	61.6
	Others (n=45)	11.1	22.2	64.4

Q19 “Plans to establish a new business site(s) or strengthen an existing business site(s)” × Q1 “Industry of foreign-affiliated companies in Japan,” × Q3 “Country/region of the foreign parent company”

4| Manufacturing industries focus on infrastructure and costs, while other industries focus on acquiring new customers.

- In selecting locations, the manufacturing industry places importance on “well-developed infrastructure” and “low business costs.” In other industries, "potential to acquire new customers" is regarded the most important factor. This tendency is prominent especially in the retail industry.
- Compared to SMEs, large enterprises tend to place more emphasis on the “prospect of securing human resources” and “BCP.”
- Compared to companies with a longer-term presence in Japan, new entrants are more likely to place importance on the “prospect of securing human resources,” “incentives provided by local municipalities,” and “prospect of joint R&D with universities and companies.”

Important factors in selecting locations
(by industry, company size, and timing of entry) (MA)

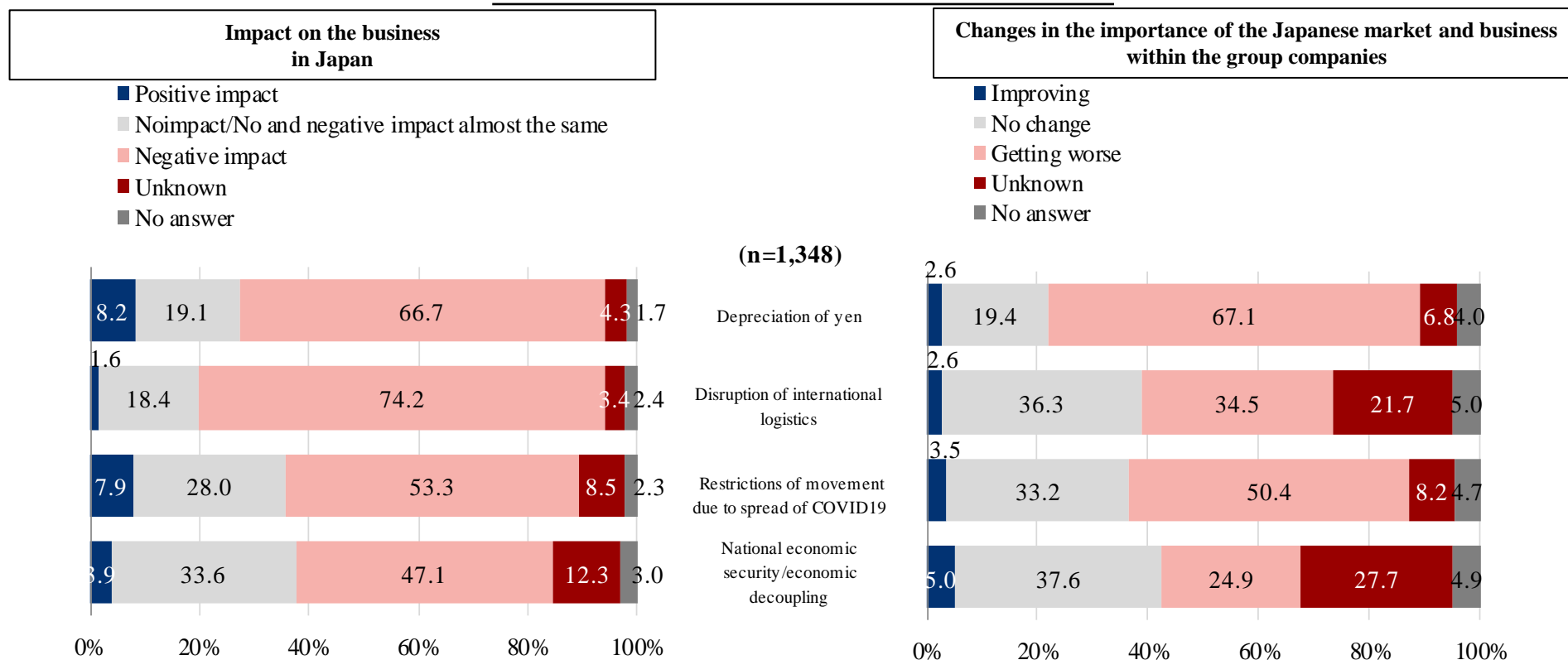
		Potential to acquire new customers	Well-developed infrastructure (transportation, logistics, information and communications, energy, etc.)	Low business costs (land, personnel costs, etc.)	Prospect of securing excellent human resources in the region	Proximity/access to the head office	Existence of related industrial clusters	Attractive incentives provided by local municipalities	Decentralization of bases in consideration of BCP (business continuity plan)	Prospect of joint R&D with companies and universities in the region	Education environment (availability of international schools for family members, etc.)
	(%)										
	Total (n=1,348)	41.5	35.0	29.6	28.3	13.0	10.7	9.1	7.8	3.9	1.7
Industry	Manufacturing (n=215)	26.5	43.3	41.9	35.8	17.2	10.2	16.3	11.2	7.9	1.9
	Wholesale trade / general trade (n=560)	45.7	36.4	30.4	26.3	13.2	10.4	7.1	6.6	3.9	0.9
	Retail trade (n=66)	56.1	30.3	16.7	34.8	1.5	9.1	6.1	7.6	1.5	0.0
	Services (n=424)	42.9	29.5	25.9	27.4	14.2	12.0	9.4	8.7	3.1	3.1
	Large enterprises (n=60)	45.0	40.0	36.7	38.3	15.0	11.7	6.7	21.7	3.3	1.7
SMEs (n=1200)	42.1	34.8	29.9	28.3	13.6	10.8	9.6	7.5	4.3	1.8	
Timing of entry	In or before 1980 (n=115)	33.9	35.7	31.3	24.3	11.3	7.0	11.3	11.3	3.5	0.9
	1981~1990 (n=130)	35.4	30.8	18.5	24.6	6.9	10.8	3.8	9.2	2.3	0.8
	1991~2000 (n=197)	44.2	38.1	32.5	25.4	15.2	9.1	9.1	10.2	1.5	2.0
	2001~2010 (n=364)	42.3	36.0	29.4	25.0	11.3	11.8	6.3	6.9	3.8	0.8
	2011~2015 (n=232)	44.0	34.9	30.2	33.2	15.9	9.9	8.6	9.5	2.6	2.6
	In or after 2016 (n=283)	42.8	34.6	32.2	34.3	14.8	13.1	14.1	4.2	7.8	2.5

Q20 “Important factors in selecting locations” × Q1 “Industry of foreign-affiliated companies in Japan,” × Q7 “Timing of establishment or investment of foreign-affiliated companies in Japan”

5| Despite significant adverse effects of yen depreciation and disruption of international logistics, limited impact on the importance of market.

- When asked about the impact of the events affecting the business environment, “negative impact” was the most common answer in all the given 4 events. In particular, about 70% of the companies reported that the depreciation of yen and disruption of international logistics have had a negative impact.
- With regard to changes in the significance of the Japanese market/business within the group companies from a global perspective, a relatively large number of companies said that there were no changes from international logistics disruption, and national economic security/economic decoupling. While these events have a negative impact on business, it is limited in terms of the significance of the Japanese market.

