

# Japan Economic Outlook

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January 2023

Japan External Trade Organization (JETRO)

Invest Japan Department



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- Japan as Perceived by Economic Indicators
- Investment Trends in Japan

## 2. Business Environment in Japan

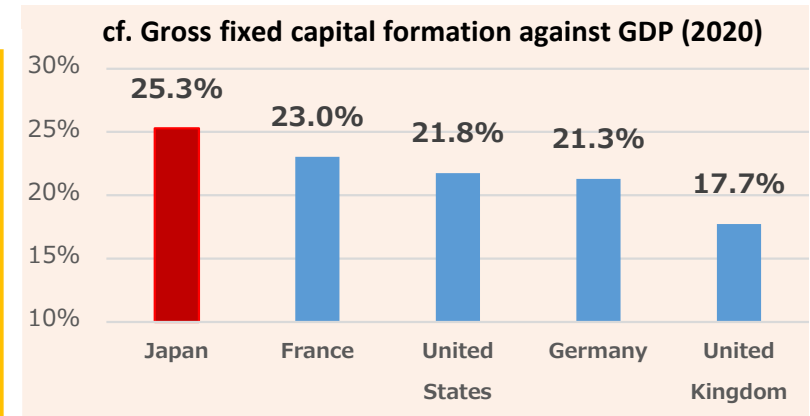
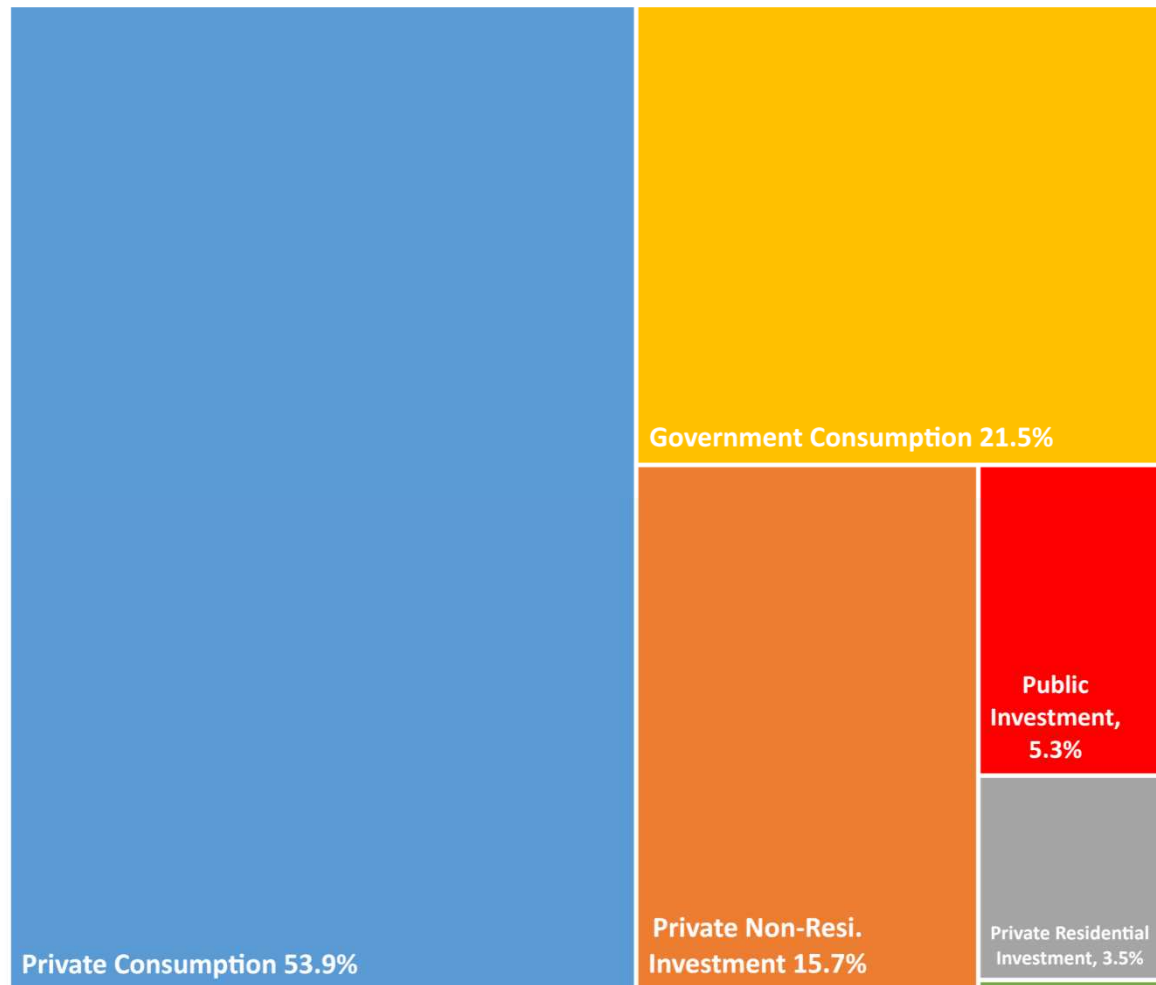
- Open Innovation Efforts by Foreign-affiliated Companies in Japan
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- Support Systems that Help Promote the Introduction of Key and Core Technologies

\*This report is based on information as of December 2022

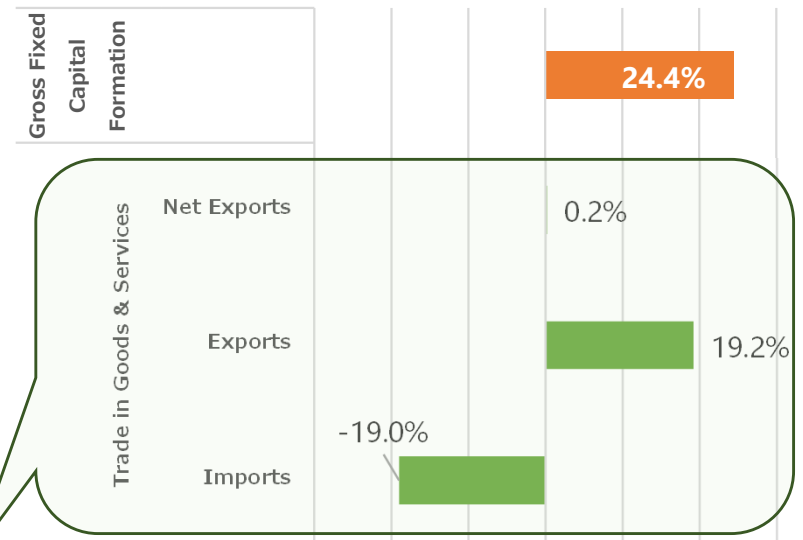
# Economic Composition of Japan (GDP by component)

Private Consumption takes up over 50% of GDP. Share of Gross Fixed Capital Formation, which provides an indication of investment, is higher, compared to other major economies.

## Breakdown of GDP Components in 2021



Source: OECD Stat



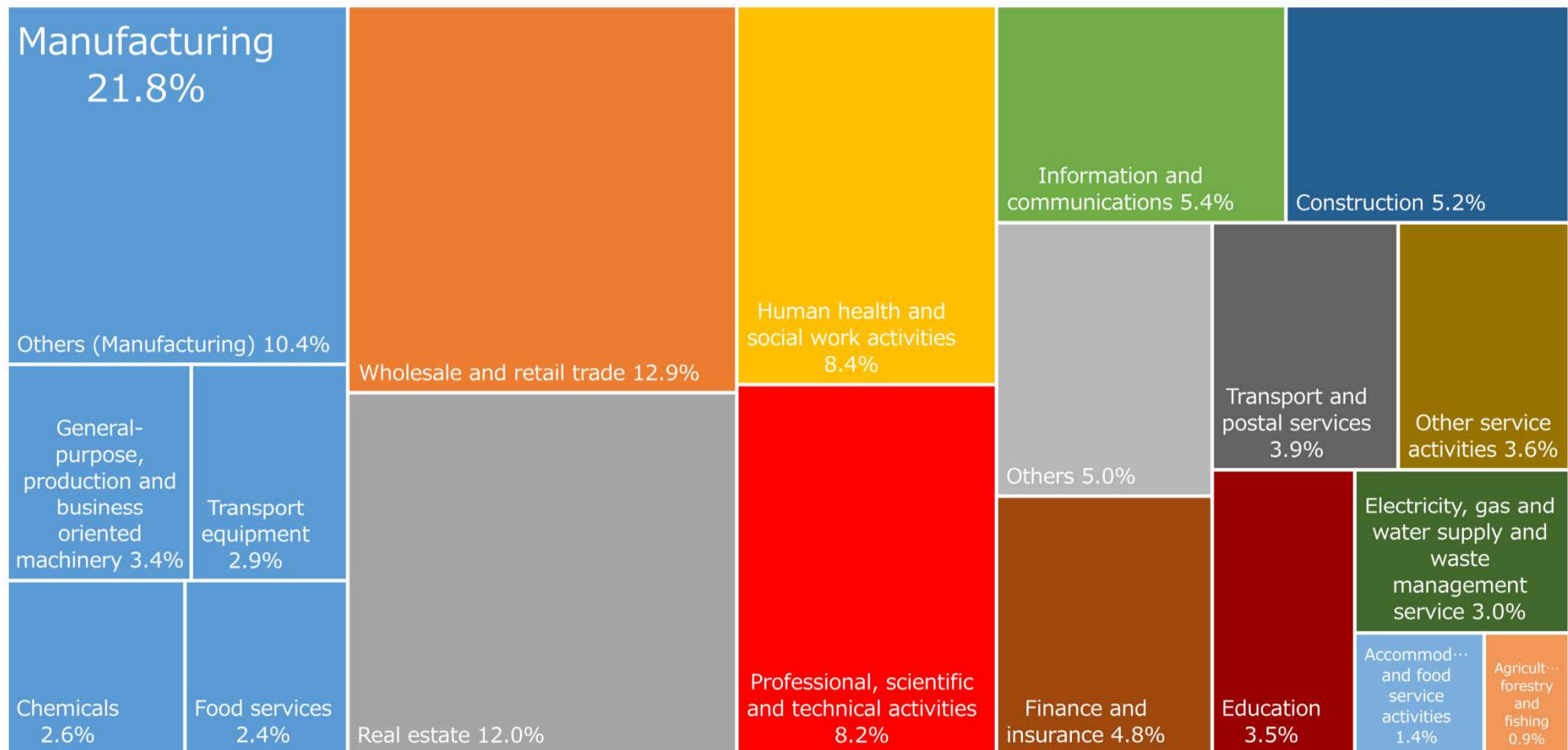
(Note) Gross Fixed Capital Formation consists of components such as private residential and non-residential investment as well as public investment.

