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A. Introduction – aim and purpose of this guide

The purpose of this guide is to supply EU investors with an up-to-date assessment of the impact of Japan's inward FDI policy launched by PM Junichiro Koizumi in 2003. This guide also aims at promoting the FDI incentives of Japanese prefectures to attract prospective EU investors interested in setting up or growing a business in Japan.

To complement this guide, we recommend the reader to check for comparable data on investment incentives offered by Japanese prefectures updated by JETRO at the following URL entitled "regional information": http://www.jetro.go.jp/en/invest/region/. The contents of the guide can be used for a competitive analysis, a risk assessment for future investments or a macroeconomic description of Japan. For this purpose, the guide also provides a list of relevant contact points in Japan which potential investors can follow up with when necessary.

We hope the reader can find a balanced view of the investment situation in the Japanese regions through this guide.

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B. Impact of incentive-driven FDI measures from Japanese prefectures

1. Overall results from a survey of 47 prefectures - performance in attracting FDI in 2003-2006

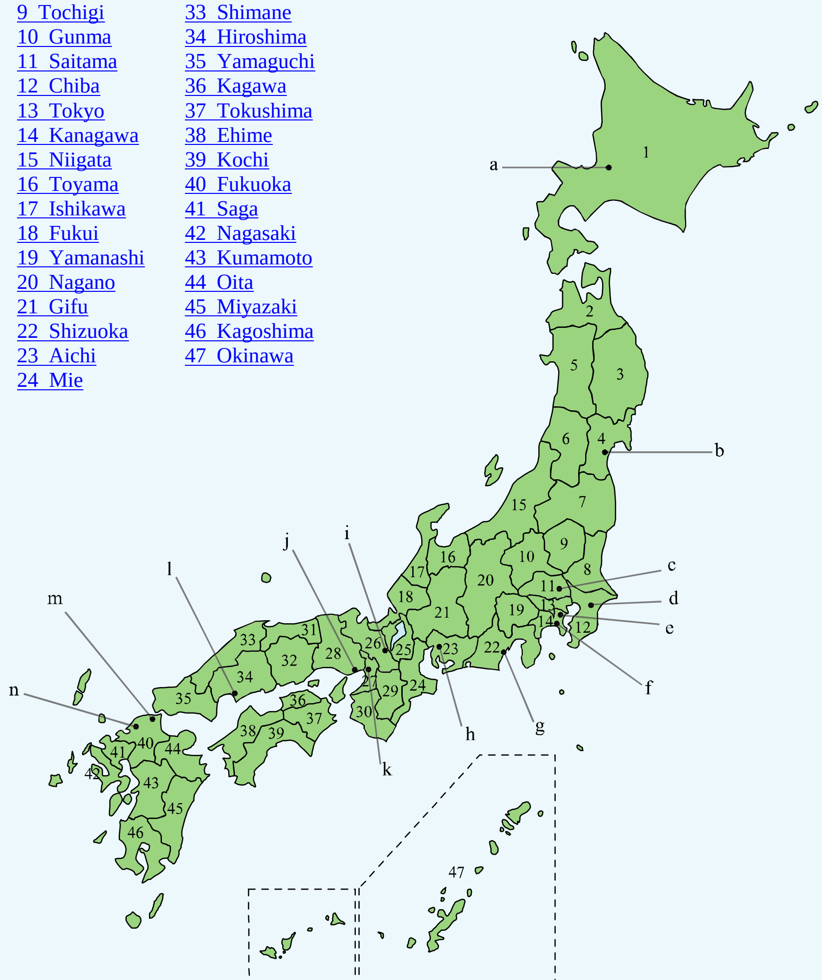
Map of Japan – division by prefectures and designated cities (note 1)

Prefectures

1 Hokkaido
2 Aomori
3 Iwate
4 Miyagi
5 Akita
6 Yamagata
7 Fukushima
8 Ibaraki
9 Tochigi
10 Gunma
11 Saitama
12 Chiba
13 Tokyo
14 Kanagawa
15 Niigata
16 Toyama
17 Ishikawa
18 Fukui
19 Yamanashi
20 Nagano
21 Gifu
22 Shizuoka
23 Aichi
24 Mie
25 Shiga
26 Kyoto
27 Osaka
28 Hyogo
29 Nara
30 Wakayama
31 Tottori
32 Okayama
33 Shimane
34 Hiroshima
35 Yamaguchi
36 Kagawa
37 Tokushima
38 Ehime
39 Kochi
40 Fukuoka
41 Saga
42 Nagasaki
43 Kumamoto
44 Oita
45 Miyazaki
46 Kagoshima
47 Okinawa

Designated Cities

a Sapporo
b Sendai
c Saitama
d Chiba
e Kawasaki
f Yokohama
g Shizuoka
h Nagoya
i Kyoto
j Kobe
k Osaka
l Hiroshima
m Kitakyushu
n Fukuoka



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Note 1: cities that have a population of 500,000 or more and are approved by cabinet order are defined by the local autonomy laws as designated cities. In practice, however, cities with population of one million or more or with population of 800,000 or more but expected to reach one million in the future are being designated as such. Designated cities are authorized to administer the same level of governmental jurisdiction as prefectures in 19 policy areas including social welfare, public health and urban planning. Some laws also delegate to the designated cities authority in such areas as national road management an compulsory education (quote from [14]).

a. Economic context of incentive-driven FDI measures for Greenfield investments

The Japanese central government essentially collects revenues from taxes (estimated at 45,8 Trillion JPY for FY 2006, see [8]) and bonds (estimated at 29,9 Trillion JPY see also [8]). While prefectures have some authority on the collection of certain indirect taxes (such as taxes on the acquisition of fixed assets (real-estate and buildings)), the central government holds total control on the collection of corporate income taxes and does not provide for the creation of corporate income tax-based incentives, deferrals or rebates as FDI incentive packages.

Given the current fiscal situation of the Japanese government (the gross budget deficit – mostly made up of accumulated government bonds outstanding – is estimated at 170% of GDP, see [6]) and given the current political mood for fiscal discipline through consolidations and spending restrictions, it is not difficult to understand why the central government is reluctant to release control over its main source of income. In other countries, income tax derived incentives are known to boost FDI inward flows, as is the case for China and Korea.

Thus, Japanese prefectures must compete fiercely in order to attract foreign investors with a variety of incentives. For the sake of clarity to the reader, we divide incentives into two groups, "hard" incentives (e.g. incentives with clearly quantifiable monetary implications for both the investor and the prefecture, which are directly linked to a concrete business investment) and "soft" incentives (e.g. any kind of value-added service offered by the prefecture (free of charge or available for a small fee) that benefits the investor without necessarily having to make any upfront commitment to invest). Prefectures have considerable flexibility and autonomy in their mix of proposals (not all of them offer hard incentives) and the way they present themselves to the outside.

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Most hard incentives offered in Japan will fall into any of the three standard categories:

1) Asset based (eg cash based) incentives, such as non-refundable subsidies payable under certain specific conditions;
2) Financing based incentives, such as low interest rate loans;
3) Fiscal incentives, such as tax-breaks on capital investments;

We recommend potential investors to familiarize themselves with incentives by taking a good look at JETRO's online portal for regional information, which displays a comprehensive mix of hard and soft incentives proposed by each of the 47 Japanese prefectures (see [9]).

The JETRO web portal is an excellent starting point to look for incentive packages in Japan. At a certain stage, foreign investors are encouraged to consider contacting the representatives of the prefectures and inquire about details – if necessary, go through a professional interpreter because certain prefecture representatives in charge of FDI do not necessarily speak English (or any other European language). If the investor is planning to make a prospective visit to Japan, we recommend to meet the prefectures' representatives and discuss details (Japanese people attach great importance to face to face meetings as part of a trust-building process and consider this as an important sign of commitment from foreigners, who in return, will be rewarded with sometimes relevant information about investment incentives).

Investors should also concentrate their attention on prefectures, which are relatively more successful than other at *selling* their FDI policy. One way to assess the effectiveness of FDI incentives is to look at the *past activity and performance of each prefecture in attracting foreign companies*, and measure a success rate index for local FDI policies. To this purpose, we launched a short survey across all prefectures and measured; 1) the 2 most important foreign investments achieved since 2003; 2) in each investment case, the scope and scale to which foreign investors took advantage of hard incentive packages. The following paragraph summarizes our interpretation of the survey results (refer to the survey contents for more details).

b. Assessing the impact of incentive-driven FDI measures - summary

The survey was launched in summer 2006, prefectures were asked to fill in the questionnaire in good faith and to the best of their knowledge. Follow-up was done 3 times over the telephone to all the prefectures, which did not reply within three weeks of sending the survey.