Impact on foreign-affiliated companies in Japan by the events affecting business environment

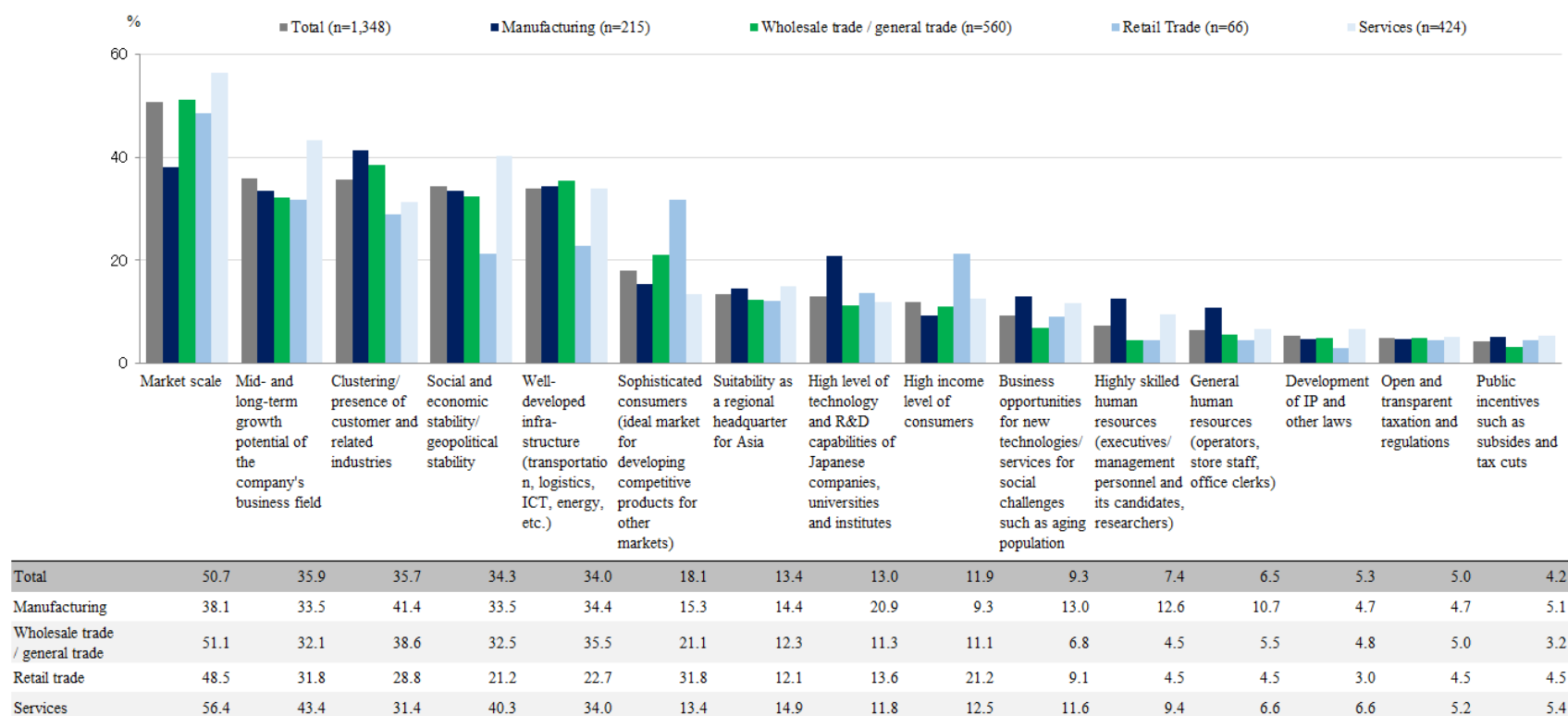


ATTRACTIVENESS AND CHALLENGES OF THE BUSINESS ENVIRONMENT IN JAPAN

1| Japan's "Market scale" and "Mid- and long-term growth potential of business" are highly evaluated.

- In terms of the attractiveness of Japan's business environment compared to other markets in the world, the scale of the Japanese market and the growth potential in the company's own business fields were rated particularly highly. In addition, a relatively large number of companies see Japan's social and economic basis and geopolitical stability as attractive, selecting the items of "social and economic stability/geopolitical stability" and "well-developed infrastructure."
- In the manufacturing industry, "clustering/presence of customer and related industries" was the most common (41.4%), indicating appreciation for the concentration of manufacturing industries. In the retailing industry, the existence of "sophisticated consumers" was rated particularly highly at over 30%. There is also an appreciation of the environment as a step for expansion into other countries.

Attractiveness of the business environment in Japan (by industry) (MA)



2| New entrants see growth potential and technological capabilities as particularly attractive.

- When asked about the attractiveness of Japan's business environment, a high percentage of companies that entered Japan in or after 2016 pointed to the attractiveness of mid- and long-term growth potential in their own business fields in Japan and business opportunities arising from the development of new technologies and services to solve social challenges. An increasing number of companies are entering the Japanese market, having identified the growth potential of specific fields and new business opportunities as attractive.
- This trend is also true for companies whose foreign parent companies have recently been established. On the other hand, “clusters of related industries” and “scale of market” were less mentioned, suggesting the intention to create new markets. Companies whose parent companies have been in business less than 5 years also gave high marks to “high level of technology and R&D capabilities.”

Attractiveness of the business environment in Japan
(by timing of entry and business history of foreign parent company) (MA)