Source: Cabinet Office "National Accounts" as of September 8<sup>th</sup>, 2022

# Economic Composition of Japan (GDP by Industry)

The share of the manufacturing sector is larger compared to other major economies, displaying Japan's strength of the sector. Distributive trade, transport, accommodation and food service industries also show comparatively higher share.

## Breakdown of GDP by Industry in 2021



Source: Annual Report on National Accounts for 2021 (Cabinet Office)

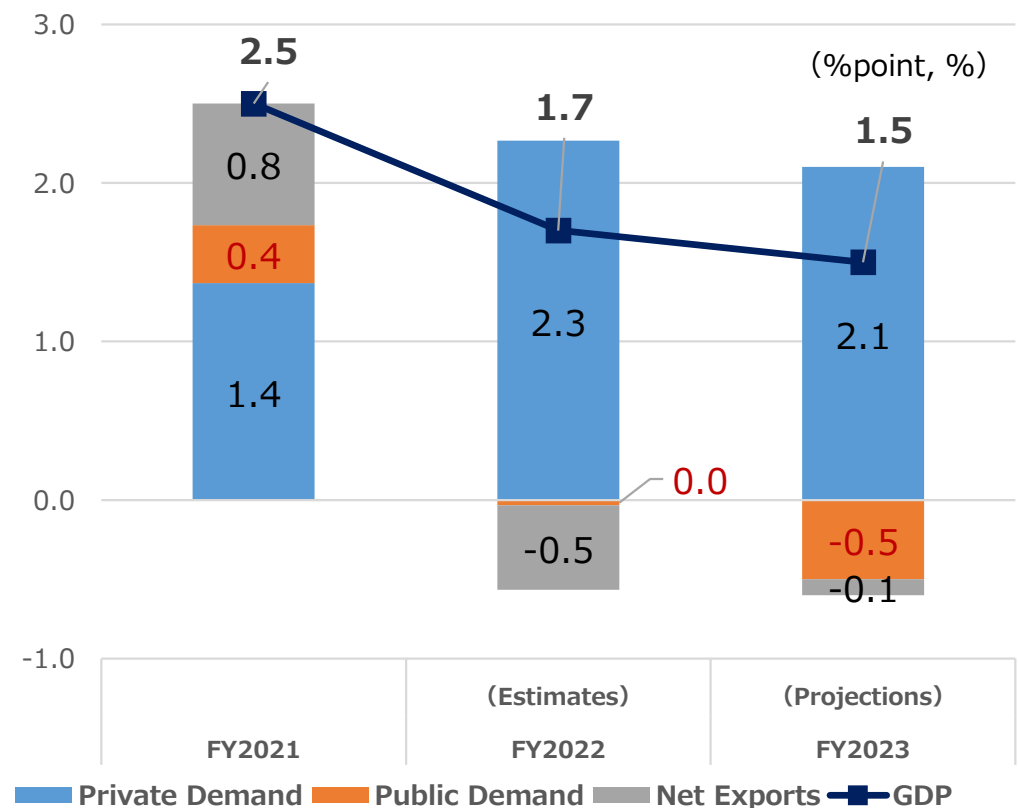
# Outlook of Japan's Economy

While the gradual recovery from the COVID-19 impact continues, Japan's real economic growth rate is expected to be around 1.7% in FY2022 due to the impact of global energy and food price hikes, and the global economic slowdown. In FY2023, although the global economic slowdown is expected to persist, Japan's economy is expected to grow by around 1.5%, led by private demand, as investment in growth sectors driven by public-private partnerships as well as "investment in people" promoted under government initiatives.

## FY2023 Key Economic Indicators (%)

	FY2021	FY2022	FY2023
	YoY Growth	YoY Growth (Estimates)	YoY Growth (Projections)
Gross domestic product (GDP)	2.5	1.7	1.5
Private consumption expenditure	1.5	2.8	2.2
Private residential investment	-1.1	-4.0	1.1
Private Non-Resi.Investment	2.1	4.3	5.0
Exports of goods and services	12.3	4.7	2.4
Imports of goods and services	7.1	6.9	2.5
Employees	0.2	0.7	0.2
Industrial production	5.8	4.0	2.3

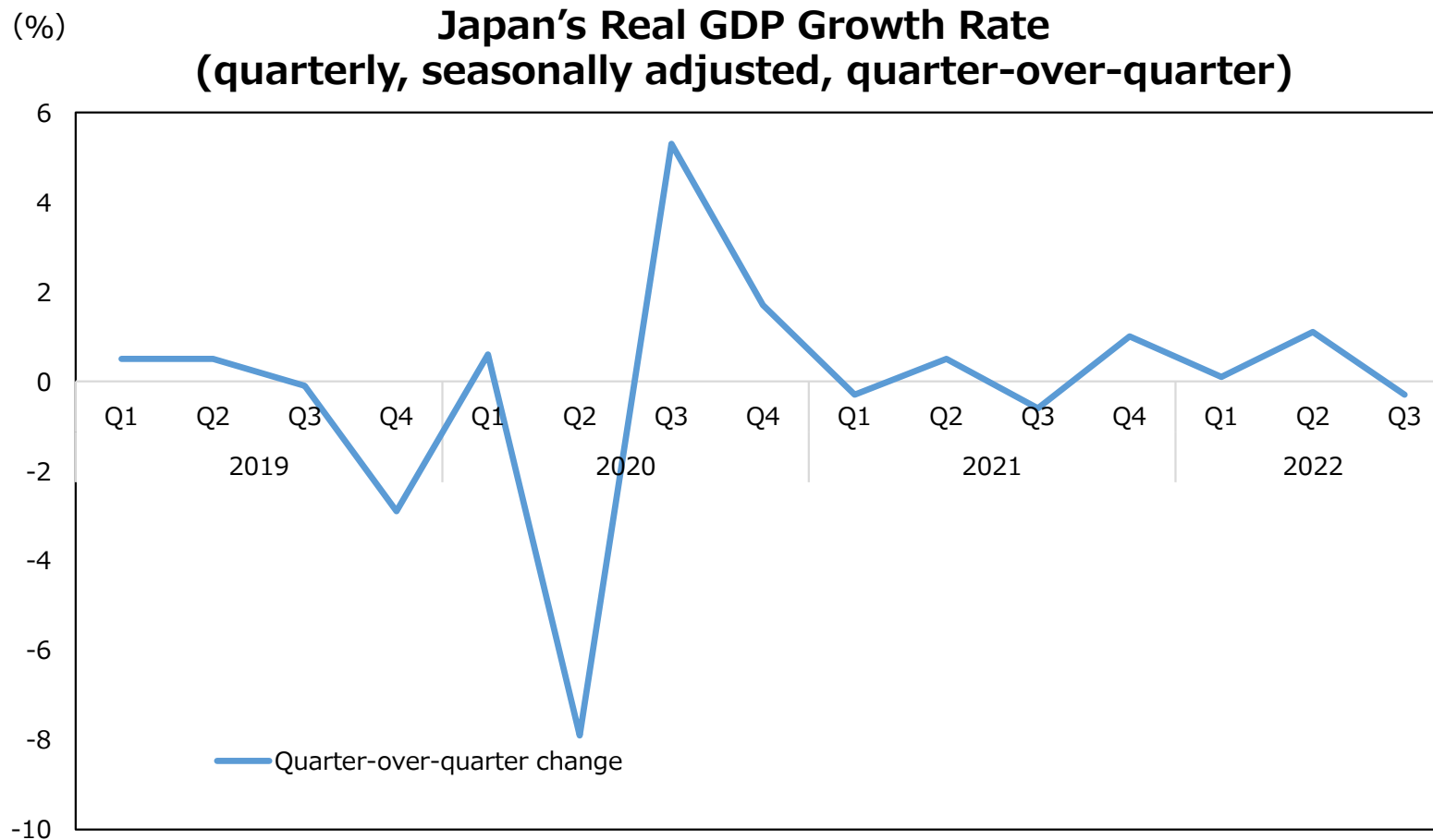
## GDP Growth and Contribution by Component



Source : Fiscal 2022 Economic Outlook (Cabinet office, approved by the Cabinet on December 22, 2022)

# GDP Growth Rate

The Japanese economy was affected by the COVID-19 pandemic and fell sharply through the second quarter of 2020, then began to recover, but the growth has slowed since 2021.