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Overall answers of the survey:

"no reply"	2 prefectures
"no record of foreign FDI investments"	28 prefectures
"no foreign investments recorded between 2003-2006"	2 prefectures
"record foreign investments, but do not provide any access to details"	5 prefectures
"record foreign investments and provide access to details"	10 prefectures

We classify prefectures in 3 main groups based on the replies of our comparative survey:

Group 1: active and successful
Group 2: active and developing
Group 3: relatively less active

Group 1: active and successful – these prefectures have a proven track record in attracting foreign firms. Furthermore, many of them have set up teams of advisors geared to deliver services with high professional standards, speedy response, and a certain degree of understanding of international business practices. In most cases, these prefectures have built their success through a strategy based on making best use of their competitive advantages (such as location, access, environment, etc..) to meet the needs of foreign investors. They are also successful at attracting sustained large foreign investments and they are willing to leverage their experience in order to improve their service in the future – they also put some effort in developing advanced marketing and promotion tools. 15 prefectures in this group include (in alphabetical order):

Chiba;	Kumamoto;	Okayama;
Fukuoka;	Kanagawa;	Osaka;
Fukushima;	Mie;	Saitama;
Hiroshima	Miyagi;	Tokyo (*);
Hyogo;	Miyazaki;	Toyama;

Incidentally, the total population of this group is 68,344,707 inhabitants (53.87% of total population) and the combined GPP of this group is 279.8 Tr JPY (56.72% of the total).

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Group 2: active and developing. These prefectures have put in place active, professional services along the guidelines of national FDI policy and some have attracted the attention of foreign investors. Many of these prefectures present significant advantages and, although they are not consistently able to commit the resources in order to compete with prefectures of Group 1, they are enthusiastic, willing to help and mostly very keen to provide as much information as requested. In some instances, they lack the necessary basic infrastructural advantages to attract global investors (it is not clear, for example, whether some of these prefectures have English speaking staff who are ready to answer questions over the telephone). 9 prefectures in this group include (in alphabetical order):

Aichi;
Fukui;
Hokkaido;
Ibaraki;
Kochi;
Nagasaki;
Okinawa;
Shizuoka;
Tochigi;

Incidentally, the total population of this group is 25,967,058 inhabitants (20.47% of total population) and the combined GPP of this group is 86.4 Tr JPY (17.51% of the total).

Group 3: relatively less active. These prefectures have developed a basic level service infrastructure aimed at attracting FDI, and offer relevant information through the WWWeb. For lack of strategic commitment, little incentive or simply because they consider FDI as a lower priority objective, some of these prefectures have never been successful in landing a single foreign investor in their history (in spite of the fact that they are able to attract – sometimes considerable - investments from Japanese firms). If there is a clear business opportunity that justifies an investment in these specific regions, we recommend foreign investors to contact the prefecture in order to find out about the possible incentives. 23 prefectures in this group include (in alphabetical order):

Akita;
Aomori;
Ehime;
Gifu;
Gunma;
Ishikawa;
Iwate;
Kagawa;
Kagoshima;
Kyoto;
Nagano;
Nara;
Niigata;
Oita
Saga
Shiga;
Shimane;
Tokushima
Tottori;
Yamagata;
Yamaguchi;
Yamanashi;
Wakayama;

Incidentally, the total population of this group is 31,089,024 inhabitants (24.50% of total population) and the combined GPP of this group is 107.43 Tr JPY (21.78% of the total).

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2. Active and successful prefectures

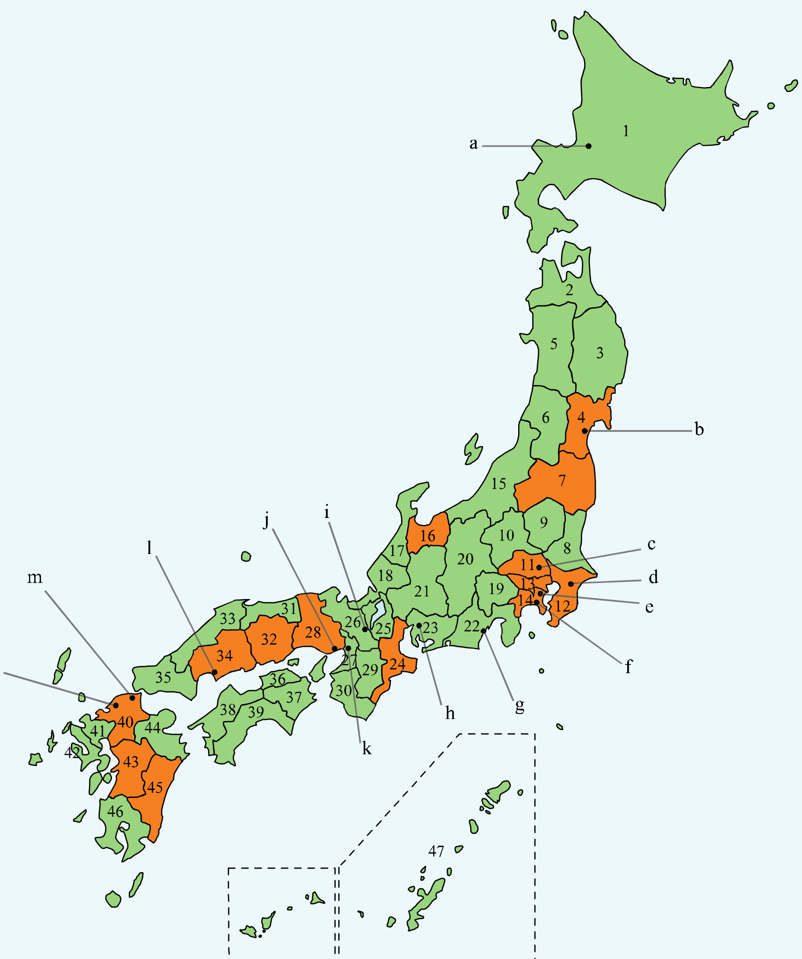
Distribution of prefectures in group 1 – active and successful

Prefectures

4 Miyagi
7 Fukushima
11 Saitama
12 Chiba
13 Tokyo
14 Kanagawa
16 Toyama
24 Mie
27 Osaka
28 Hyogo
32 Okayama
34 Hiroshima
40 Fukuoka
43 Kumamoto
45 Miyazaki

Designated Cities

b Sendai
c Saitama
d Chiba
e Kawasaki
f Yokahama
j Kobe
k Osaka
l Hiroshima
m Kitakyushu
n Fukuoka



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Using the replies of prefectures in group 1, we estimate the total value of foreign FDI invested between 2003 and 2006 to be at least 65.9 Bn JPY. We offer additional details about the success factors of the prefectures' promotion incentives based on interviews with their staff members.

The following table describes the types of incentives given out by each prefecture:

Prefectures	Local Incentives utilized	Central Incentives utilized
Chiba	Assistance in finding land for purchase /Expertise in dealing with the relevant procedures	Unknown
	Expertise in dealing with the relevant procedures	
Kanagawa	Tax breaks and Financial subsidy	No
	Financial subsidy	
	One-stop service	
	Assist in finding land for purchase	
Saitama	Subsidy for office rent	Yes
Hyogo	Subsidy for hiring people & office rent/PR assistance/Info service/Nursing service	No
Miyagi	Subsidy for Enterprise Location	Yes
Osaka	None	No
Fukuoka	Subsidy for Enterprise Location	Unknown
Fukushima	None	Unknown
Toyama	None	Unknown
Mie	Subsidy for location improvement of research facilities or into depopulated areas	No
Okayama	Subsidy for Enterprise Location	Yes
Hiroshima	None	Unknown
Kumamoto	Subsidies for Enterprise Location and hiring people	Yes
	Tax breaks on fixed assets	
Miyazaki	Subsidies on high speed telecommunication service and buildings	Unknown
	Total cumulative estimated value of FDI	74Bn JPY

Chiba Prefecture

Chiba is obviously attractive because of its proximity to Tokyo (which offers a sophisticated consumer market and a large pool of talented people). Financial subsidies are allocated to foreign investors who acquire land in designated special industrial zones in Chiba. The prefecture pays a lot of attention to matching a service that fits best the needs of potential investors and is also helpful in offering soft incentives such as facilitating the clearance of administrative procedures and paperwork. The prefecture also offers

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subsidies for established firms interested in expanding in Chiba for the future. Significant competitive advantages of Chiba include: 1) access to distribution and logistics hubs (Narita airport, seaport and roads to Tokyo) and 2) access to large land space reasonably close to Tokyo.

Saitama Prefecture

Saitama is attractive in many ways, because it hosts a large number of R&D driven businesses (a number of which are small and medium enterprises), it is ideally located and conveniently accessible to/from Tokyo. Saitama offers speedy and efficient support for prospective investors, which explains why the FDI incentive program, launched in 2005, was oversubscribed. Furthermore, the staff from Saitama City have teamed up with the prefecture to offer soft incentives focused on developing value-added human networks with the aim of linking foreign companies, Japanese companies, professional service providers and academia: investing in Saitama means investing in people and skills. In general, the priority investments that the prefecture is trying to attract, are: 1) manufacturing industries; 2) distribution; 3) firms interested in setting up regional headquarters; 4) firms intending to set up an R&D center; 5) setup of backup offices in case of major disaster in Tokyo.

Hyogo Prefecture

Using a combination of hard incentives (for example, subsidies for hiring local people and subsidies for leasing office space) with soft incentives (e.g. high profile promotion support, provision of market information, assistance in finding nursing services for children) Hyogo prefecture has attracted the attention many multinational firms, which have established their Japan headquarters in or around Kobe, historically a city open to foreign trade. The prefecture emphasizes the promotion of "Hyogo-Kobe" as the "best portal zone", and does not have any policy to attract firms in specific business segments. It is worth noting that the team in charge of promoting inward FDI has a good understanding of potential entrants' needs in relation to their business model, and can respond with quick and efficient service.