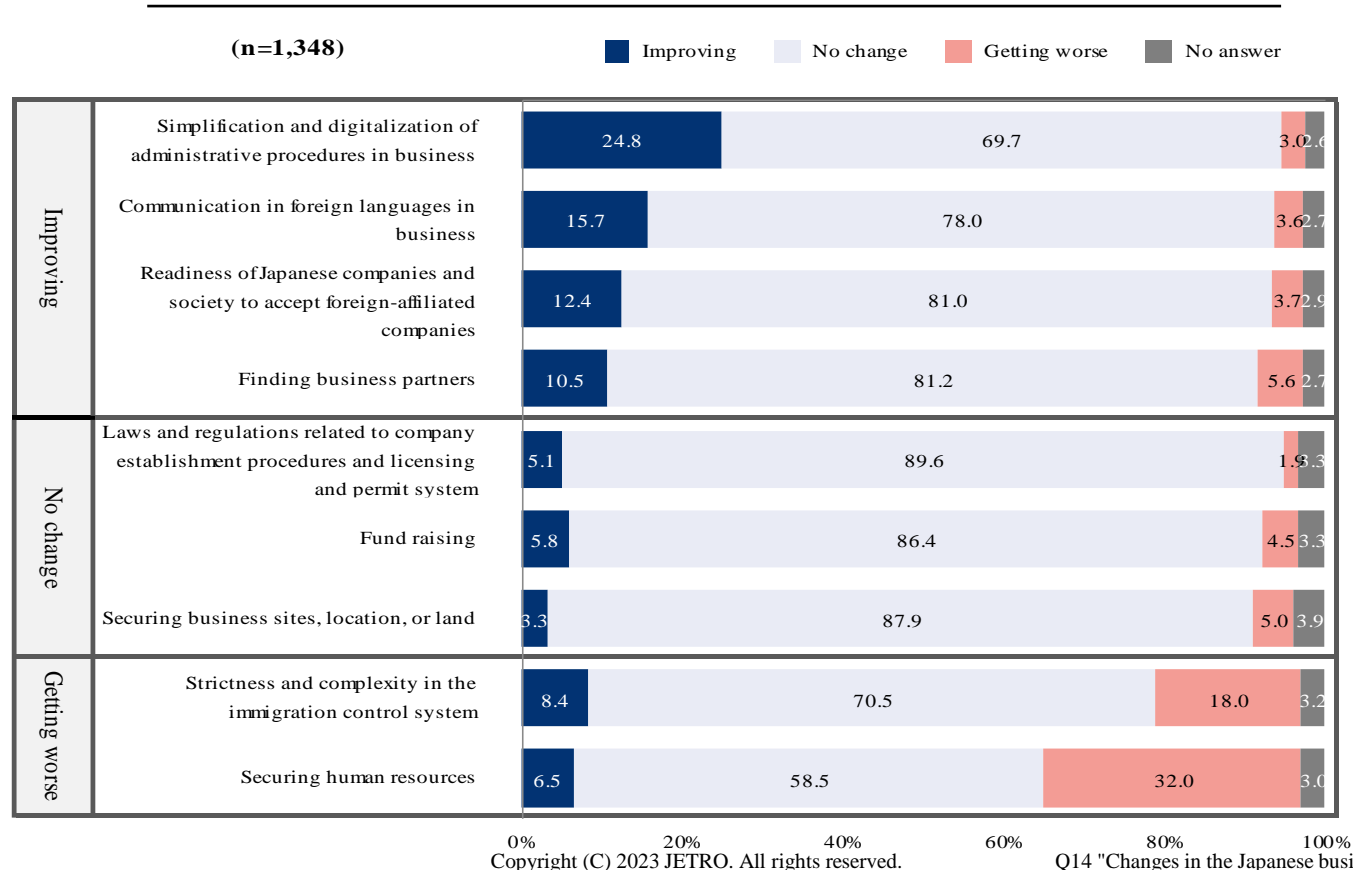
		Market scale	Mid- and long-term growth potential of the company's business fields	Clustering/presence of customer and related industries	Social and economic stability/geopolitical stability	Well-developed infrastructure (transportation, logistics, ICT, energy, etc.)	Sophisticated consumers (ideal market for developing competitive products for other markets)	Suitability as a regional headquarter for Asia	High level of technology and R&D capabilities of Japanese companies, universities and institutes	High income level of consumers	Business opportunities for new technologies/services for social challenges, such as aging population	Highly skilled human resources (executives/management personnel and researchers)	General human resources (operators, store staff, office clerks)	Development of IP and other laws	Open and transparent taxation and regulations	Public incentives such as subsidies and tax cuts	
		(%)															
Timing of entry	Total	(n=1,348)	50.7	35.9	35.7	34.3	34.0	18.1	13.4	13.0	11.9	9.3	7.4	6.5	5.3	5.0	4.2
	In or before 1980	(n=115)	49.6	24.3	36.5	40.9	41.7	17.4	8.7	10.4	10.4	9.6	6.1	10.4	7.8	3.5	2.6
	1981~1990	(n=130)	48.5	34.6	30.8	30.0	35.4	24.6	14.6	13.1	8.5	10.8	4.6	7.7	2.3	0.8	0.8
	1991~2000	(n=197)	49.2	31.0	39.6	41.1	44.2	17.3	11.2	13.2	12.2	6.1	8.6	7.1	3.6	6.1	3.0
	2001~2010	(n=364)	53.0	32.7	40.7	31.6	31.3	16.5	12.1	9.6	14.3	7.7	6.9	5.8	5.8	5.8	4.1
	2011~2015	(n=232)	50.9	38.8	34.1	38.4	32.8	15.5	15.9	13.4	11.2	5.2	7.8	8.2	6.9	6.5	5.6
	In or after 2016	(n=283)	50.9	48.4	32.2	31.4	28.6	19.4	15.9	18.4	11.7	16.6	9.2	3.9	4.9	4.2	6.4
Parent company Business history	Less than 5 years	(n=39)	38.5	51.3	23.1	20.5	15.4	20.5	23.1	25.6	2.6	17.9	7.7	5.1	5.1	0.0	2.6
	5 to less than 10 years	(n=94)	44.7	33.0	23.4	38.3	34.0	18.1	19.1	14.9	12.8	10.6	10.6	3.2	6.4	8.5	8.5
	10 to less than 15 years	(n=85)	49.4	41.2	41.2	34.1	32.9	14.1	17.6	9.4	15.3	11.8	5.9	5.9	4.7	4.7	8.2
	15 to less than 20 years	(n=111)	55.0	42.3	36.0	33.3	31.5	17.1	15.3	12.6	12.6	5.4	7.2	5.4	8.1	4.5	6.3
	More than 20 years	(n=946)	53.1	35.4	38.4	34.8	36.2	18.5	12.1	12.7	12.1	8.8	7.3	7.0	5.0	5.0	3.1

Q13 “Attractiveness and challenges of the business environment in Japan” × Q7 “Timing of establishment or investment of foreign-affiliated companies in Japan” × Q5 “Number of years since the establishment of the foreign parent company”

3| Improvement is recognized in “Simplification/digitalization of administrative procedures.”

- Regarding the changes in Japan’s business environment over the past year or two, the most common response to the nine items surveyed was “no change,” while about 25% of respondents answered that “simplification/digitalization of administrative procedures in business” had improved. In addition, more respondents stated that “communication in foreign languages in business” and “readiness of Japanese companies and society to accept foreign-affiliated companies” had improved compared to other items.
- On the other hand, many pointed out that “securing human resources” was deteriorating.

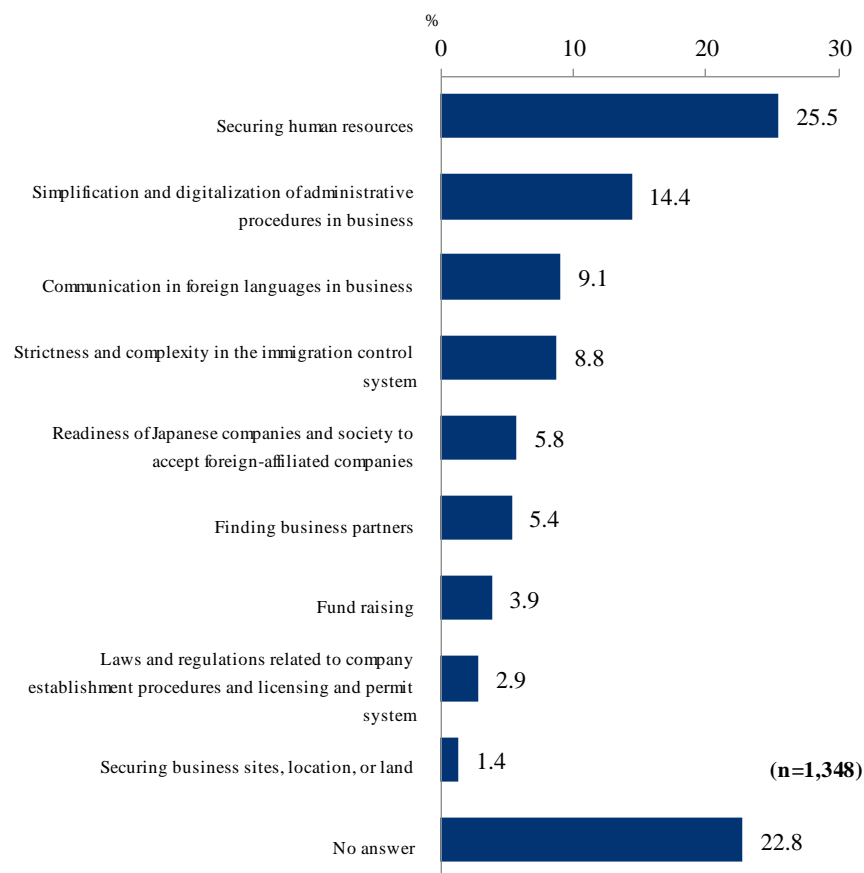
Changes in the Japanese business environment over the past 1-2 years



4| Further improvement in “Securing human resources” and “simplification/digitalization of administrative procedures” is called for.

- In doing business in Japan, the most common item that respondents expect to improve was “securing human resources.” “Simplification/digitalization of administrative procedures” and “communication in foreign languages” followed, indicating that further improvement is expected, although improvement over the past year or two has been recognized as shown on the previous slide.