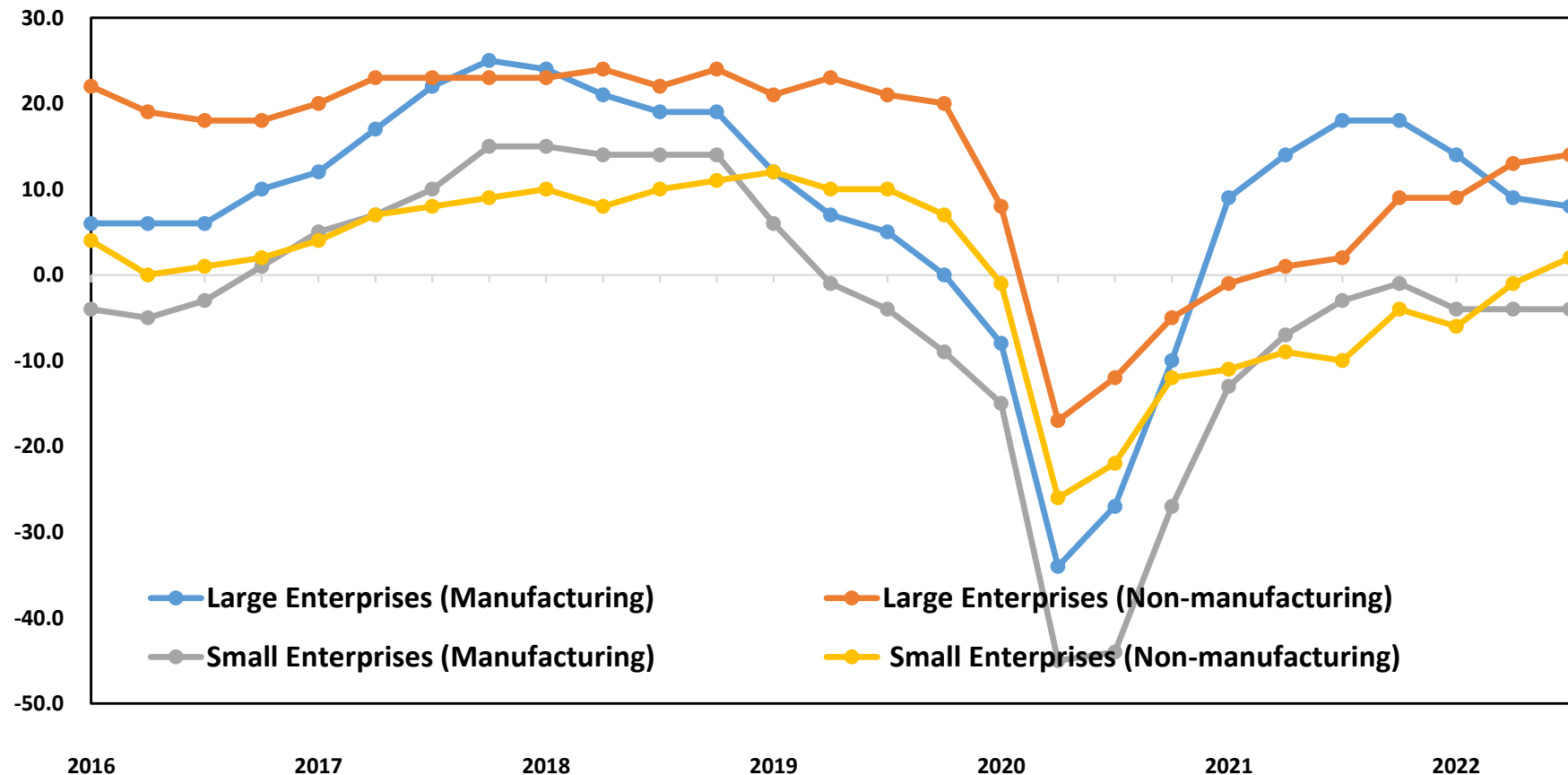
Source: Cabinet Office "National Accounts" as of September 8th , 2022

# Business Confidence of Japanese Companies

The business conditions of companies that deteriorated significantly due to the COVID-19 pandemic is gradually recovering, and the business conditions D.I. for non-manufacturing industries in particular has been on an upward trend since 2022.

## Tankan (Business Conditions)

("Favorable" minus "Unfavorable", %points)

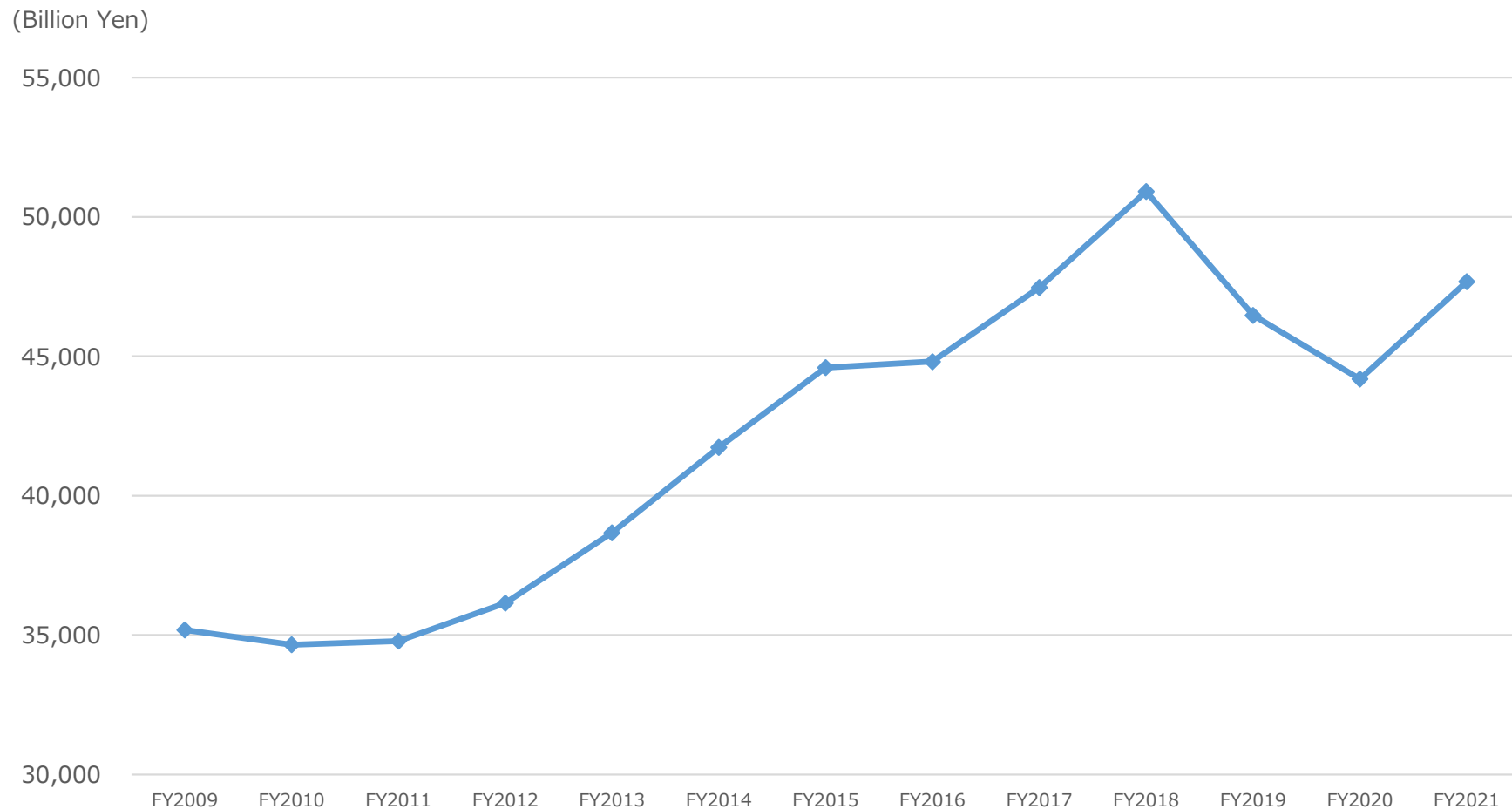


Source: Bank of Japan "Short-Term Economic Survey of Enterprises in Japan"

# Capital Investment Evolutions

Capital investment had been on a downward trend since its peak in FY2018, but picked up in FY2021 and has recovered to the second highest level on record.