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3. Active and developing prefectures

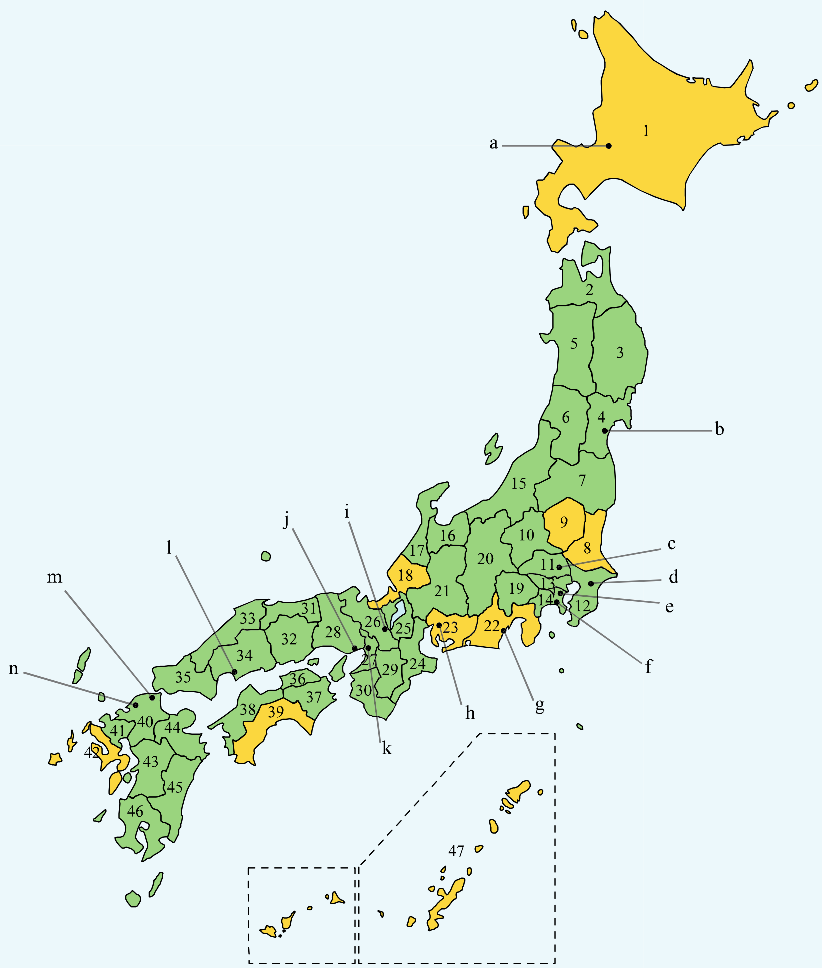
Distribution of prefectures in group 2 – active and developing

Prefectures

1 Hokkaido
8 Ibaraki
9 Tochigi
18 Fukui
22 Shizuoka
23 Aichi
39 Kochi
42 Nagasaki
47 Okinawa

Designated Cities

g Shizuoka
h Nagoya



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Some of these prefectures are naturally attractive because they posses unique advantages (such as important geographic locations, interesting trade routes or valuable infrastructure) and there is evidence to confirm that foreign firms have invested in them, and, although the teams in the prefectures may have been involved in promoting FDI, they do not report on such investment as consistently as the prefectures included in group 1. Whereas some prefectures within group 2 show genuine enthusiasm and commitment to attract foreign firms, not much is known about their staff's experience in providing effective assistance services to prospective foreign investors.

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4. Less active prefectures

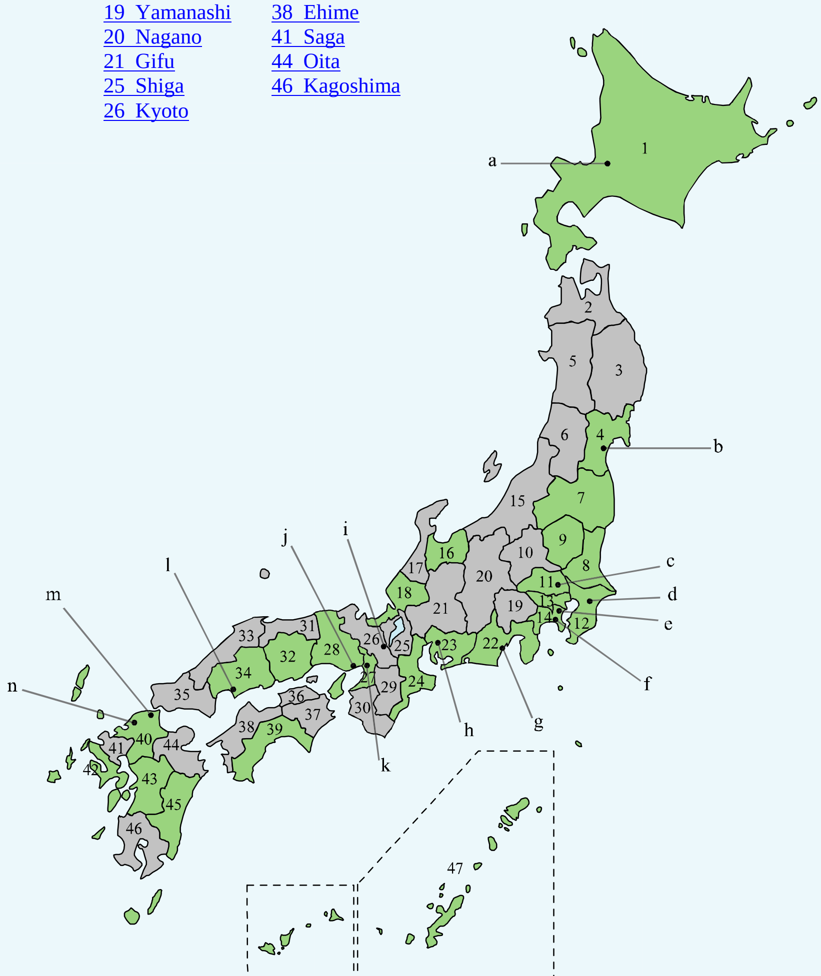
Distribution of prefectures in group 3 – less active

Prefectures

2 Aomori
3 Iwate
5 Akita
6 Yamagata
10 Gunma
15 Niigata
17 Ishikawa
19 Yamanashi
20 Nagano
21 Gifu
25 Shiga
26 Kyoto
29 Nara
30 Wakayama
31 Tottori
33 Shimane
35 Yamaguchi
36 Kagawa
37 Tokushima
38 Ehime
41 Saga
44 Oita
46 Kagoshima

Designated Cities

a Sapporo
i Kyoto



Foreign firms have invested in some of the prefectures of group 3 (as in group 2), but we do not know to what extent they have benefited from regional promotion incentives.

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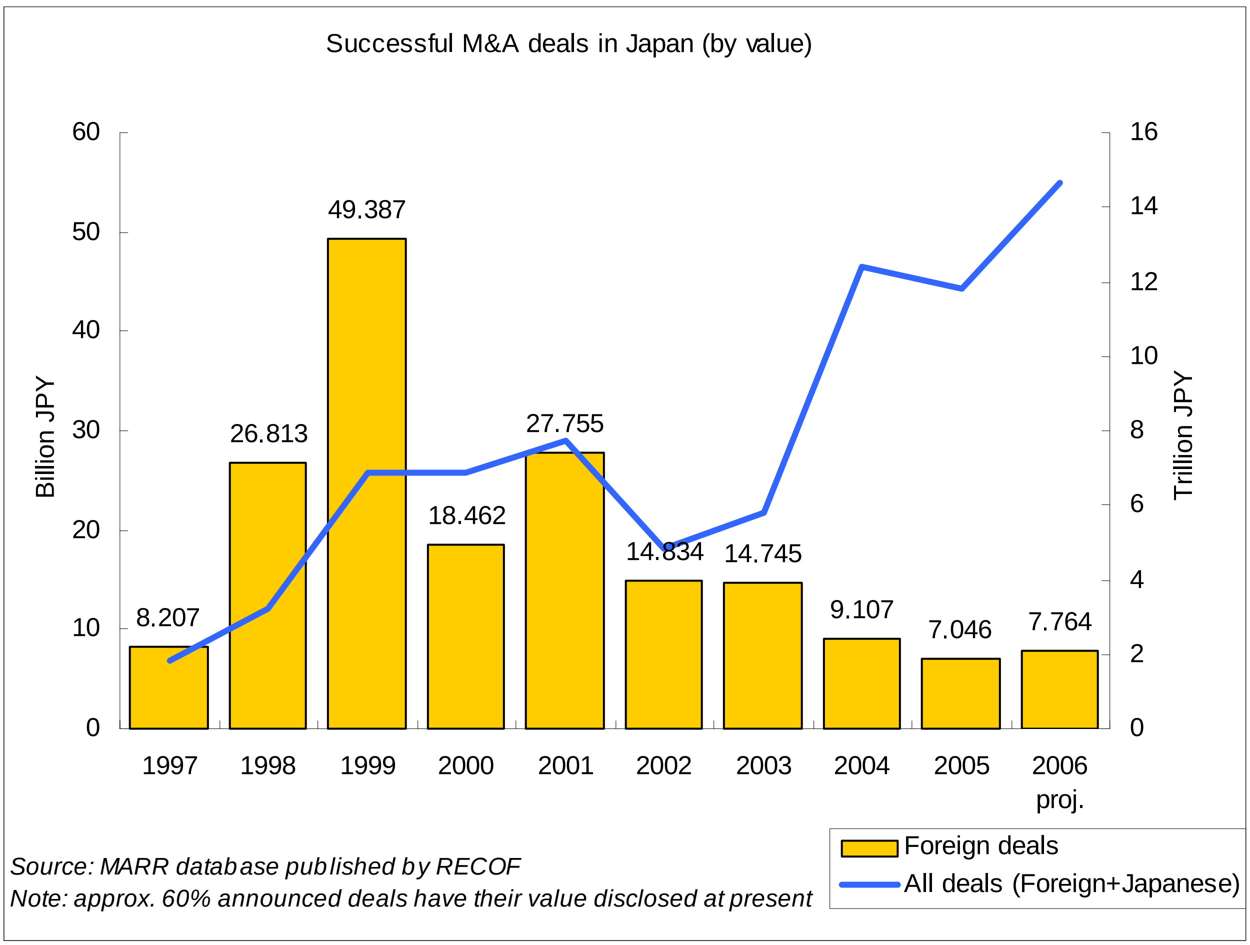
C. M&A-driven FDI