Items particularly need improvement in business activities in Japan



Q15 “Items particularly need improvement in business activities in Japan”

Specific opinions on improvement and problems (excerpt)

Securing human resources

- It is difficult to secure human resources who can use foreign languages at the business level.
- There are very few technical personnel with English language skills.
- It is difficult to secure human resources in local cities (especially younger people).
- It’s not only because they are foreign-affiliated companies, but just like for Japanese companies, securing young human resources is becoming more difficult than ever.

Simplification/digitalization of administrative procedures in business

- There are still many documents that need to be sealed, and procedures that cannot be done online.
- Rules and procedures are complex, time-consuming, and less transparent.

Communication in foreign languages in business

- Doing business in English is more difficult than in other Asian countries.
- Lack of English translation of laws and regulations and insufficient English communication capacities of the authorities causes burden.

Immigration control system

- Relaxation of COVID-19 regulations.
- Too long examination period for work visas.

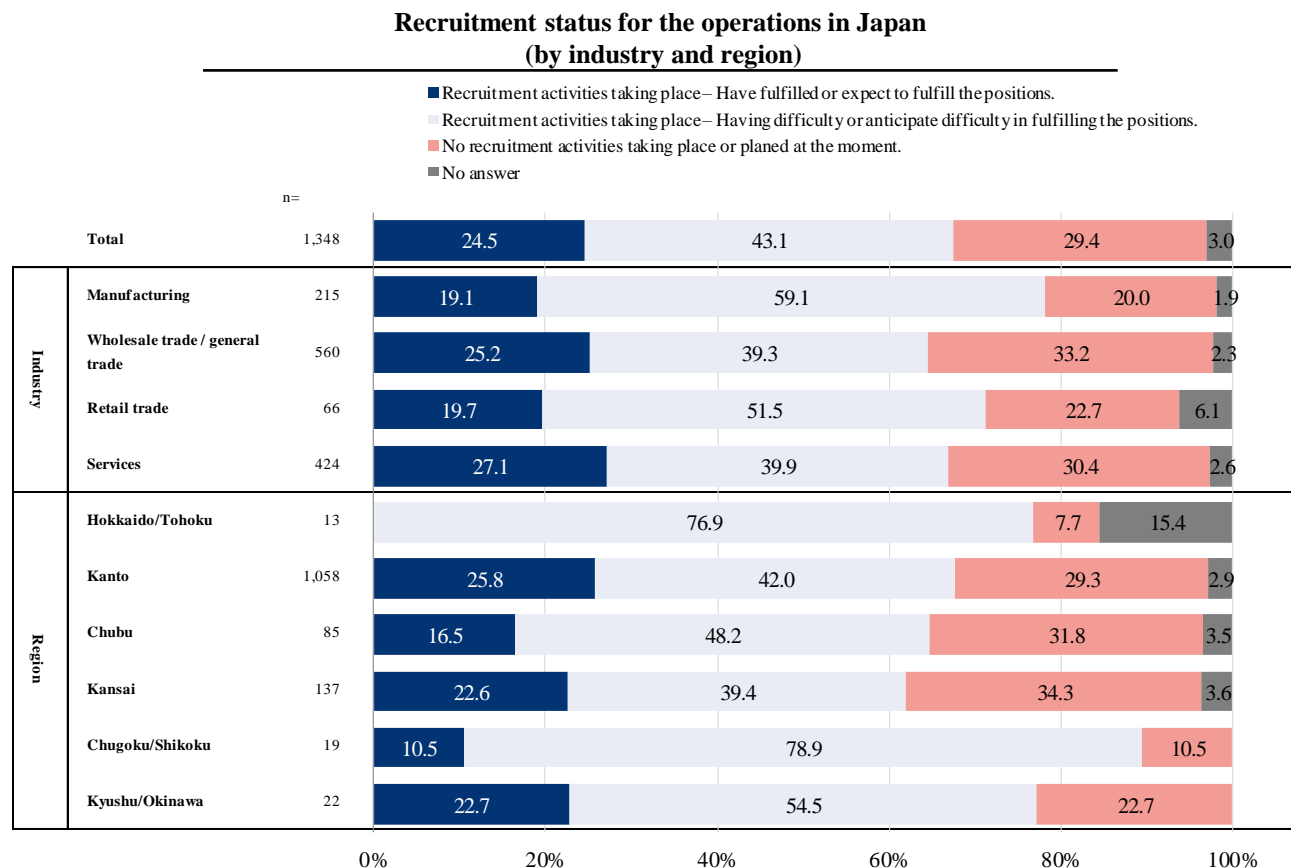
Readiness of Japanese companies and society to accept foreign-affiliated companies

- Difficulty in raising funds when the representative is a foreigner.
- Difficulty in proceeding with business due to Japan’s unique laws, regulations, and rules, which are sometimes not in line with international rules.

**SECURING HUMAN RESOURCES AND FACILITATING
THE EMPLOYMENT AND RESIDENCE OF
INTERNATIONAL PERSONNEL**

1| Manufacturing industry and companies in rural areas face challenges to secure human resources.

- About 70% of the companies conducted recruitment activities, of which 40% were able to secure human resources, and 60% reported difficulty in fulfilling the positions.
- By industry, many companies particularly in manufacturing and retailing industries are struggling to secure human resources.
- By region, the challenges are more significant outside of the Kanto, Chubu, and Kansai regions. Over 40% of companies in the Kanto region (39.0% in Tokyo) and about 40% in the Kansai reported difficulty, indicating that human resources are not abundant even in metropolitan areas.



Q21 “Status of recruitment of human resources for the operations in Japan” x Q1 “Industry of foreign-affiliated companies in Japan” x “Head office location of respondent companies”

2| While hiring Japanese mid-career workers is the mainstream, active recruitment of non-Japanese workers and international students observed in some areas.

- When asked the companies conducting recruitment activities about the outlook for employment, about 90% said that they would recruit Japanese mid-career workers in Japan in all category groups, indicating a continued preference for hiring ready-to-work personnel.
- In the service industry, companies in the information and telecommunications sector in particular showed a trend toward diversification in human resource acquisition, with a proactive intention to employ non-Japanese workers and international students.
- By region of the parent company, Asian companies tended to be more inclined to hire international students.

Employment prospects in business in Japan
(by industry, detailed industry sector (service industry), and region of parent company) (MA)