## Trends in Capital Investment (All Industries)

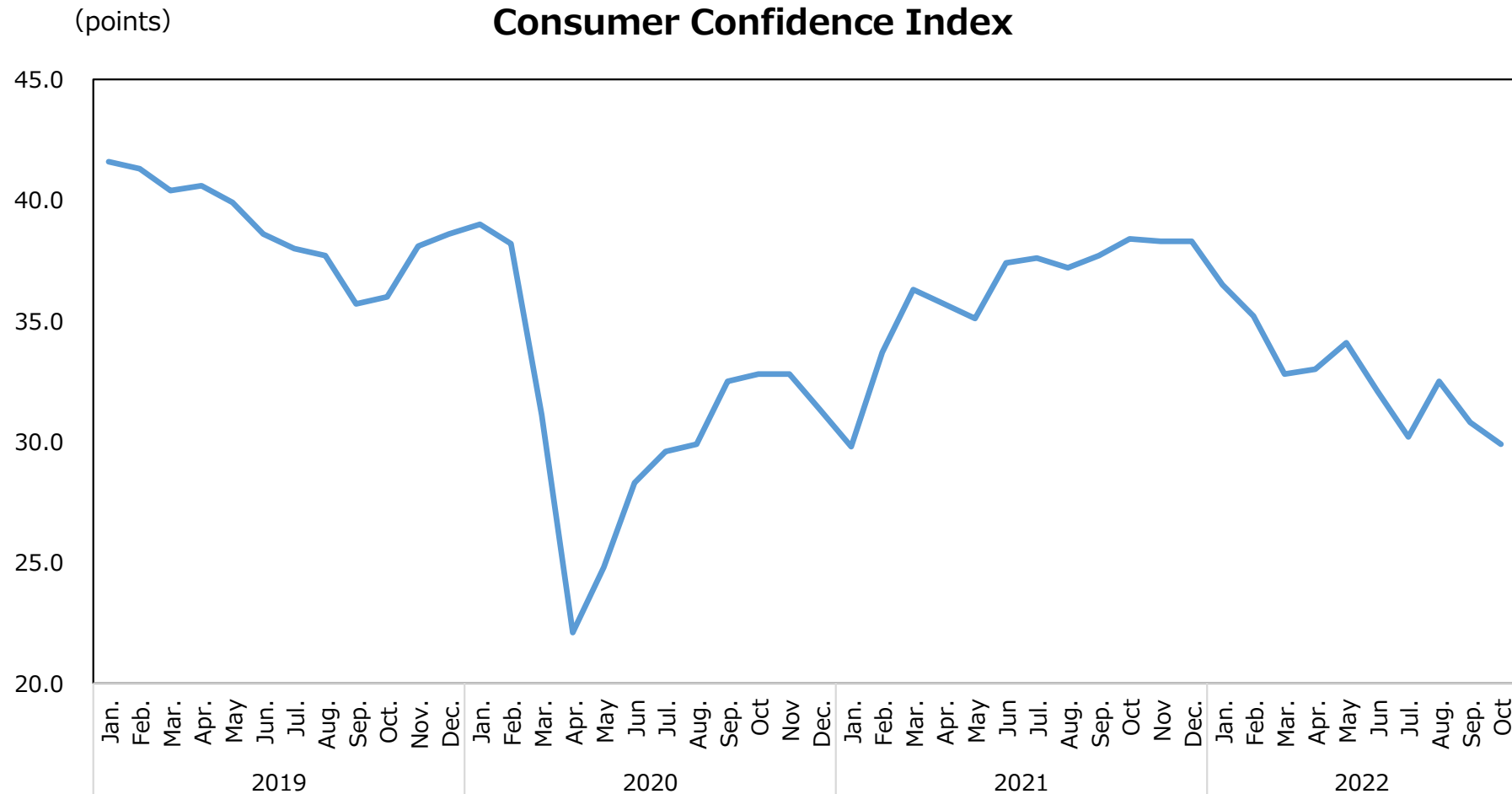


Source: Ministry of Finance "Financial Statements Statistics of Corporations by Industry"



# Trends in Domestic Consumption

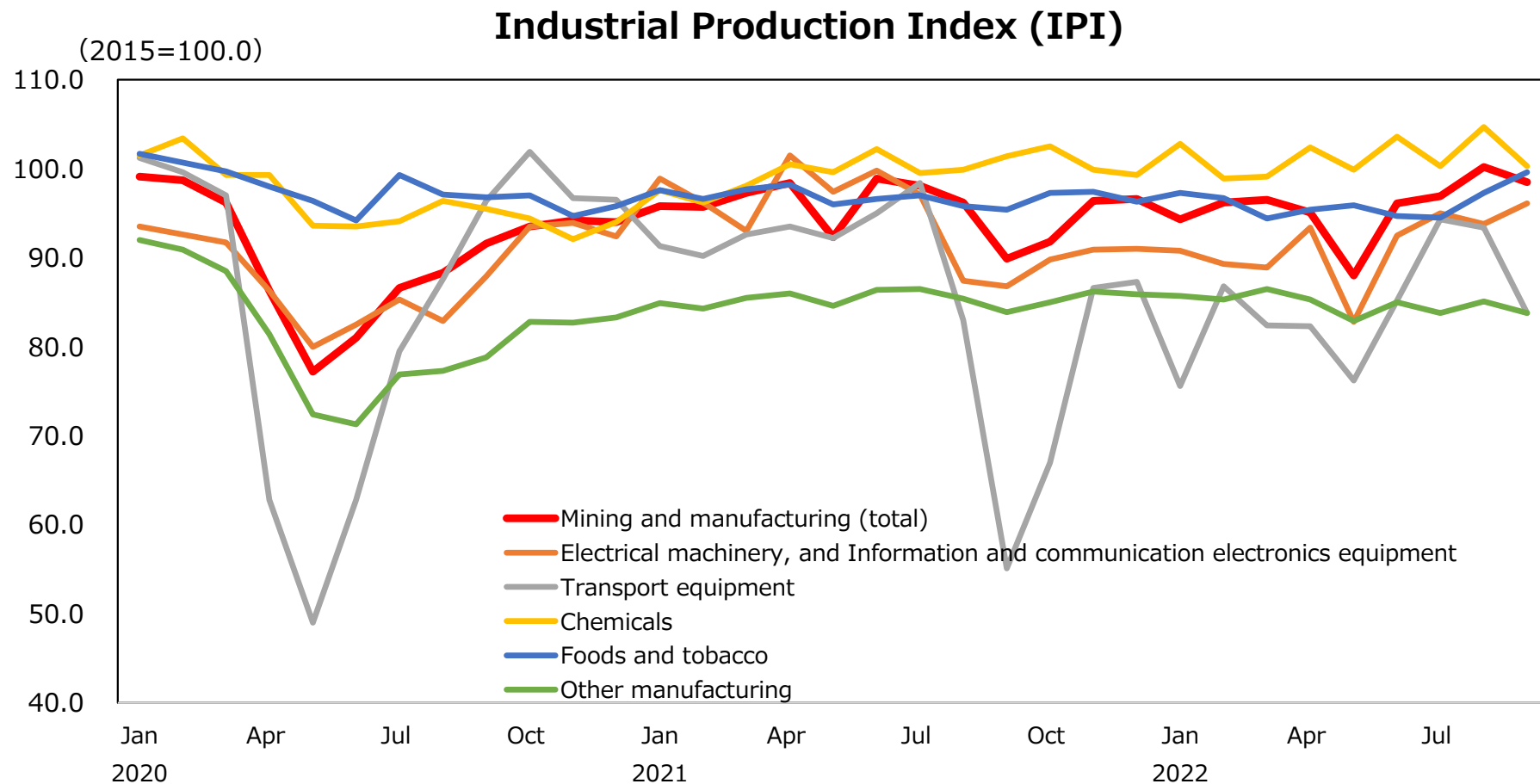
Under the impact of COVID-19, the Consumer Confidence Index in April 2020 was the lowest since 1982 when comparable data are available. Since then, although the index recovered modestly, it has been on a downward trend since the beginning of 2022.



Source: Cabinet Office "Consumer Confidence Survey"

# Domestic Manufacturing Trends

- In May 2020, the overall index fell to the level of the 2008-2009 economic crisis, but it is gradually recovering.
- The transportation equipment industry fluctuates widely, while the food and tobacco industry is on an upward trend.