1. Context of M&A in Japan

According to RECOF ([15]), the total value of foreign investment brought into Japan through M&A in 2005 is estimated at an average of 7.05 Bn JPY (78 foreign transactions announced out of 1693 (foreign + Japanese) transaction, refer to the chart below). Foreign deals by value thus represented 0.06% of the total value of M&A in Japan in 2005. Two important trends are worth mentioning: 1) the value of FDI brought through M&A is on the decrease after having peaked in 1999, whereas 2) the value of total (Foreign + Japanese) investments in M&A is on a increasing trend since 1997 (blue line in the chart below).



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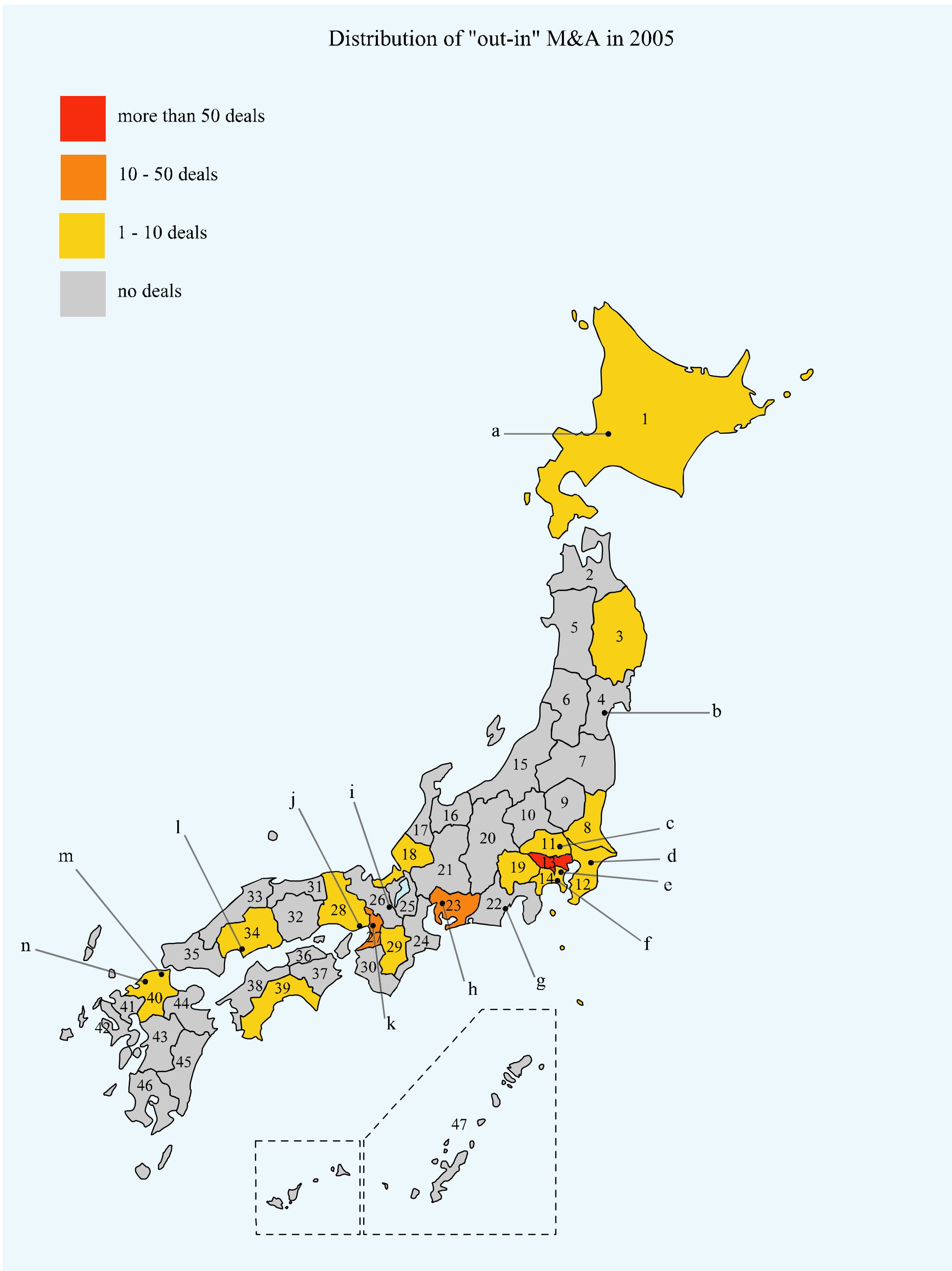
2. Distribution of “out-in[1]” M&A across Japan’s prefectures between 2003-2006



[1] deals made by foreign firms in Japan

In 2005, 3 prefectures had a relatively higher activity for foreign M&A, they were Tokyo, Osaka and Hyogo (see map below). To give the reader an idea about the disparity of the distribution of foreign M&A, 85.2% of all foreign deals took place in the prefectures of group 1, 12.1 % of group 2 and 2.7% of group 3 (data collected from [15], detailed data available on request).

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D. Additional remarks

1. Current status of FDI in Japan with reference to doubling inward FDI in 5 years from 2003

a. FDI policy guidelines

Until now the Japanese government has been fixing the policy rules regarding the development of FDI with the general objective of 1) raising national income and 2) providing homogenous economic development across the prefectures of the country. These rules determined – or at lest strongly influenced – the allocation of incentives by prefectures. From a policy viewpoint, the major move came in 2003 when PM Koizumi pledged to double FDI inflows in 5 years (reference). Although most of the policy implementation is led by the central government (METI in concert with other ministries), some room for initiative is left to the prefectures to decide how to reach the objective of doubling FDI. This is new for Japan and explains why prefectures have started to compete with one another.

The Japanese government has established the "Invest Japan" initiative, which receives input across several ministries and is coordinated by JETRO (see [9]). "Invest Japan" is supported by a comprehensive online portal that provides information in English, German and French - we recommend investors to read through the section on "regional Information" as starting point to learn about FDI incentives, since it offers very detailed information about the 47 prefectures and 14 major cities involved in "Invest Japan".

The first edition of this guide – published in 2004 – provided detailed about FDI incentives offered by Japanese prefectures. In this second edition, we want to 1) offer the reader a snapshot of the present situation of the performance of FDI across Japan (in other words, how well has the FDI policy performed since it was first launched in 2003?) and 2) offer our analysis on the impact of local measures offered by "Invest Japan" at the level of prefectures (in other words, why are some prefectures more successful in attracting foreign investors and what are the reasons for success). The contents of this guide under the paragraph "C. Impact of incentive-driven FDI measures from Japanese prefectures" are based on a survey and a series of interviews conducted in summer 2006, with the help of local Japanese authorities involved in implementing the "Invest Japan" plan.

The results of this analysis are not exhaustive and the authors will strongly suggest interested readers to further their work by consulting the various sources of information attached in the section entitled "Reference material".

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b. Establishing FDI in Japan

The author of this paragraph is Jakob Edberg, currently policy director at the European Business Council in Japan.

Japan, the world's second largest economy, is in the midst of its longest period of sustained growth since World War II. Yet, despite such burgeoning success, Japan is failing to attract increased levels of Foreign Direct Investment (FDI). FDI flows into Japan actually fell in 2005 to their lowest point since 1996. The cumulative FDI stock accounted for just 2.2% of GDP, compared with 13% for the US and 33.5% for the EU. This would be a matter of concern for any country hoping to prosper in the increasingly globalised economy: FDI offers an influx not only of fresh capital and jobs, but also new management thinking, expertise and business approaches, creating opportunities to build competitiveness in areas of traditional strength and also in weaker sectors. For Japan the failure to attract FDI is particularly surprising: the country offers a large and affluent market, strong links to other East Asian economies, a highly qualified workforce, and consumers eager to embrace new ideas and technology. It is also disappointing, given that the Government under Prime Minister Koizumi recognised its strategic importance to sustainable economic growth and set a target to double the cumulative base of FDI by 2006.