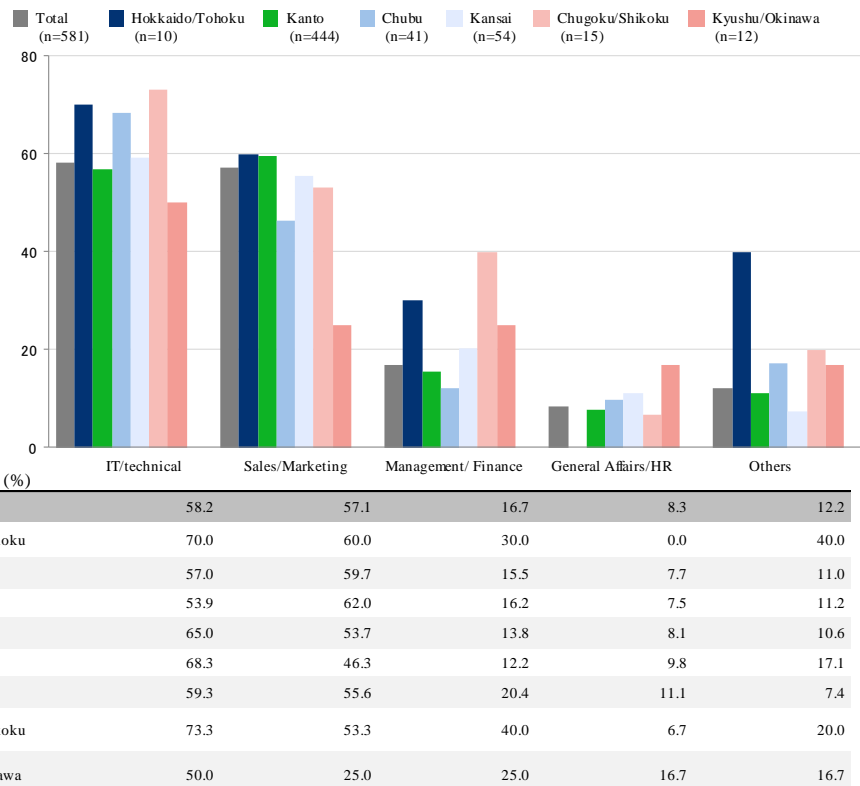
		Recruiting Japanese mid-career workers in Japan (%)						Recruiting mid-career workers of foreign nationals in Japan (%)		Recruiting new Japanese graduates in Japan (%)		Transferring non-Japanese employees hired overseas to Japanese sites (%)		Recruiting new graduates of international students in Japan (%)		Transferring Japanese employees hired overseas to Japanese sites (%)	
Total		(n=911)	92.4		41.3		23.5		12.8		11.1		6.4				
Industry	Manufacturing	(n=168)	94.6		41.7		38.1		10.1		14.9		5.4				
	Wholesale trade / general trade	(n=361)	93.1		33.5		16.1		6.4		5.5		5.0				
	Retail trade	(n=47)	95.7		40.4		17.0		12.8		6.4		6.4				
	Services	(n=284)	90.1		50.4		25.7		22.9		16.2		8.8				
Services detailed industry sector	Information and communications	(n=112)	86.6		55.4		27.7		30.4		21.4		9.8				
	Academic research, professional and technical services	(n=42)	97.6		40.5		19.0		14.3		7.1		4.8				
	Finance and insurance	(n=39)	100.0		56.4		17.9		17.9		23.1		10.3				
	Others	(n=91)	86.8		46.2		29.7		19.8		11.0		8.8				
Parent company region	North America	(n=211)	93.8		40.8		21.3		10.9		9.0		8.5				
	Asia	(n=293)	87.7		47.4		32.4		15.4		18.8		4.4				
	Europe	(n=367)	95.9		36.5		18.5		12.3		6.5		6.5				
	Others	(n=29)	93.1		37.9		17.2		10.3		3.4		6.9				

Q22 “Future employment prospects in business in Japan” x Q1 “Industry of foreign-affiliated companies in Japan” x Q3 “Country/region of the foreign parent company”

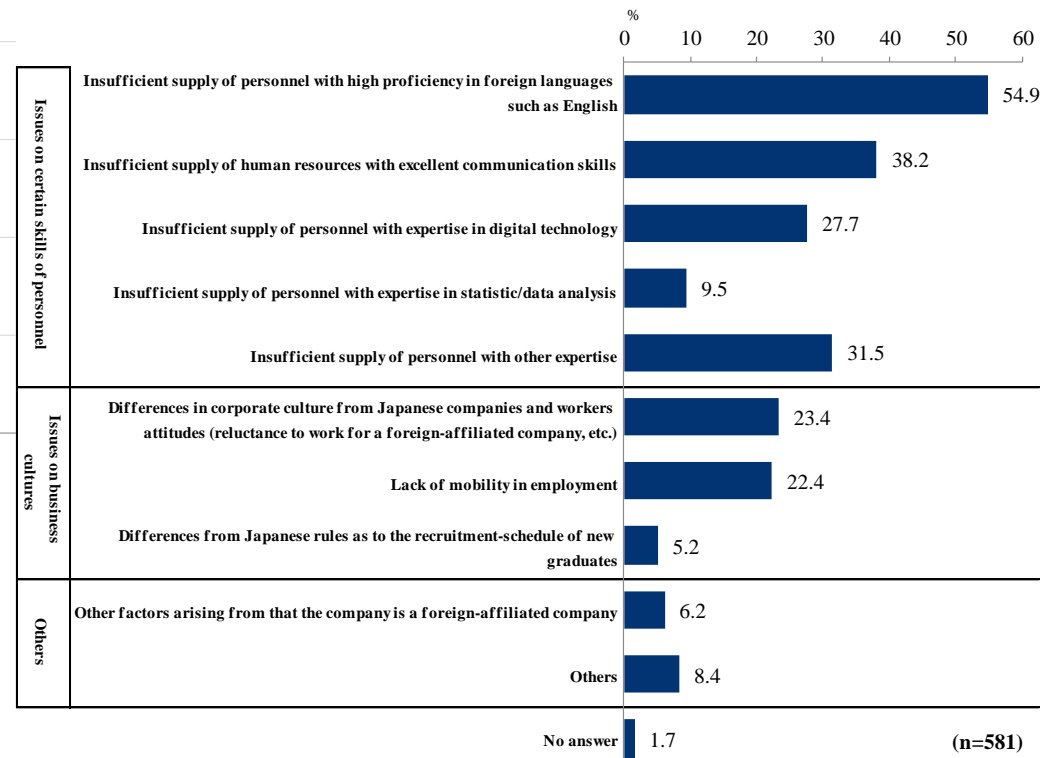
3| “IT/Technical” and “Sales/Marketing” personnel are particularly difficult to secure.

- When asked the companies that reported difficulty in recruitment about the type of human resources they need, “IT/technical personnel” and “sales/marketing personnel” were both selected by nearly 60% of the respondents. A high percentage of companies in Tokyo were having difficulty in securing “sales/marketing personnel,” while many companies in local areas were struggling to secure “IT/technical personnel.”
- The top reason given was insufficient supply of personnel with foreign language skills such as English, as well as excellent communication skills. In addition, there were cases in which customs unique to Japan were obstacles, such as differences in corporate culture, and lack of employment mobility.

Types of human resources difficult to secure (by region) (MA)



Reasons of difficulty in securing human resources (MA)



(n=581)

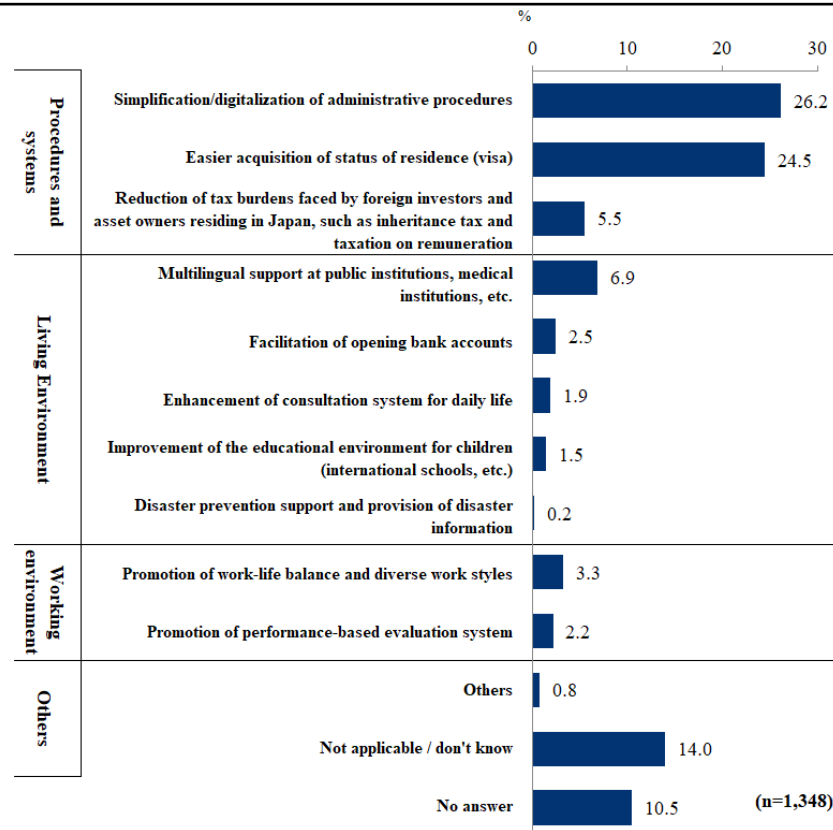
Q23 (2) “Reasons of difficulty in securing human resources”

4| Improvement in procedures and systems are called for the facilitation of employment and residence of excellent foreign human resources.