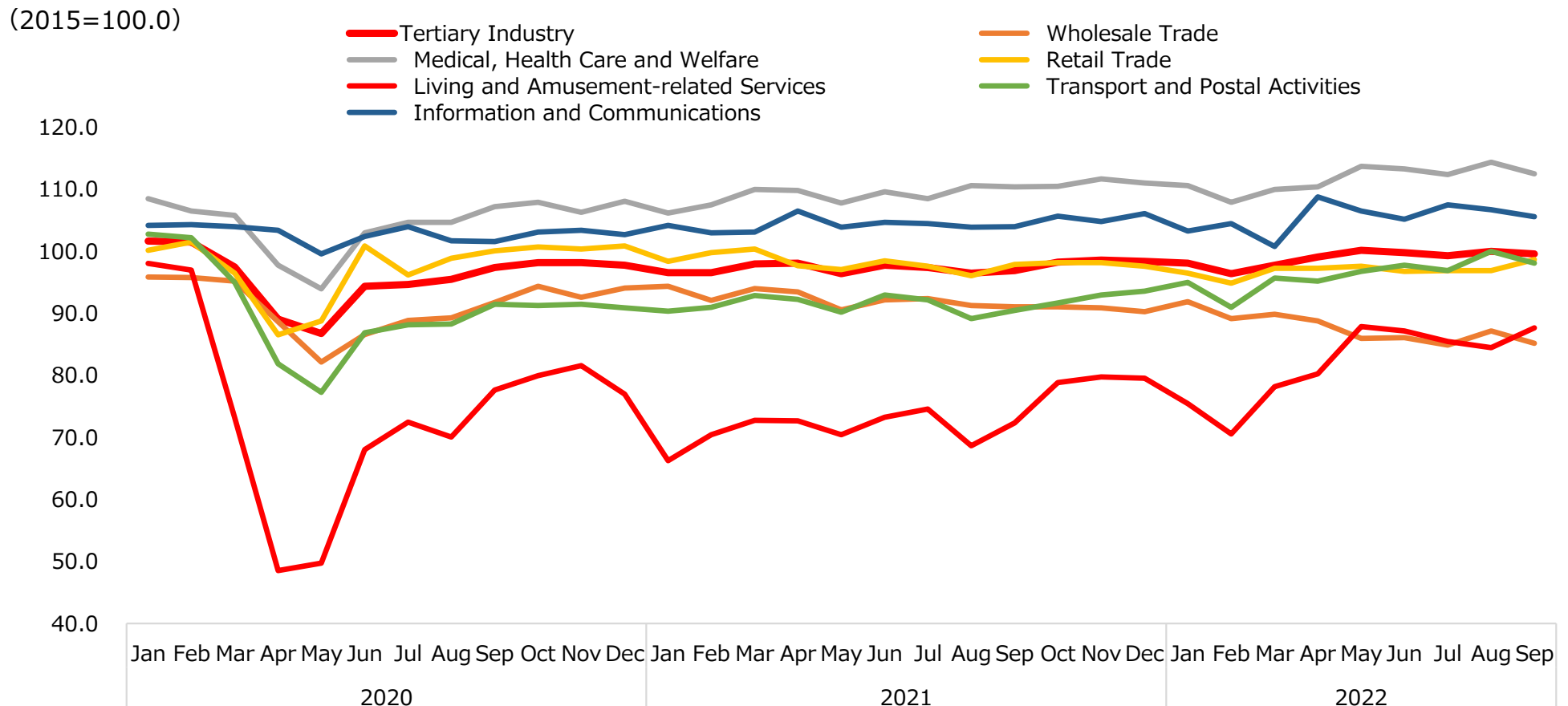


NOTE: Overall and top industries with large weights are shown.  
Source: "Indices of Industrial Production" (METI)

# Trends in Domestic Service Industry

- The overall index showed a recovery trend after May 2020, when it was the lowest since 2008 with comparable data, but it has remained flat since 2021.
- Entering 2022, life and entertainment-related services, including tourism and food and beverage services, are picking up.

## Indices of Tertiary Industry Activity

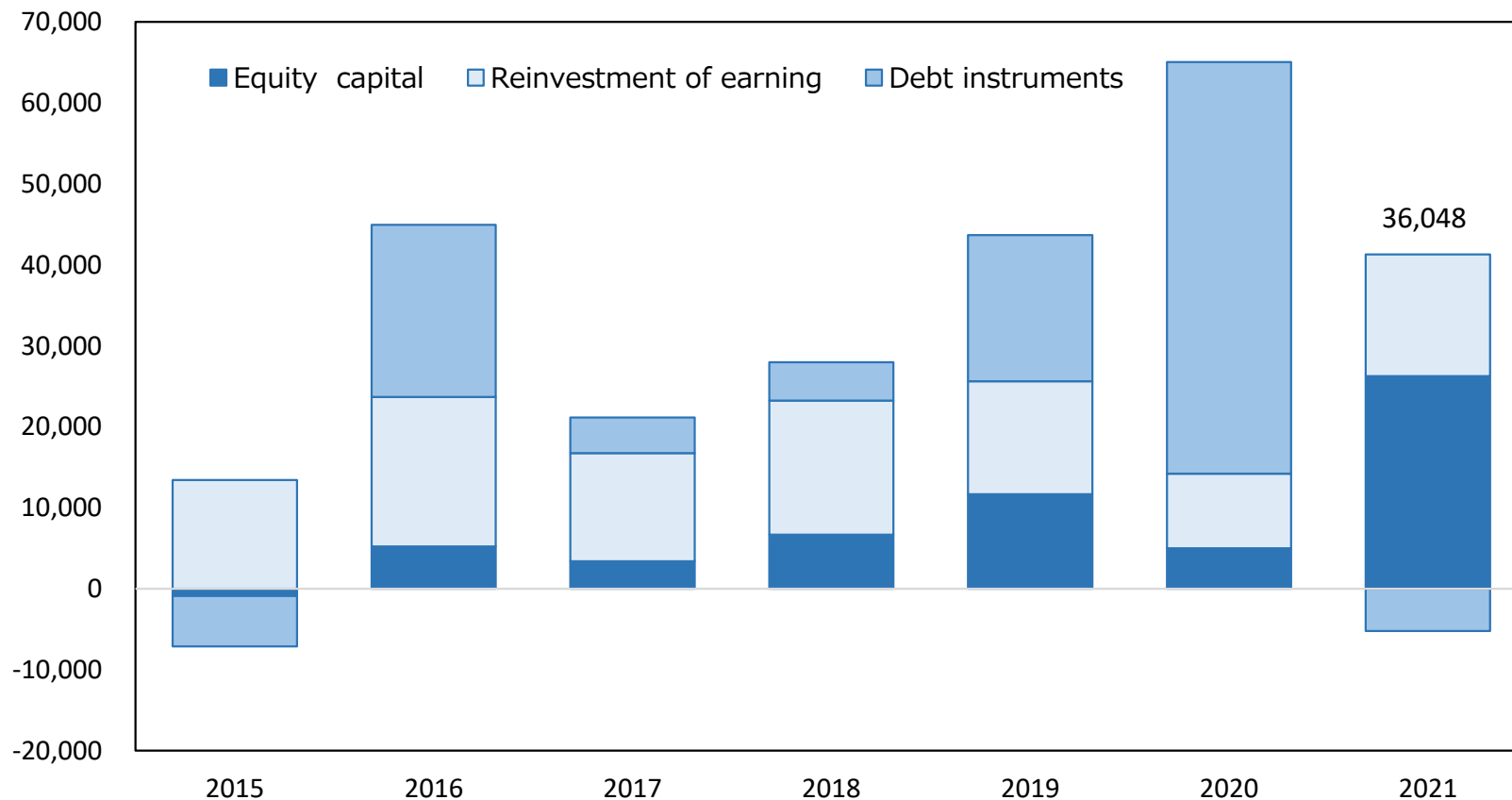


NOTE : Overall and top industries with large weights are shown.  
 Source: "Indices of Tertiary Industry Activity" (METI)

# FDI Flow to Japan

- In 2021, the FDI flow to Japan totaled 3,604.8 billion yen, with a significant increase in equity capital that represents a trend of new investments and capital increases in Japan.

(100 million Yen) **Trends in FDI Flow to Japan by Form of Capital**

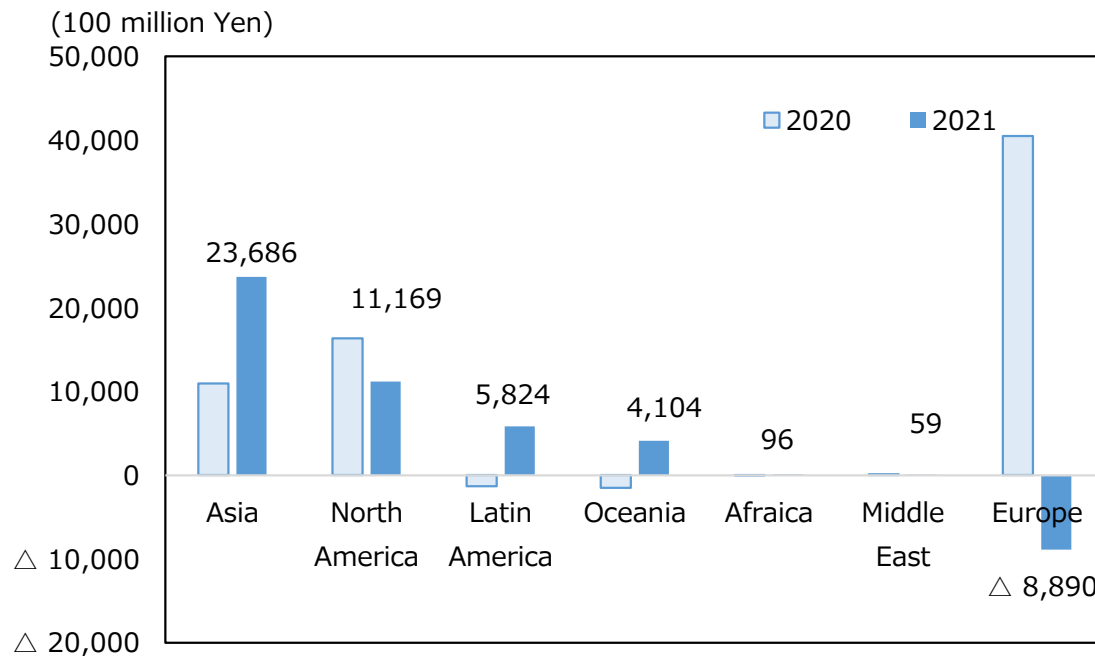


Source: "Balance of Payments" (Bank of Japan, Ministry of Finance)

# FDI Flows to Japan by Region/Country

- Looking at the FDI flow in 2021 by region, Asia was the largest at 2,368.6 billion yen. Of this amount, Hong Kong increased significantly by 539.4% over the previous year to 1,329.9 billion yen.