If Japan is ever to substantially increase its level of FDI, it must create attractive conditions for doing business here. While some European companies, especially those in niche markets, are thriving in Japan, many others struggle to build their business or have been deterred from trying. The European Business Council in Japan (EBC), the trade policy arm of seventeen European national chambers of commerce and business associations in Japan, has for many years been monitoring and commenting on the regulatory environment, highlighting barriers to greater European investment and recommending changes. The EBC Annual Report 2006 welcomes a number of significant improvements, not least the enhanced political understanding within Japan for the need to reform; the revitalisation of the financial services industry; restructuring within the construction industry; tightening up of Intellectual Property Protection; the introduction of more modern legal structures under the new Corporation Law; and measures to enhance transparency and public comment procedures. The EBC itself contributed to the dialogue with the Government on policy proposals in support of such reforms and many EBC sector committees report improved access to authorities and government officials.

However, much remains to be done. Numerous outdated regulations, often unique to Japan, still restrict foreign participation in sectors such as food, cosmetics, automobiles, airlines and animal health. More broadly, the Government needs to address long-term issues such as rising demands on the public health insurance scheme and unnecessary laws hindering Tokyo's emergence as the Asian financial center. Such issues call for a new vision for the economy, for new strategies and, crucially, for the political will to implement them.

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Furthermore, creating an appropriate regulatory environment is only one piece in the jigsaw for attracting more foreign investment. Japan also needs policies that support and facilitate FDI. Since major new greenfield investments are likely to remain rare, it makes sense to focus on boosting cross-border mergers and acquisitions. For a foreign company, merging with a company in Japan can mean unprecedented access to new markets, networks, operational facilities and skills. It also represents a significant commitment to participate in the management and operations of the Japanese business. A merger offers the opportunity to build on the respective strengths of the merging parties, to cooperate on creating synergies that will promote competitiveness, to ensure that integration proceeds in a value-adding, culturally sensitive way and so to continue to serve the needs of local customers.

The EU, which has enjoyed enormous success in attracting FDI, facilitates cross-border M&As by allowing direct exchanges of shares between merging companies (including non-EU companies). However, while stock swaps are permitted between domestic companies in Japan, the Government here has ruled them out for cross-border transactions and opted instead to introduce a triangular merger scheme.

Triangular mergers are based on the principle that a foreign company merges with a Japanese company via a Japanese subsidiary of the foreign company. They enable the companies involved to issue their own shares as consideration in the merger, so that shareholders of each party receive the other party's shares. By law, Japanese boards must negotiate the terms of any merger in detail and agree to the transaction before it is put to the shareholders for their approval: a deal will only proceed if it is considered favourable. So the triangular merger scheme cannot be used to effect a hostile take-over.

The Japanese Government included provision for triangular mergers in its new Corporation Law that came into effect in 2006, but postponed introduction of this particular provision until 2007. A number of key elements still being discussed could make or break the scheme as a vehicle to promote FDI. It is vital that the scheme is open to all foreign companies, not just the 30 or so who have fulfilled the costly and time-consuming procedures to become listed on Japanese stock exchanges, and it must offer tax deferrals, so that shareholders are not forced to raise cash to pay capital gains tax at the time they receive their new shares. Without these measures the scheme will fail to attract new investors to Japan. Time will tell whether it can succeed and, in turn, just how committed the Government is to its target to promote FDI in Japan.

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2. Future trends of the Japanese economy from 2006 onwards: "Japan - a Long Up-Cycle"

The author of this paragraph is Jesper Koll, currently working as Chief Economist and Managing Director at Merrill Lynch Japan K.K.

At the end of 2006, the world economy is starting to slow down but chances of Japan de-coupling from a global slowdown are better than ever. In our view, corporate Japan is focused on upgrading its domestic productive and human capital stock for structural reasons, i.e. a focus on raising long-term productivity and global competitiveness. Combined with very easy corporate financial conditions, this suggests a global slowdown is poised to have relatively limited impact on Japanese growth.

Clearly the primary source of the global slowdown is US consumer weakness. This will affect Japan's export sectors negatively. Arithmetically, a 1% drop in US growth cuts Japan's GDP by about 0.2ppt. However, in the coming twelve to eighteen months Japan's domestic demand dynamics are powerful enough to offset a rising external drag, in our view. We forecast 3% real GDP growth in 2007, after 3.1% in 2006.

Specifically, we see five domestic dynamics that should allow for Japan's economy to become a global growth star performer in 2007:

a. A powerful bank credit cycle
b. A structural business investment up-cycle
c. Relentless focus on human capital investment
d. Export diversification to Asia, away from the US
e. Pragmatic monetary and fiscal policy-making

a. A powerful bank credit cycle

For the first time in over a decade, Japan's financial system is flush with capital. Non-performing loans have been worked off to less than 1% of assets and, across the banking system, the ability and willingness of bankers to supply credit is rising. Importantly, the exposure of Japanese banks to the US housing or real-estate market is practically zero, so the risk of "importing" non-performing loans from a sharp fall in US real estate market should be very limited indeed. All said, the supply of bank credit is poised to be supportive for a multiple-year domestic demand up-cycle. If at all, the risk is that rapid bank credit growth fuels domestic asset price inflation at the same time as domestic demand expands.

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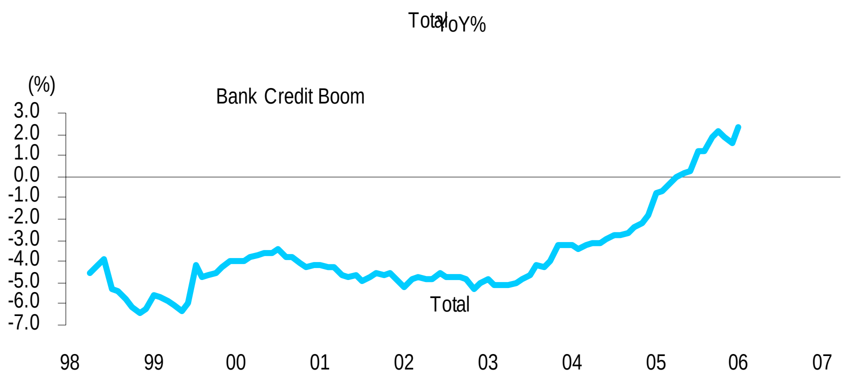
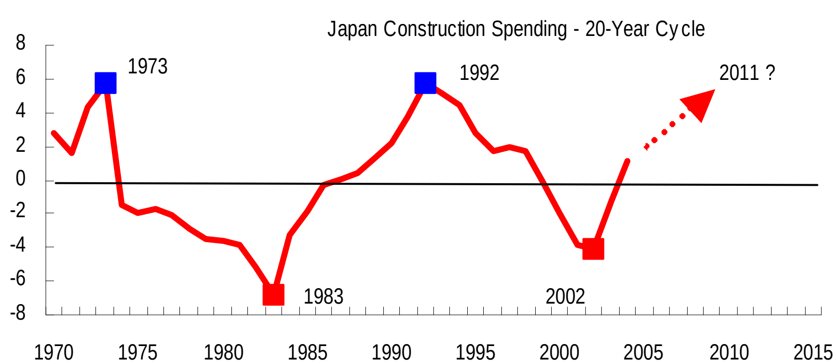


b. A structural up-cycle in business investment

The key driver of domestic demand is business investment. A powerful upgrade and replacement cycle is now in place. Over the past twenty years, the principal focus of corporate managers was to pay down debt and repair corporate balance sheets. Investing in the business was thus kept to the minimum level necessary. The average age of factories rose from about 9 years to almost 12 years.



Now that the balance sheet recession is over, managers are reinvesting for growth. Factories are upgraded, new office builds are built and, wherever possible, managers are seeking more capital-intensive ways to produce.

The economics are very favorable for new capital investment. The return on assets (ROA) exceeds long-term debt funding costs by the highest margin in the history of the economy, slightly more than 5%.

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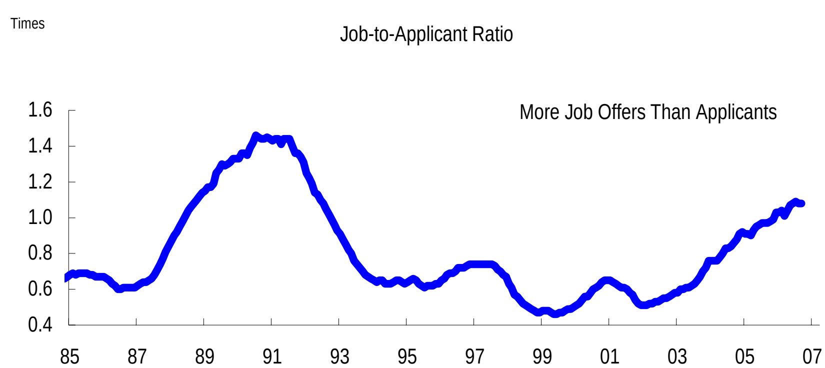
In the past decade, a "bank credit crunch" caused several large swings in capital spending, despite the positive opportunity cost. Now that the banks are fixed and ready to lend, the domestic capital spending cycle should prove relatively immune to swings in the global business cycle.