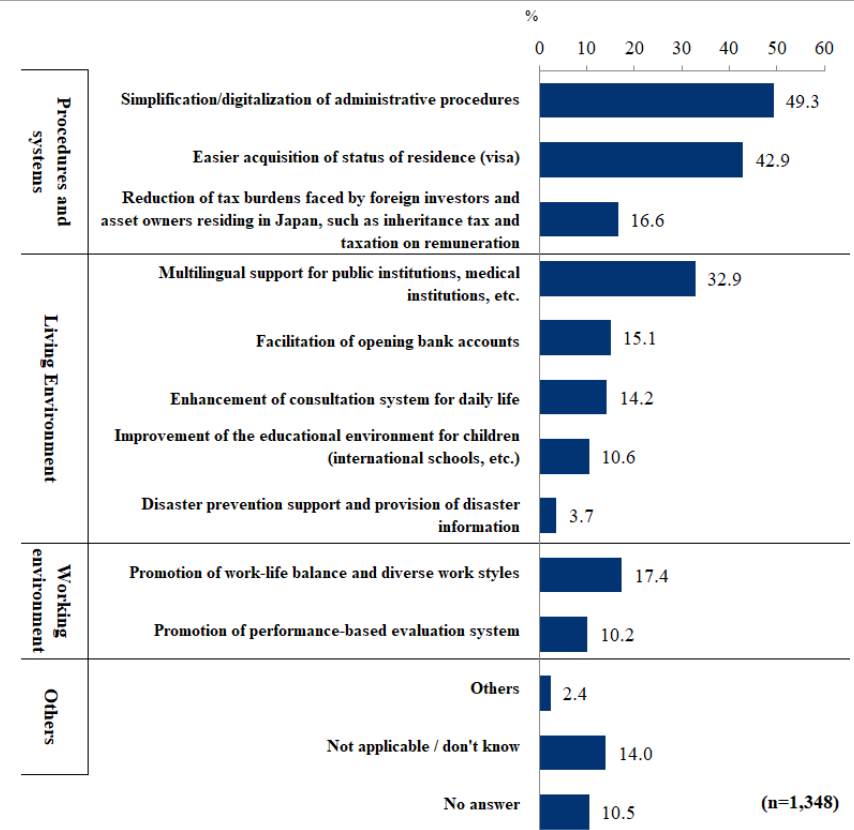
- When asked about the most important items regarding the environmental improvements necessary to facilitate the smooth employment and residence of highly skilled foreign professionals (see Note), “simplification/digitalization of administrative procedures” and “easier acquisition of a status of residence (visa)” were most commonly cited, suggesting improvements in procedures and systems is a key factor.
- When asked about the 3 most important items, “multilingual support at public institutions, medical institutions, etc.,” “promotion of work-life balance and diverse work styles,” and “facilitation of opening bank accounts” are increasingly selected, showing that improving the living and working environment is also a necessary factor.

(Note) It refers to foreign investors, entrepreneurs, managers, and businessmen in this report.

Improvement of the environment necessary to facilitate the smooth employment and residence of highly-skilled foreign professionals (most important item)



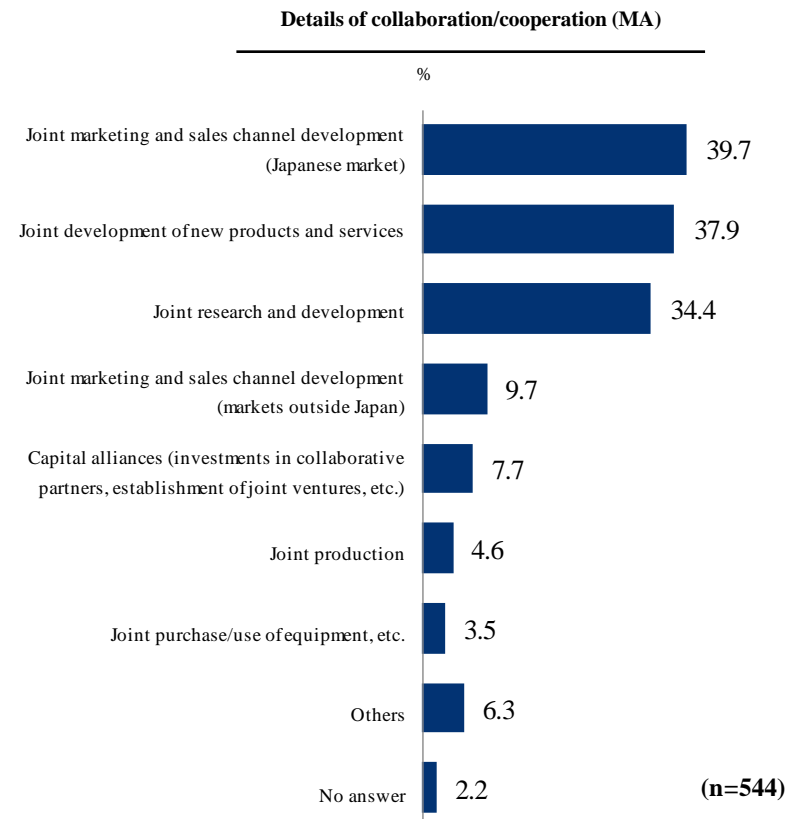
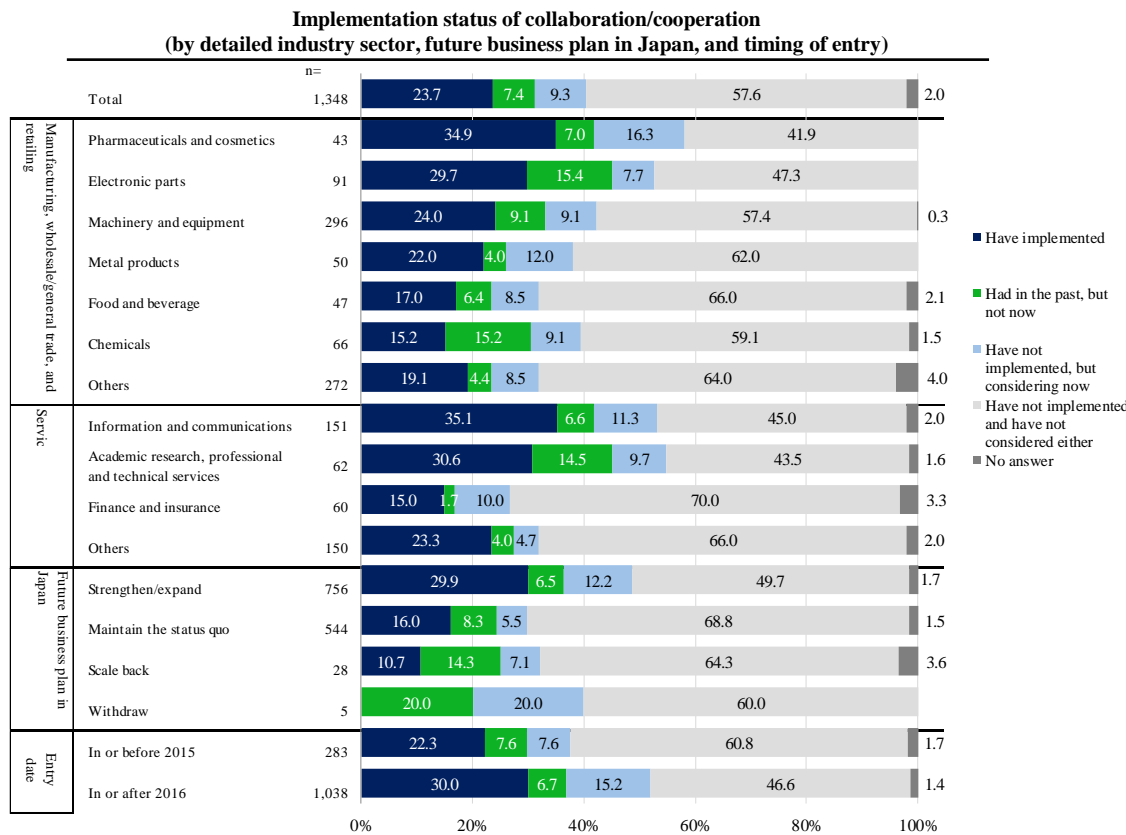
Improvement of the environment necessary to facilitate the smooth employment and residence of highly skilled foreign professionals (top 3 items)