### FDI Flow to Japan by Region



### FDI Flow to Japan by Country/Region

(100 million Yen, %)

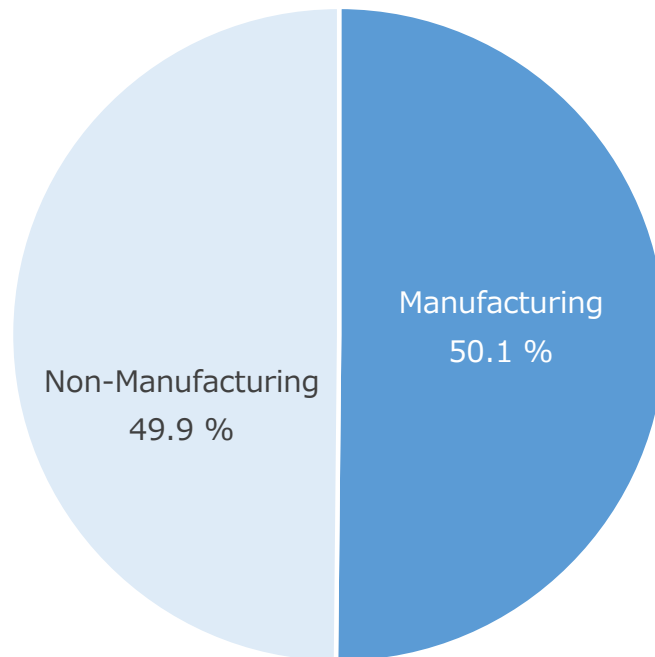
Ranking	Investor Country/Region	2021		
		2021	YoY	Share
1	Hong Kong	13,299	539.4	36.9
2	United States	10,666	-34.3	29.6
3	Singapore	8,060	69.9	22.4
4	Cayman Islands	5,496	-	15.2
5	Australia	3,100	-	8.6
6	France	2,298	2175.2	6.4
7	Germany	1,765	14.2	4.9
8	Korea	1,167	37.3	3.2
9	China	885	-42.7	2.5
10	Canada	503	458.9	1.4
-	World	36,048	-44.6	100

Source: "Balance of Payments" (Ministry of Finance, Bank of Japan)

# FDI Flow to Japan by Industry

- Looking at the FDI flow to Japan by industry in 2021, the manufacturing industry accounted for 50.1% and the non-manufacturing industry for 49.9%.
- In detail, Chemicals and Pharmaceuticals was the largest at 1,471.3 billion yen.

## FDI Flow to Japan by Industry



## FDI Flow to Japan by Sector

(100 million Yen, %)

Ranking	Sector	2021	
		2021	YoY
1	Chemicals and pharmaceuticals	14,713	987.7
2	Finance&insurance	9,297	25.1
3	Communication	4,246	2,981.5
4	Electric machinery	2,350	49.1
5	Service	613	-30.1
6	Transportation	487	130.6
7	General machinery	137	-34.7
8	Iron, non-ferrous, and metals	102	250.0
9	Construction	98	-
10	Lumber and pulp	88	860.4
-	Wholesale and retail	-2,403	-
-	Transportation equipment	-3,293	-

N.B.: (1) Based upon different principles from statistics for FDI by country/region.

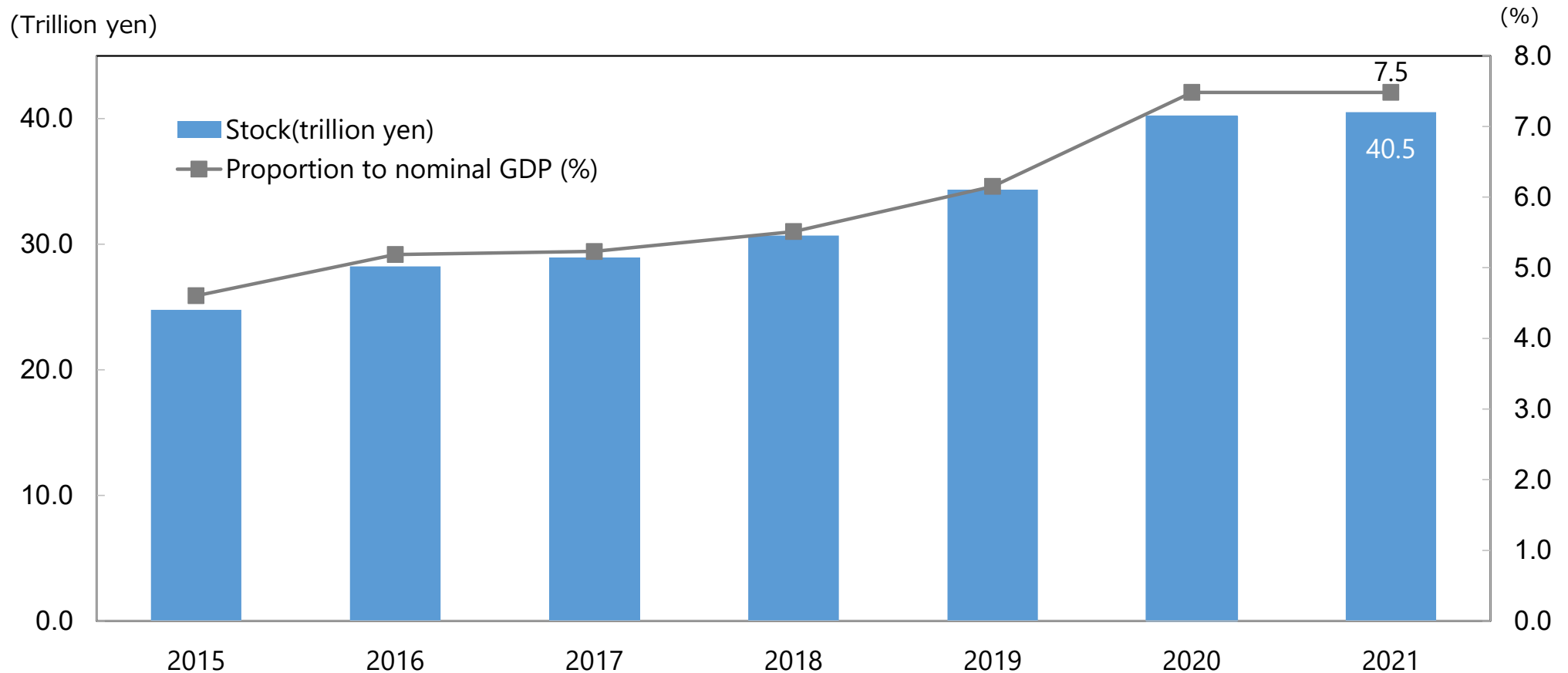
(2) Negative amount indicates withdrawal exceeds inflow.

Source: "Balance of Payments" (Ministry of Finance, Bank of Japan)

# FDI Stock in Japan

- At the end of 2021, the FDI stock in Japan was 40,504.4 billion yen, and the ratio to GDP was 7.5%.

## FDI Stock in Japan

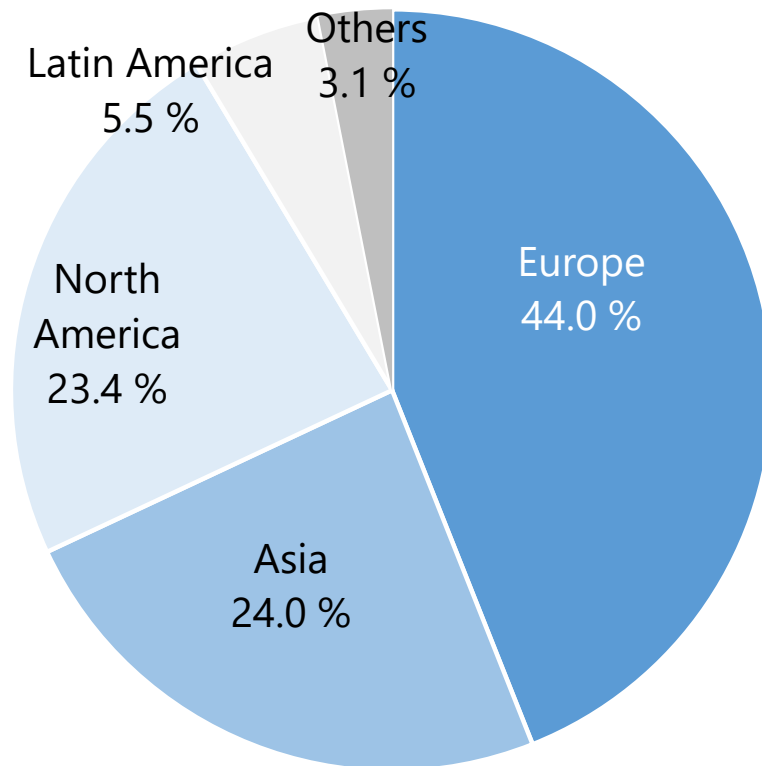


Source: "International Investment Position of Japan" (Ministry of Finance and Bank of Japan),  
"National Accounts of Japan" (Cabinet Office)