If anything, our discussions with corporate leaders suggest that the desire to build more productive and more competitive factories has taken on a new sense of urgency, with most managers very focused on the longer-term competitive threats from Asia in general, and China in particular. The longer-term risk is that the still very low cost of capital hurdle today gives rise to excess capacity problems at some point in the future. For the foreseeable future, however, the dynamics of strong capital investment spending are powerful and provide a key force of decoupling potential. Japan's history of 20-year replacement cycles for the private constructed capital stock - factories, office buildings, apartments, homes - does suggest that we are currently less than half-way through a normal replacement cycle.

c. Relentless focus on human capital investment

When companies invest in new factories they will also invest in more human capital. In Japan, demand for jobs now exceeds supply and increasingly companies are hiring full-time, not part-time workers. Already the unemployment rate has fallen from a peak of 5.6% to 4.1% and, for the first time since 1997, both nominal and real wages are now rising.

Chart: domestic speed limit - Job offers-to- applications ratio



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Importantly, Japan's rising demand for human capital goes well beyond mere cyclical forces. A structural shift towards more labor-intensive services industries is unstoppable, given he rapid ageing of society. A cyclical slowdown in the export sectors is poised to be hardly noticed in the labor market statistics.

At the same time, the decline in the labor force has already started. The combination of rising demand for labor against a shrinking supply bodes well for steady rises in wages supporting consumer spending. Export diversification to Asia, not US

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d. Export diversification to Asia, away from the US

While about 3% of Japan's GDP are exports to the US, the relative dependence on America has been declining steadily over the past decade. In the 1990s, about 40% of Japan's export growth went to the US; however, since 2003, barely 12% went to the US, while 78% went to Asia and China.

Table: Export growth by region

	1995-2000			2002-2004			2003-2005	
	Yen Trn	% of Growth		Yen Trn	% of Growth		Yen Trn	% of Growth
Total Export Growth	10.12			9.06			11.11	
China	1.21	12%		3.01	33%		2.2	20%
Asia excluding China	1.96	19%		4.18	46%		6.48	58%
USA	4.02	40%		-1.14	-13%		1.39	12%

Source: MoF, ML calculations

Clearly, a US slowdown will affect overall Asian growth to some extent, which in turn will negatively affect Japanese exports. However, as is pointed out in the Asia Pacific section of this report, intra-regional demand and trade dynamics are much more independent from US factors than is generally suggested. As such, we see Japan-Asia trade integration as a stabilizing element in the coming global cyclical downturn.

e. Pragmatic monetary and fiscal policy-making

What if the negative impact of a global slowdown were to be less benign than we anticipate? Here, the good news is that Japanese monetary and fiscal policy making is marked by great pragmatism. In post-Koizumi Japan, risks of an erratic tightening of monetary or fiscal policy remain very low, in our view.

On the fiscal side, next year's upper house election and the 2008/09 lower house election suggest that a hike in the sales tax may well be postponed until 2010. PM Abe Shinzo, has made it clear he seeks to avoid a decision for as long as possible by stating that there can be no fiscal consolidation without economic growth. If at all, Japanese fiscal policy maybe eased somewhat into 2007, with transfers to regional governments as well as regional public works possibly raised for the first time in seven years. This, at least, would be a logical outcome of the ruling party's newfound policy focus on seeking to spread national income from the rich cities to the poorer regional economies.

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Meanwhile, Bank of Japan (BoJ) monetary policy is also on a sound and pragmatic course, in our view. If we are right and domestic demand momentum is maintained, the normalization of policy rates is set to continue. However, even then we doubt that the BoJ will be raising real interest rates to levels significantly above zero in the foreseeable future. At the same time, we judge that the BoJ's independence from the Federal Reserve is poised to become a key driver of global capital flows into 2007 and beyond. While the US Federal Reserve may begin to cut nominal interest rates in response to the US slowdown, the BoJ remains on track to normalize Japanese policy rates, in our view.

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3. Business confidence and trends of EU investments in Japan

a. In the short-term, EU firms in Japan are confident/optimistic about business in Japan

EU firms in Japan currently report optimism and confidence in the Japanese economy, as reflected by the results of the spring 2006 edition of the Foreign Chambers in Japan Business Confidence Survey (see [2]). On a scale from -2 (strong decline) to +2 (strong improvement), this survey's forecast on the Japanese economy for the **next 6 months** had an overall index of **+1.09** (compared to +0.81 in the October 2005 survey) and an even higher index for the **next 12 months**, **+1.12** (compared to +0.96 in October 2005).

Regarding performance, firms reported and forecasted for the next six months increase gains in sales and profitability. The finance industry especially has improved its business results and expects to do so even further in the coming six months. EU firms continue to see Japan as a market with room to expand - 82% are looking for further growth (79% in October 2005) and 14% are expecting to sustain their current level. Only 2% reported that they plan to downsize and 1% is considering withdrawing from the market.

b. Japan's "soft" image is seen as increasingly positive across the globe

Foreigners' perceptions about Japan play an important role in attracting European investors to a particularly remote country. Only recently has Japan's image increased to the point that "**Japan is the country most widely viewed as having a positive influence**", according to a poll conducted by the BBC at the end of 2005 (see [1]).

A positive influence on foreigners' perceptions of Japan is an important catalyzing factor for making investment decisions in the long term. We can assume that the following factors have contributed creating a positive image of Japan abroad:

* Successful organization of internationally recognized events, such as the co-hosting of the 2002 World Cup (with South Korea) and the organization of the 2004 universal exhibition in Aichi;
* Increase in the number of foreign residents in Japan thanks to an open immigration policy and the signature of bilateral immigration treaties (recently, a treaty was signed with the Philippines in 2006);
* Developing Japan as an attractive tourist destination (the "Yokoso Japan (= Welcome to Japan)" slogan promoted by the Japan National Tourist Organization. (see [10]);

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c. Yet, why do foreign firms leave Japan in 2006?

From his research paper describing the reasons why foreign firms leave Japan, Martin Schultz describes the reasons for market exit from Japan (quote from [3]):

"* The main arguments for retreating from Japan relate to high costs, long time requirements to enter the Japanese market, to difficulties to restructure an existing business in Japan, and to low prospect for future growth. In essence, exiting foreign firms call for better conditions for domestic growth through deregulation and improving the environment for open competition.

* In spite of their retreat, most foreign firms are rather positive about their valuation of the Japanese market environment. Rather than fully retreating, firms tend to divest from their affiliates, narrow down their business to a market niche or focus on importing and selling their overseas products."

The report analyses the obstacles for foreign investment in the following areas: 1) sales and distribution; 2) Quality control; 3) Human resources; 4) Management styles; 5) Labor market regulations; 6) R&D and technology spill-over; 7) Intellectual Property Rights (IPR); 8) Non-tariff barriers; 9) Regulatory transparency.

d. The EU commission gives 3 mains leads for future EU-Japan cooperation

In his speech at the 2006 EU-Japan Business Dialogue Round Table entitled "boosting economic cooperation between Japan and the EU", Vice-president Günther Verheugen stressed the following requests for further cooperation between the EU and Japan:
1) Make efforts to jointly improve the protection of intellectual property rights and join forces to fight against counterfeiting;
2) Find ways to stop over-regulation and – for example – promote the liberalization of the financial service business in Japan (for more details, refer to the EBC white paper…);
3) Improve the foreign investment framework and build more attractive places to invest – for example, provide more flexibility in the tax treatment of cross-border mergers and acquisitions;

Interestingly, these requests are also priority areas in the agenda of the 2005 European strategy for jobs and growth, which stresses the inter-dependence between EU-Japan cooperation on the development of the EU.

e. International comparison of FDI - Japan at a glance

2 points are worth mentioning about FDI and Japan, based on comparative data compiled and provided by the United Nations Conference on Trade And Development (UNCTAD, see [4]):

1. Although on the rise, per capita inward FDI in Japan is still relatively low compared to other advanced economies, such as the USA and EU member countries; see table 1);

2. Although Japan has a signed a good number of double taxation treaties (refer to [11]), Japan has a relatively low number of Bilateral Investment Treaties (BITs, refer to [12]) compared to other developed countries (see table 2).

Japan lags in FDI inflow compared to Europe or the USA. Three reasons can help explain the low level of inward FDI: 1) politically - Japan did not have a structured national FDI policy until 2003 and only recently did the Japanese government focus on deploying regional policies aimed at attracting foreign capital; 2) economically – since WW II Japan's (successful) economic expansion has been driven by exports of (mostly) finished goods produced in a monolithic, highly competitive industrial environment, whose internationalization mostly export-driven by large, structured conglomerates, controlled by Japanese management only, with some long-term strategic coordination provided by the Ministry of Economy Trade and Industry (METI). In other words, the post-war Japanese economic development took place without the involvement of foreign investors.

What makes it still a *relatively* more difficult market to penetrate for foreign firms today, are a) an over-regulated business environment (for details by business segment, refer to the very comprehensive report [13] published by the EBC), b) being geographically remote from the EU, and c) having a very different cultural mindset. This does not mean that Japan is less attractive, and the relative success of the recent FDI policy shows that foreign firms are indeed willing to move into Japan as long as they see opportunities for growth in a global framework.