COLLABORATION/COOPERATION AND ITS ENHANCEMENT

1| Nearly half of new entrants and companies intending to expand are proactive in collaboration/cooperation.

- 33.0% of the respondents were considering or implementing collaboration/cooperation with companies/institutions in Japan. By detailed industry sector, more than 50% of “pharmaceuticals and cosmetics”, and about 50% and 40% of “information and telecommunications” and “electronic components & devices,” respectively, were proactive in collaboration/cooperation. Companies with intentions to strengthen or expand their business tended to be more active in collaboration, as well as foreign-affiliated companies newly entering the Japanese market.
- “Joint marketing and sales channel development (Japanese market),” “joint development of new products and services,” and “joint research and development” were common ways of collaboration/cooperation, selected by over 30% respectively.



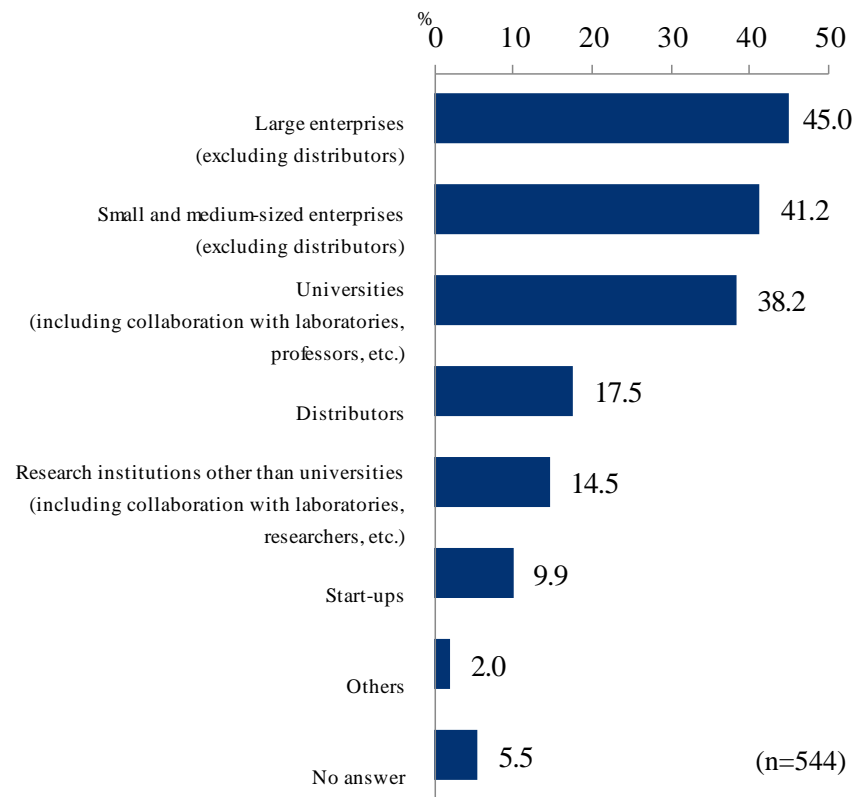
Q24 (1) “Implementation status of collaboration/cooperation” × Q1 “Industry of foreign-affiliated companies in Japan” × Q18 “Future business plans in Japan” × Q7 “Timing of establishment or investment of foreign-affiliated companies in Japan”

Q24 (2) “Implementation details of collaboration/cooperation”

2| “Technology and R&D capabilities” and “sales network in Japan” are what’s expected of the partner.

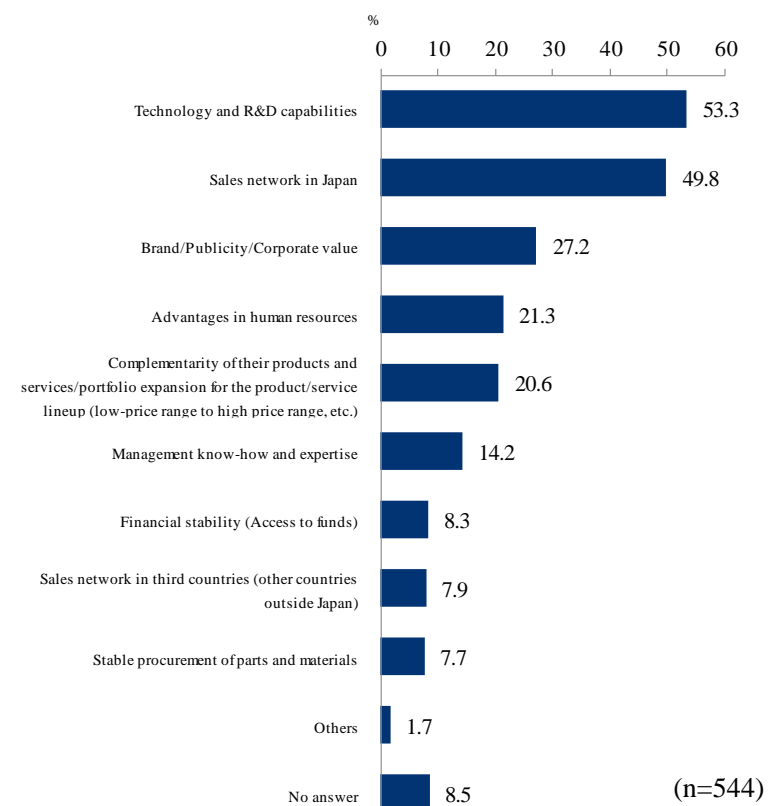
- “Large enterprises,” “small and medium-sized enterprises” and “universities” were the most common partners for collaboration/cooperation (including those under consideration) at around 40% respectively.
- In terms of the most important strength of the partner for collaboration, more than half of the respondents selected “technology and R&D capabilities” (53.3%), followed by “sales network in Japan” (49.8%) and “brand/publicity/corporate value” (27.2%).

Partners for collaboration/cooperation (MA)



Q25 “Partners for collaboration/cooperation”

Expected strengths of partners in collaboration/cooperation (MA)



Q26 “Items emphasized as strengths of partners in collaboration/cooperation”

3| "Difficulties in building adequate system within the company" and "information gathering" hinder collaboration/cooperation.

- Looking at challenges by the implementation status of collaboration/cooperation, “gathering information about potential partners” was particularly high among companies considering collaboration. On the other hand, “difficulties in building adequate system within the company to collaborate/cooperate” and “lack of partners’ communication skills aside from Japanese” were high among those that had implemented in the past, and it is highly likely that they had given up the idea of continuing due to these issues.
- Among new entrants that entered the market in or after 2016, which are proactive in collaboration/cooperation, the partner’s “delay in decision-making” and "lack of willingness or experience of collaboration/cooperation" were high, suggesting that they are having difficulty coordinating with their partners.