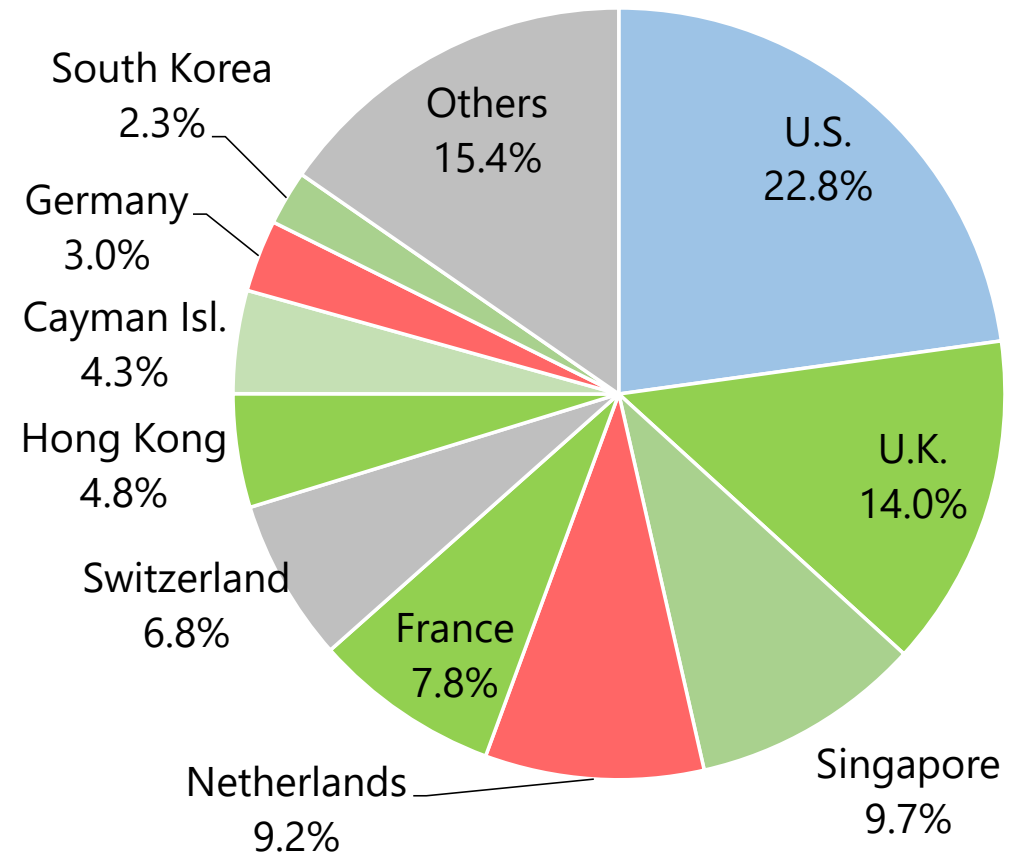
# FDI Stock in Japan by Region/Country

- By region, Europe accounted for the largest share at 44.0% of the FDI stock. Asia grew, surpassing North America for the first time.
- Looking in detail, the United States accounted for the largest share at 22.8%, followed by the United Kingdom. (14.0%) and other countries.

**FDI Stock in Japan by Region  
(as of end of 2021)**



**FDI Stock in Japan by Country  
(as of end of 2021)**



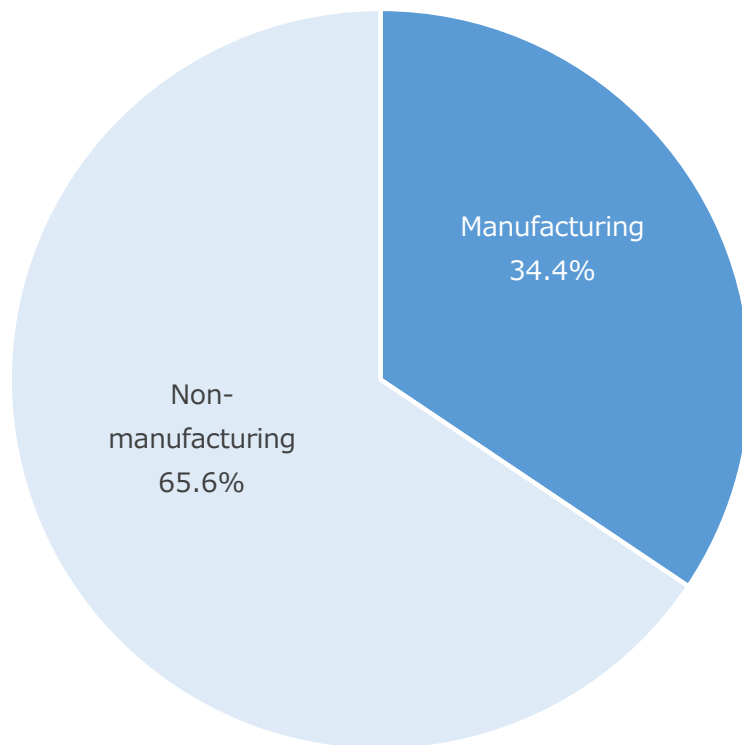
Source: "International Investment Position of Japan" (Ministry of Finance and Bank of Japan)



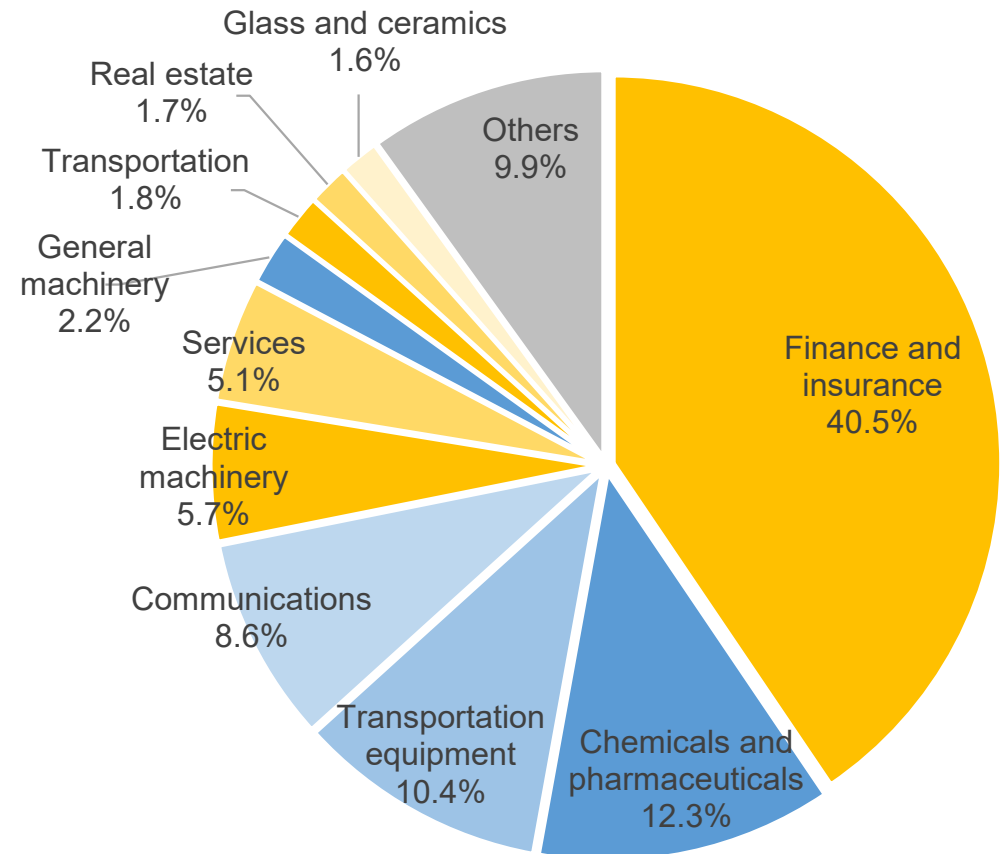
# FDI Stock in Japan by Industry

- Looking at the FDI stock by industry, the non-manufacturing industry accounted for 65.6%, and the manufacturing industry accounted for 34.4%.
- In detail, the finance and insurance sector accounted for 40.5% of the total.

**FDI Stock in Japan by Industry  
(as of end of 2021)**



**FDI Stock in Japan by Sector  
(as of end of 2021)**



Source: "International Investment Position of Japan" (Ministry of Finance and Bank of Japan)

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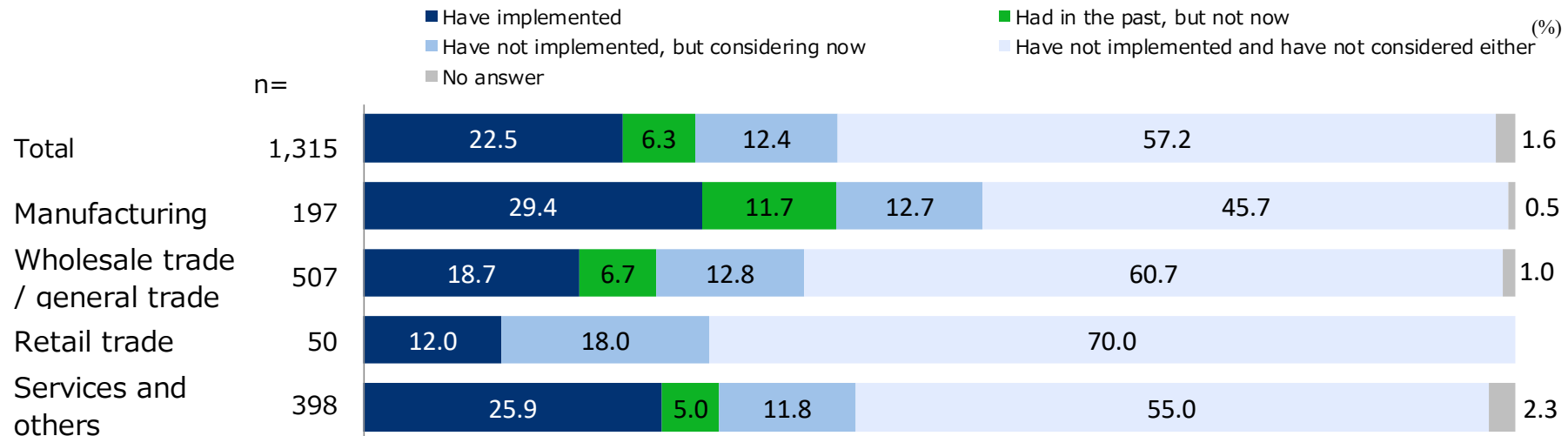
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\*This report is based on information as of December 2022

## Collaboration/Cooperation with Companies and Institutions in Japan

- According to a survey conducted by JETRO on the foreign-affiliated companies in Japan, 41.2% of the overall respondents answered that they “have implemented,” “had implemented in the past,” or “are considering now to implement” collaboration or cooperation.
- By industry in Japan, a high percentage of respondents in the manufacturing (29.4%) and services and others (25.9%) answered that they “have implemented” collaboration/cooperation. On the other hand, 18.0% of respondents in the retail trade answered that they have not implemented, but are considering now,” indicating a strong willingness to implement collaboration or cooperation.