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Table 1

Table 1. FDI inflow / outflow per capita
Source: UNCTAD

	UNIT	Million USD per capita						
	YEAR	1980	1990	2000	2001	2002	2003	2004
ECONOMY								
Developed economies: America	FDI inflows	89.0	197.7	1209.5	588.4	289.1	194.9	312.0
	FDI outflows	91.3	127.9	594.9	506.0	503.5	434.4	845.4
Developed economies: Europe	FDI inflows	53.1	236.6	1555.1	845.1	914.6	766.3	475.0
	FDI outflows	63.3	315.5	1863.6	968.4	849.0	831.7	658.0
Japan	FDI inflows	2.4	14.2	65.5	49.0	72.5	49.5	61.1
	FDI outflows	20.4	388.7	248.4	301.1	253.1	225.5	242.0

The second point may indicate that Japan does not attach equal importance to the signature of double taxation treaties and especially BITs compared to China or Europe. In fact, Japan has signed 12 BITs as of 2004, whereas China has signed 112 BITs, and countries of Europe, 1765 BITs (refer to table 2). For reference, Japan's BIT treaty partners include: Bangladesh, China, Egypt, Hong-Kong, South Korea, Mongolia, Pakistan, Russian Federation, Sri Lanka, Turkey and Vietnam). For Japan, BIT treaties are signed with the aim of promoting and securing trade and investments for Japanese firms overseas.

Table 2

Table 2. Bilateral investment and double taxation treaties (cumulative)
Source: UNCTAD

	Double taxation treaties				Bilateral investment treaties			
YEAR	1995	2000	2003	2004	1995	2000	2003	2004
REGION/ECONOMY								
Developed economies: Europe	1248	1577	1719	1765	734	1098	1307	1343
Developed economies: America	206	258	277	283	40	61	71	73
Japan	62	68	71	72	4	8	12	12
Australia	39	45	50	50	14	18	21	21
Israel	29	37	40	42	16	32	34	36
New Zealand	26	30	37	37	2	4	4	4

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Reference material

[1] BBC poll in 33 nations regarding the "Attitudes towards countries" conducted between October 2005 and January 2006. http://www.globescan.com/news_archives/bbcpoll06-3.html

[2] Foreign Chamber in Japan business confidence survey – spring 2006 report. http://www.fcc.or.jp/fcij/bcs.html

PARTICIPATING ORGANIZATIONS
The survey was sent to members at 15 organizations representing about 2,000 foreign affiliated companies and generated 426 valid responses, a 20% increase from the previous survey.

Participating organizations included the ACCJ (American Chamber), ABC (Austrian Business Council) BCCJ (British), BLCCJ (Belgian-Luxembourg), CCCJ (Canadian), CCIFJ (French), DCCJ (Danish), DIHKJ (German), FCCJ (Finnish), ICCJ (Italian), JIEA (Japan-Ireland Economic Association), NeCCJ (Netherlands), NoCCJ (Norwegian), SCCJ (Swedish) and SCCIJ (Swiss).

[3] "Why do foreign firms leave Japan?", FRI research report 262 (May 2006) written by Martin Schultz, research fellow. http://www.fri.fujitsu.com/jp/modules/COMMON_LIST_VIEW/uploads/11356/262.pdf

[4] FDI data obtained from the UNCTAD database at:
http://www.unctad.org/Templates/Page.asp?intItemID=1923&lang=1

[5] Japan External Trade Organization – JETRO - from http://www.jetro.go.jp

[6] Economic Survey of Japan 2006 from the OECD, chapter 3.
http://www.oecd.org/document/55/0,2340,en_33873108_33873539_37127031_1_1_1_1,00.html#Contents

[7] "Fiscal 2006 Economic Outlook and basic Stance for Economic and Fiscal Management" from Japan's Cabinet Office.
http://www5.cao.go.jp/keizai1/2006/0120mitoshi-e.pdf

[8] Japan's general account budget estimates for FY 2006 from the ministry of finance.
http://www.mof.go.jp/english/budget/e20051224a.pdf

[9] Panorama of FDI incentives offered by Japanese prefectures from JETRO's "Invest Japan" portal. http://www.jetro.go.jp/en/invest/region/

[10] "Yokoso Japan" campaign from the Japan National Tourist Organization http://www.visitjapan.jp/ and http://www.jnto.go.jp/

[11] Double Taxation Prevention Treaties are conventions between two countries that aim to eliminate the double taxation of income or gains arising in one territory and paid to residents of another territory. They work by dividing the tax rights each country claims by its domestic laws over the same income and gains. Over 1,300 Double Taxation Conventions exist worldwide. The UK has one of the largest networks with more than 100. A list of Japan's double taxation prevention treaties with member countries of the EU is available from:
http://www.worldwide-tax.com/japan/indexjapan.asp (as of 2005, 17 EU member countries have signed double taxation treaties with Japan. The following countries have not signed a treaty yet: Cyprus; Estonia; Greece; Latvia; Lithuania; Malta; Portugal; Slovenia).

[12] Bilateral investment treaties (BITs) are agreements between two countries for the reciprocal encouragement, promotion and protection of investments in each other's territories by companies based in either country. From:
http://www.unctadxi.org/templates/Page____1006.aspx

[13] 2006 EBC report on the Japanese business Environment "New Leadership – Renewed reform" by the European Business Council in Japan.

[14] "Local Government in Japan" 2004 published by the Council of Local Authorities for International Relations (CLAIR). http://www.clair.or.jp/e/index.html

[15] MARR database published by RECOF (http://www.recof.co.jp/).

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Table of Japanese prefectures in numbers

Prefecture	Area	Population	Number of households	GDP(bil)
	2005	2005	2005	2002
Hokkaido	83,457.71	5,632,133	2,545,184	19,636
Aomori	9,606.75	1,468,608	554,682	4,251
Iwate	15,278.63	1,396,637	490,322	4,654
Miyagi	7,285.30	2,347,970	864,882	8,476
Akitia	11,612.22	1,164,389	412,097	3,723
Yamagata	9,323.39	1,218,875	389,949	4,038
Fukushima	13,782.75	2,107,800	722,230	7,659
Ibaraki	6,095.68	2,988,729	1,051,043	11,008
Tochigi	6,408.28	2,008,036	711,184	7,892
Gunma	6,363.16	2,020,734	726,738	7,554
Saitama	3,797.25	6,996,528	2,695,437	19,944
Chiba	5,165.51	6,014,584	2,378,540	18,791
Tokyo	2,187.09	12,168,247	5,861,647	81,843
Kanagawa	2,415.69	8,644,031	3,653,606	30,118
Niigata	12,582.48	2,445,807	815,799	9,039
Toyama	4,247.34	1,116,387	371,606	4,545
Ishikawa	4,185.39	1,172,133	420,319	4,503
Fukui	4,189.01	822,405	262,207	3,287
Yamanashi	4,465.37	880,947	321,970	3,067
Nagano	13,585.22	2,193,419	782,899	7,954
Gifu	10,598.18	2,106,293	709,304	7,124
Shizuoka	7,779.81	3,773,826	1,362,930	15,754
Aichi	5,162.15	7,062,762	2,677,488	33,963
Mie	5,776.56	1,858,026	680,837	6,960
Shiga	4,017.36	1,359,273	468,225	5,632
Kyoto	4,612.97	2,565,170	1,059,925	9,480
Osaka	1,893.73	8,651,301	3,691,611	38,296
Hyogo	8,393.73	5,571,148	2,210,725	18,532
Nara	3,691.09	1,434,548	529,866	3,779
Wakayama	4,725.67	1,067,114	413,636	3,346
Tottori	3,507.21	612,191	218,520	2,057
Shimane	6,707.46	747,469	268,392	2,473
Okayama	7,112.67	1,955,317	738,972	7,275
Hiroshima	8,477.58	2,868,251	1,171,748	10,802
Yamaguchi	6,110.94	1,504,917	624,250	5,686
Tokushima	4,145.46	818,998	307,039	2,569
Kagagwa	1,867.16	1,027,405	393,116	3,735
Ehime	5,676.76	1,490,831	607,968	4,701
Kouchi	7,104.87	804,721	343,143	2,389
Fukuoka	4,973.95	5,014,179	2,044,970	17,367
Saga	2,439.31	873,978	296,456	2,805
Nagasaki	4,094.04	1,502,058	594,045	4,355
Kumamoto	7,404.31	1,857,998	696,391	5,751
Oita	6,338.82	1,224,892	484,636	4,283
Miyazaki	7,734.76	1,172,940	479,372	3,449
Kagoshima	9,187.39	1,763,004	764,233	5,228
Okinama	2,273.41	1,372,388	511,942	3,500

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Contact points in Japanese prefectural government offices