Issues in collaboration/cooperation
(by implementation status of collaboration/cooperation and timing of entry) (MA)

			Difficulties in building adequate system within the company to collaborate and cooperate	Gathering information about potential partners	Lack of partners' (including candidates') communication skills aside from Japanese	Delay in decision-making of partners (including candidates)	Difficulty of fulfilling due diligence for deciding partners	Lack of partners' (including candidates') willingness or experience of collaboration/cooperation (including experience with other companies)	Changes due to frequent personnel changes by partners (including candidates)	
		(%)								
Implementation status of collaboration/cooperation	Total	(n=1,348)	35.2	34.6	21.4	19.1	18.2	15.7	7.2	
	Have implemented	(n=319)	31.7	32.6	25.7	26.6	12.2	22.9	9.1	
	Had in the past, but not now	(n=100)	42.0	28.0	32.0	23.0	19.0	17.0	7.0	
	Have not implemented, but considering now	(n=125)	40.8	51.2	16.8	28.8	24.8	23.2	10.4	
	Have not implemented and have not considered either	(n=777)	35.8	34.5	19.3	14.3	20.1	11.8	6.0	
Timing of entry	In or before 1980	(n=115)	47.8	25.2	22.6	15.7	19.1	8.7	5.2	
	1981 ~ 1990	(n=130)	35.4	36.9	18.5	15.4	25.4	16.2	6.2	
	1991 ~ 2000	(n=197)	36.5	36.0	17.8	14.2	17.8	13.2	6.1	
	2001 ~ 2010	(n=364)	30.2	35.4	22.3	18.1	17.0	15.9	8.2	
	2011 ~ 2015	(n=232)	35.3	34.5	22.8	20.3	17.2	15.1	4.7	
	In or after 2016	(n=283)	35.3	35.0	23.0	26.9	17.3	21.2	10.2	

Q27 “Issues in collaboration/cooperation” x Q24 (1) “Implementation status of collaboration/cooperation” x Q7 “Timing of establishment or investment of foreign-affiliated companies in Japan”

4| High demand for public support among those considering collaboration; Especially assistance need for business partner identification is prominent.

- The top public support services that respondents have used or intend to use are “subsidies and incentives,” “provision of information on domestic markets, regulations and systems,” and “arrangement for recruiting human resources.”
- Companies considering collaboration/cooperation generally have high needs for support. In addition to subsidies/incentives and information provision, the search for business partners is more strongly demanded than the other category groups. Generally, foreign-affiliated companies newly entering the market also have high support needs, especially for subsidies and incentives.

**Public support services that foreign-affiliated companies in Japan have used or would like to use
(by implementation status and timing of entry) (MA)**

		(%)	Difficulties in building adequate system within the company to collaborate and cooperate	Gathering information about potential partners	Lack of partners' (including candidates') communication skills aside from Japanese	Delay in decision-making of partners (including candidates)	Difficulty of fulfilling due diligence for deciding partners	Lack of partners' (including candidates') willingness or experience of collaboration/ corporation (including experience with other companies)	Changes due to frequent personnel changes by partners (including candidates)
Implementation status of collaboration/cooperation	Total (n=1,348)		35.2	34.6	21.4	19.1	18.2	15.7	7.2
	Have implemented (n=319)		31.7	32.6	25.7	26.6	12.2	22.9	9.1
	Had in the past, but not now (n=100)		42.0	28.0	32.0	23.0	19.0	17.0	7.0
	Have not implemented, but considering now (n=125)		40.8	51.2	16.8	28.8	24.8	23.2	10.4
	Have not implemented and have not considered either (n=777)		35.8	34.5	19.3	14.3	20.1	11.8	6.0
Timing of entry	In or before 1980 (n=115)		47.8	25.2	22.6	15.7	19.1	8.7	5.2
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	2011~2015 (n=232)		35.3	34.5	22.8	20.3	17.2	15.1	4.7
	In or after 2016 (n=283)		35.3	35.0	23.0	26.9	17.3	21.2	10.2

Q29 “Support services of public institutions that the company has used or wants to use” x
Q24 (1) “Implementation status of collaboration/cooperation” x Q7 “Timing of establishment or investment of foreign-affiliated companies in Japan

4. For Further Business Expansion in Japan

1. Business expansion and collaboration with Japanese partners

- With a clear recovery trend in business performance, foreign-affiliated companies in Japan are showing a growing desire to expand their business in Japan, including the establishment of new bases and strengthening of existing ones.
- Companies with a strong desire to expand business also tend to be more proactive about collaboration with local partners. This suggests that the promotion of collaboration may not only create new added value for Japanese partners but also be a driver of growth for foreign-affiliated companies.

2. What's glittering about Japan and its local regions

- While the size of the Japanese market remains the most attractive, many see the social and economic stability as an advantage of Japan. Despite the negative effects of economic decoupling and other factors, the decline in the significance of the Japanese market and business is limited to an extent. As global uncertainty rises, Japan's relative stability gains the spotlight.
- Newly formed businesses tend to find more opportunities for growth by identifying the growth potential of their business in Japan or solving social issues Japan faces, not only by taking advantage of the current market size. Since it is suggested that newly formed businesses are more likely to locate in regional areas, there are business opportunities in such local regions, with a rich potential for innovative startups to expand.

3. Talent acquisition as a key challenge

- Due to the tight labor market, human resource acquisition is currently acknowledged as a nationwide challenge, especially serious in regions outside of urban areas. Asian foreign-affiliated companies and some service sectors show a trend toward diversification in recruitment, such as hiring non-Japanese workers and international students, which can be one of the solutions for the labor shortage. For smooth employment and residence of highly skilled foreign professionals, simplification/digitalization of administrative procedures and facilitation of acquisition of status of residence (visa) are required.

[Reference] List of survey items

I. Outline of the company

1. Industry of foreign parent companies and foreign-affiliated companies in Japan
2. Ownership ratio of foreign parent company
3. Country/region of the foreign parent company
4. Countries/regions other than Japan where the foreign parent company has subsidiaries in Asia
5. Number of years since the establishment of the foreign parent company
6. Locations and functions of business sites in Japan
7. Timing of establishment or investment of foreign-affiliated companies in Japan
8. Form of establishment or investment of foreign-affiliated companies in Japan
9. Capital of the foreign-affiliated company in Japan
10. Number of employees of foreign-affiliated companies in Japan
11. Annual sales amount for the most recent fiscal year of foreign-affiliated companies in Japan
12. Year-on-year increase/decrease in sales for the most recent fiscal year of foreign-affiliated companies in Japan

II. Business environment in Japan

13. Attractiveness of the business environment in Japan
14. Changes in the Japanese business environment
15. Items particularly need improvement in business activities in Japan
16. Environment improvement necessary for foreign investors, entrepreneurs, managers, and businesspersons to work and reside in Japan
17. Facilities, services, and systems expected to be expanded/improved/introduced for foreign investors, entrepreneurs, managers, and businesspersons for their work and stay in Japan

III. Business plan of your company in Japan

18. Future business plans in Japan
19. Plans to establish a new business site(s) or strengthen an existing business site(s)
20. Important factors in selecting locations
21. Status of recruitment of human resources for the operations in Japan
22. Future employment prospects in business in Japan
23. Types of human resources difficult to secure and reasons of the difficulty

IV. Collaboration and cooperation in Japan

24. Implementation status of collaboration/cooperation and their details
25. Partners for collaboration/cooperation
26. Items emphasized as strengths of partners in collaboration/cooperation
27. Challenges in conducting collaboration/cooperation

V. Others

28. Impact on foreign-affiliated companies in Japan by the events affecting business environment
29. Support services of public institutions that the company has used or wants to use