

## The 39th Mitsui Life Symposium in Japan: Current Status and Challenges of Foreign Direct Investment to Japan

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Summary by Professor Kozo Kiyota

This panel discussion featured four panelists: Mio Kawada, Executive Director of the Japan External Trade Organization (JETRO); Hiroko Jimbo, Partner at Nishimura Asahi Law Offices; Tamotsu Hiroyuki, President and CEO of Walt Disney Japan; and Kazuhiro Yamada, Managing Director and Co-Representative of Japan at Carlyle Japan LLC. The panelists engaged in a lively discussion on Japan's investment environment and prospects, the current state and future of investment policies toward Japan, and economic security.

While the outstanding balance of foreign investment in Japan (cumulative investment to date) has more than doubled in the past decade, from 23.7 trillion yen in 2014 to 53.3 trillion yen in 2024, it still accounts for less than 10% of Japan's gross domestic product. This is an exceptionally low level among developed countries. Considering that the outstanding balance of foreign direct investment is projected to reach 352 trillion yen by the end of 2024, foreign direct investment in Japan represents only one-seventh of that total, highlighting the low level of foreign investment in Japan. The low level of foreign investment in Japan suggests that Japan is no longer a country of choice for foreign companies.

In the panel discussion, the reasons for this low level of foreign investment in Japan were discussed, including low profit margins and excessive competition in the Japanese market, population decline, labor shortages, and various regulations. Furthermore, it was pointed out that the benefits of foreign investment in Japan are not merely an "inflow of foreign capital," but rather its crucial role as a "catalyst for the revitalization and strengthening of the competitiveness of the Japanese economy."

While direct investment in Japan remains low, it was also discussed that the domestic private equity market is experiencing favorable conditions such as the expansion of business succession issues and corporate governance reforms. In addition, the attractiveness of Japan's business environment was noted as its social, economic, and geopolitical stability.

The government considers expanding foreign investment in Japan a key priority, aiming to increase its balance to 120 trillion yen by 2030. However, due to concerns about economic security, the new administration is considering stricter regulations on foreign investment. The focus of this is a review of the review system based on the Foreign Exchange and Foreign Trade Act. In response to this, discussions included adding designated industries related to the supply chain of critical materials, applying regulations to domestic investors who are effectively under the influence of foreign governments, and creating mechanisms to compensate for changes in parent companies after investments have been made.