Group 1

Prefecture	TEL	FAX	Division	Contact
Saitama	048-647-4156	048-647-4157	Saitama International Business Support Center	Mr. Miyagawa
Chiba	043-223-2749	043-222-4092	Investment Promotion Division	Mr. Kazama
Kanagawa	045-210-5565	045-210-8868	Economic Exchange Section, Industrial Vitalization Division, Commerce Industry and Labor Department	Ms. Suzuki
Hyogo	03-3500-1361	03-3500-1362	Hyogo-Kobe Business Support Center in Tokyo	Mr. Yasui
Miyagi			http://www.pref.miyagi.jp/sanritu/ritchi_guide/english/index.html	N/A
Osaka	06-6944-6298	06-6944-6293	Osaka Business & Investment Center (O-BIC)	Mr. Ishikawa
Fukuoka	092-643-3430	092-643-3431	Invest FUKUOKA	Mr. Yamada
Kumamoto	03-3572-5022	03-3574-6714	Industrial Location Division, Kumamoto prefectural government, Tokyo Office	Ms. Kakishita
Miyazaki	0985-26-7096	0985-32-4457	New Industry Assistance Division, Commerce, Industry, Tourism and Labor Department	Mr. Uchino
Fukushima	024-521-7280	024-521-7935	Industry Promotion Division, Commerce, Industry, and Labor Department	Mr.Nakamura
Toyama	076-444-3244	076-444-8753	Business Promotion Office, Commerce and Industry Planning Section, Department of Commerce, Industry and Labor	Mr. Kaihatsu
Mie	059-224-2819	059-224-2221	Industrial Investment Promotion Division	Mr. Yanase
Okayama	086-226-7365	086-225-3449	Industry Planning Division Department of Industry and Labor	Ms. Katayama
Hiroshima	082-513-3383	082-223-2136	International Business Promotion Office	Mr. Ito

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Prefecture	TEL	FAX	Contact	
Tokyo			http://www.tokyo-business.jp/index_e.html	
Hokkaido	011-231-4111	011-232-2139	http://www.pref.hokkaido.jp/keizai/kz-krkyt/eng/index.html	Mr.Nakagawa
Aomori	03-3271-0707	03-3271-0708	akifumi_kasai@pref.aomori.lg.jp	Mr.Kasai
Iwate	03-3524-8288	03-3524-8286		
Akita	018-860-2251	018-860-3887		
Yamagata			http://www.pref.yamagata.jp/sr/quest/index_e.html	
Ibaraki			http://www.pref.ibaraki.jp/bukyoku/syoukou/indus/english/index.htm	
Tochigi	028-623-3165	028-623-3167		Mr.Otsuka
Gunma	027-226-3326	027-223-5470	hagiwara-t@pref.gumna.jp	Mr.Hagiwara
Niigata	025-280-5248	025-280-5508	sanritu@mail.pref.niigata.jp	
Ishikawa	076-225-1517	076-225-1518	e190100@pref.ishikawa.jp	Mr.Okazaki
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Gifu		058-271-5722	p39816@pref.gifu.lg.jp	Mr.Hori
Shizuoka			http://www.pref.shizuoka.jp/syoukou/eng/investment/index.html	
Aichi			http://www.aichi-iic.or.jp/co/ai-support/en/index.htm	
Shiga	077-528-3791	077-528-4876	http://www.pref.shiga.jp/shinsangyo/invest-guide/	
Kyoto			http://www.pref.kyoto.jp/en/05/05-01-06.html	
Nara	0742-27-8813	0742-27-4473	imanaka-susumu@oofice.pref.nara.lg.jp	Mr.Imanaka
Wakayama	073-441-2742	073-422-1529	e0603001@pref.wakayama.lg.jp	Mr.Kusuishi
Tottori	03-5212-9077	03-5212-9079	tokyo@pref.tottori.jp	Mr.Maeda
Shimane	0852-22-6693	0852-22-6080	yasukawa-masafum@pref.shimane.lg.jp	Mr.Yasukawa
Yamaguchi	083-933-3145	083-933-3178	http://www.pref.yamaguchi.jp/gyosei/kigyo-r/info/en/incentives/index.html	Mr.Itou
Tokushima			http://www.onlyone-tokushima.jp/e/1/1.php	
Kagawa	087-832-3354	087-833-4931	http://www.pref.kagawa.jp/sangyo.syuseki/	Mr.Miyaji
Ehime	089-912-2405	089-933-2554	http://www.pref.ehime.jp/050keizairoudou/010shoukouryutu/00004620040330/index.html	Mr.Harada
Kochi	088-823-9693	088-823-9268		
Saga	03-5212-9199	03-5215-5231	motomura-makoto@pref.saga.lg.jp	
Nagasaki	03-5212-9182	03-5215-5131		
Oita	097-536-1111	097-532-9386	goto-tomohiro@pref.oita.lg.jp	Mr.Goto
Kagoshima	099-286-2983	099-286-5578	yuuti@pref.kagoshima.lg.jp	Mr.Yamashita
Okinawa	03-5212-9087	03-5212-9086	Okinawa Prefectural Government Tokyo Office	Mr.Funase

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Survey - measuring the impact of Japan's FDI policy in your prefecture

Background:

Starting in 2003, the EU-Japan Centre for Industrial Cooperation compiled a comprehensive directory of information about the FDI incentives offered by Japanese prefectures for the purpose of attracting more EU firms to invest in Japan. The Directory was published in a CD-ROM and widely distributed to firms in the EU through our office in Brussels.

Survey:

The purpose of this questionnaire in 2006 is to highlight the effect of the FDI policies by measuring the impact of successful investments from foreign companies that were made in your prefecture **between 2003 and 2006**.

We would be very grateful if you could spend a few minutes to answer the questions provided below to this effect.

1.a Do your prefectural authorities keep a record of foreign companies (see note 1) that have made significant new investments in your prefecture between 2003 and 2006? (please tick the most appropriate box)

☐ YES ☐ NO

1.b If you answered yes in question 1.a, would your prefecture be willing to share some information about the significant investments for the purpose of highlighting the benefits of Japan's FDI policy? (please tick the most appropriate box)

☐ YES (see note 2) ☐ NO

Notes:

(1) we interpret a "foreign" company here as a company that is a) affiliated to a non-Japanese mother company; b) affiliated to a non-Japanese holding; c) a joint venture with majority shareholding owned by non-Japanese interests; d) a company whose majority of shareholders are non-Japanese.

(2) the EU-Japan Centre for Industrial Cooperation recognizes the importance of protecting personal information and will take utmost care to ensure the appropriate protection of such information in accordance with the provisions of the relevant laws and regulations. The Centre will not release such personal information collected from any third party without the consent of the users unless specifically required by law.

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2.a If you answered yes in question 1.b, can you please provide the following information about the 2 most important investments – in terms of the amount of money involved - by foreign companies in your prefecture started **between 2003 and 2006**:

Most Important investment project in your prefecture

Name of the Company: ………………………………………………..
Country of Origin of the Company: ………………………………………………..
Date of the initial investment in your prefecture: ………………………………..
Did this company have any other investment in Japan, before investing in your prefecture?

☐ YES ☐ NO

2.b Please specify the new investment that this company has made in your prefecture between 2003 and 2006 (tick the most appropriate box – you may tick more than one box);

☐ New sales , marketing and administration office
☐ New manufacturing plant
☐ New technical maintenance centre /new R&D centre
☐ New call centre
☐ New warehouse
☐ Other (please specify): ……………………………..

2.c In connection to question 2.b, does your prefecture have information about the amount of money of the investment made by this company?

☐ YES ☐ NO

2.d If you answered yes in 2.c, please specify
the amount of money invested: ………………………..

3.a Did this investment project benefit from any of the FDI incentives proposed by your prefecture?

☐ YES ☐ NO

3.b Did this investment project use any of the FDI incentives not proposed by your prefecture, but proposed by other organizations such as the Central Japanese government, JETRO, or the Development Bank of Japan, etc..?

☐ YES ☐ NO

3.c If you answered "yes" in 3.a or 3.b can you tell us which incentive was used for this project?
Tax reduction (breaks) on real estate
Tax reduction (breaks) on new property and new construction of buildings
Low interest loans
Job creation subsidies
Financial subsidies (please specify): ……………………………
Others (please specify): ……………………………

Thank you for your time in answering this questionnaire

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Second Most Important investment project in your prefecture

Name of the Company: ………………………………………………..
Country of Origin of the Company: ………………………………………………..
Date of the initial investment in your prefecture: ………………………………..
Did this company have any other investment in Japan, before investing in your prefecture?

☐ YES ☐ NO

4.a Please specify the new investment that this company has made in your prefecture between 2003 and 2006 (tick the most appropriate box – you may tick more than one box);

☐ New sales , marketing and administration office
☐ New manufacturing plant
☐ New technical maintenance centre /new R&D centre
☐ New call centre
☐ New warehouse
☐ Other (please specify): ……………………………..

4.b In connection to question 4.a, does your prefecture have information about the amount of money of the investment made by this company?

☐ YES ☐ NO

4.c If you answered yes in 4.b, please specify
the amount of money invested: ………………………..

5.a Did this investment project benefit from any of the FDI incentives proposed by your prefecture?

☐ YES ☐ NO

5.b Did this investment project use any of the FDI incentives not proposed by your prefecture, but proposed by other organizations such as the Central Japanese government, JETRO, or the Development Bank of Japan, etc..?

☐ YES ☐ NO

5.c If you answered "yes" in 5.a or 5.b can you tell us which incentive was used for this project?
Tax reduction (breaks) on real estate
Tax reduction (breaks) on new property and new construction of buildings
Low interest loans
Job creation subsidies
Financial subsidies (please specify): ……………………………
Others (please specify): ……………………………

Thank you for your time in answering this questionnaire