### Collaboration/Cooperation Status by Industry

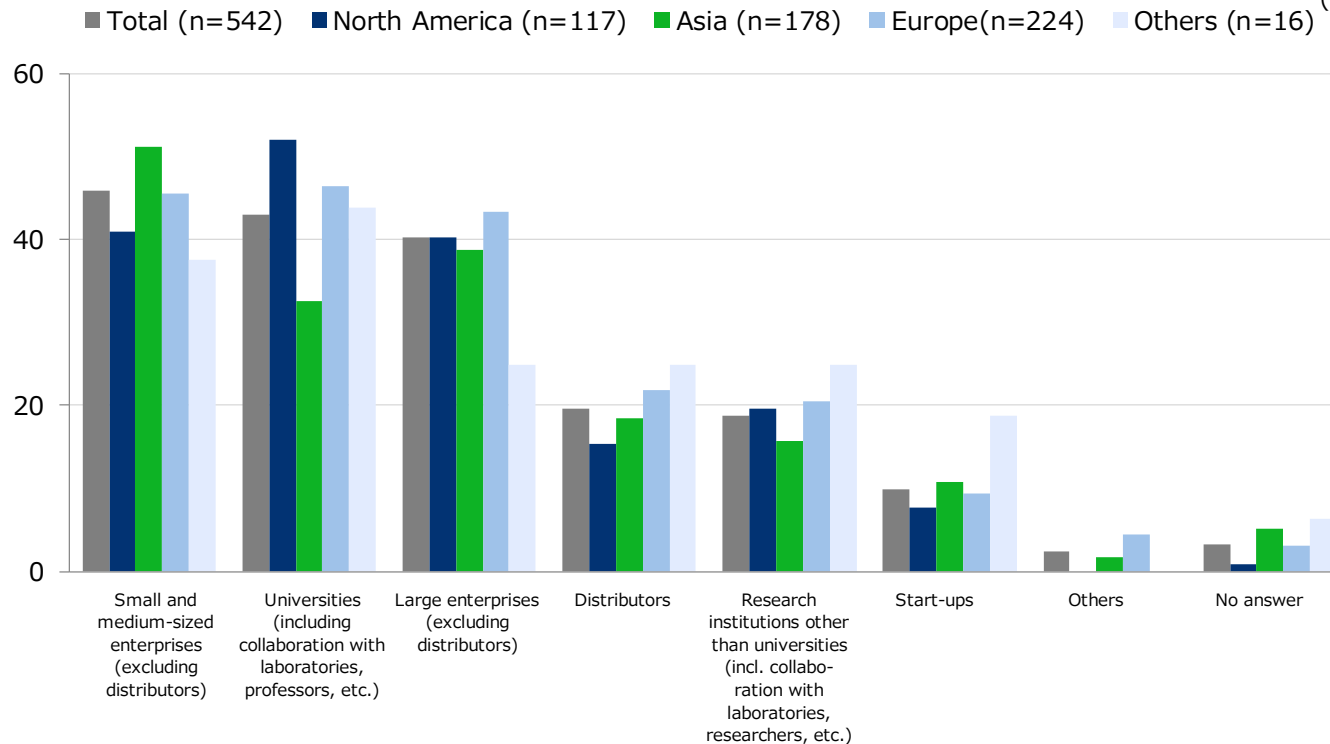


Source: "Survey on Business Operations of Foreign-affiliated Companies in Japan" (JETRO), conducted September-October 2021

# Collaboration/Cooperation Partners by Region

- Looking at foreign-affiliated companies (those implemented collaboration/cooperation and under consideration) by region of the parent company and their partners, the ratio are as follows; SMEs (excluding distributors) was high for Asia (51.1%), while that of universities was the highest for North America and Europe (52.1% and 46.4%, respectively).

**Collaboration/cooperation partners of foreign-affiliated companies in Japan (%)**



Partner Category	Total (n=542)	North America (n=117)	Asia (n=178)	Europe (n=224)	Others (n=16)
Small and medium-sized enterprises (excluding distributors)	45.9	41.0	51.1	45.5	37.5
Universities (including collaboration with laboratories, professors, etc.)	43.0	52.1	32.6	46.4	43.8
Large enterprises (excluding distributors)	40.2	40.2	38.8	43.3	25.0
Distributors	19.6	15.4	18.5	21.9	25.0
Research institutions other than universities (incl. collaboration with laboratories, researchers, etc.)	18.8	19.7	15.7	20.5	25.0
Start-ups	10.0	7.7	10.7	9.4	18.8
Others	2.4	-	1.7	4.5	-
No answer	3.3	0.9	5.1	3.1	6.3

Source: "Survey of Business Conditions of Foreign Affiliated Companies" (JETRO) Prepared from September-October 2021

# Startup Development Five-year Plan (1/3)

The Japanese government announced the Startup Development Five-year Plan in November 2022. The plan aims to create an ecosystem that nurtures startups in Japan by accelerating the launch of startups and promoting open innovation among large established companies.

## Goal

By March 2028, the amount of investment in startups to be increased to 10 trillion yen, more than 10 times the amount in 2021.

Furthermore, it aims to create 100 unicorn companies and 100,000 startups in the future.

## Direction of the package

Promote the following three major initiatives as a single package.

- (1) Establishing the development of human resources and networks to create startups.
- (2) Enhancing the supply of funds for startups and diversifying exit strategies.
- (3) Promoting open innovation

Providing attractive collaborative partners, investment destinations, and markets for overseas venture capital, startups and entrepreneurs.

Source: Compiled from materials published by the Cabinet Secretariat

# Startup Development Five-year Plan (2/3) Three Major Initiatives

## (1) Establishing the development of human resources and networks to create startups

- **Expansion and horizontal deployment of support projects by mentors**  
Regarding talent identification and project guidance by top-runner mentors from industry and academia, the support projects are aimed to expand from the current 70 young talents per year to 500 per per year by March 2028, by expanding the scope of program.
- **“One University One Exit” campaign**  
Encouraging entrepreneurship from universities, it aims to launch 50 startups from one research university and finally achieve one successful exit.
- **Support the creation of startups by students of universities, as well as elementary, junior high and high schools**  
The Government will support more than 5,000 commercialization cases of university-originated research results in 5 years, mainly in startup ecosystem cities, with the participation of overseas accelerators and venture capitals. To support this, a new fund of 100 billion yen for five years, 10 times the current size, will be created.
- **Global Startup Campus Initiative**  
Attracting top overseas universities and inviting outstanding researchers to Japan, public and private funded “global startup campus” that facilitates international joint researches with incubation functions in the deep tech field will be created. Through the collaboration of domestic and overseas companies, the capacities of domestic companies to create innovations will be enhanced.
- **Promotion of attraction of overseas entrepreneurs and investors**  
The start-up visas (Projects for Encouraging Foreign Entrepreneurs to Start Businesses) will be expanded. The visa verification has been limited to the government-approved municipalities, but this will be expanded to include government-approved private organizations such as venture capital firms and accelerators, and the maximum period of stay will be extended. In addition, the grant of status of residence will be facilitated so that overseas angel investors can operate in Japan. Also, procedures for opening bank accounts will be facilitated.

Source: Prepared from materials published by the Cabinet Secretariat

# Startup Development Five-year Plan (3/3) Three Major Initiatives

## (2) Enhancing the supply of funds for startups and diversifying exit strategies

- **Reinforcement of the investment function of SMRJ to invest in venture capitals**  
Strengthen the investment function with 20 billion yen with a view to investing in domestic and overseas venture capital firms. Support for the development of domestic venture capital, exploring possibility of the introduction of an investment quota limited to venture capital managed by young capitalists, and reviewing the maximum amount of the debt guarantee system for deep tech startups.
- **Reinforcement of the investment function of Japan Investment Corporation**  
Launch a new fund that will almost double the size of the previous investment (120 billion yen).
- **Reinforcement of support measures for R&D startups by NEDO**  
Establish a new fund of 100 billion yen (20 billion yen per year) for five years, which is three times the current level. Expand subsidy ceiling, the scope of support menus, etc.
- **Improvement of environment to attract overseas investors and venture capital firms**  
Promote the introduction of fair value valuation (mark-to-market) for private equities held by the fund instead of valuation at acquisition cost. Eliminate the upper limit on overseas investment ratio of Limited Partnerships for Investment (LPS).

## (3) Promoting open innovation

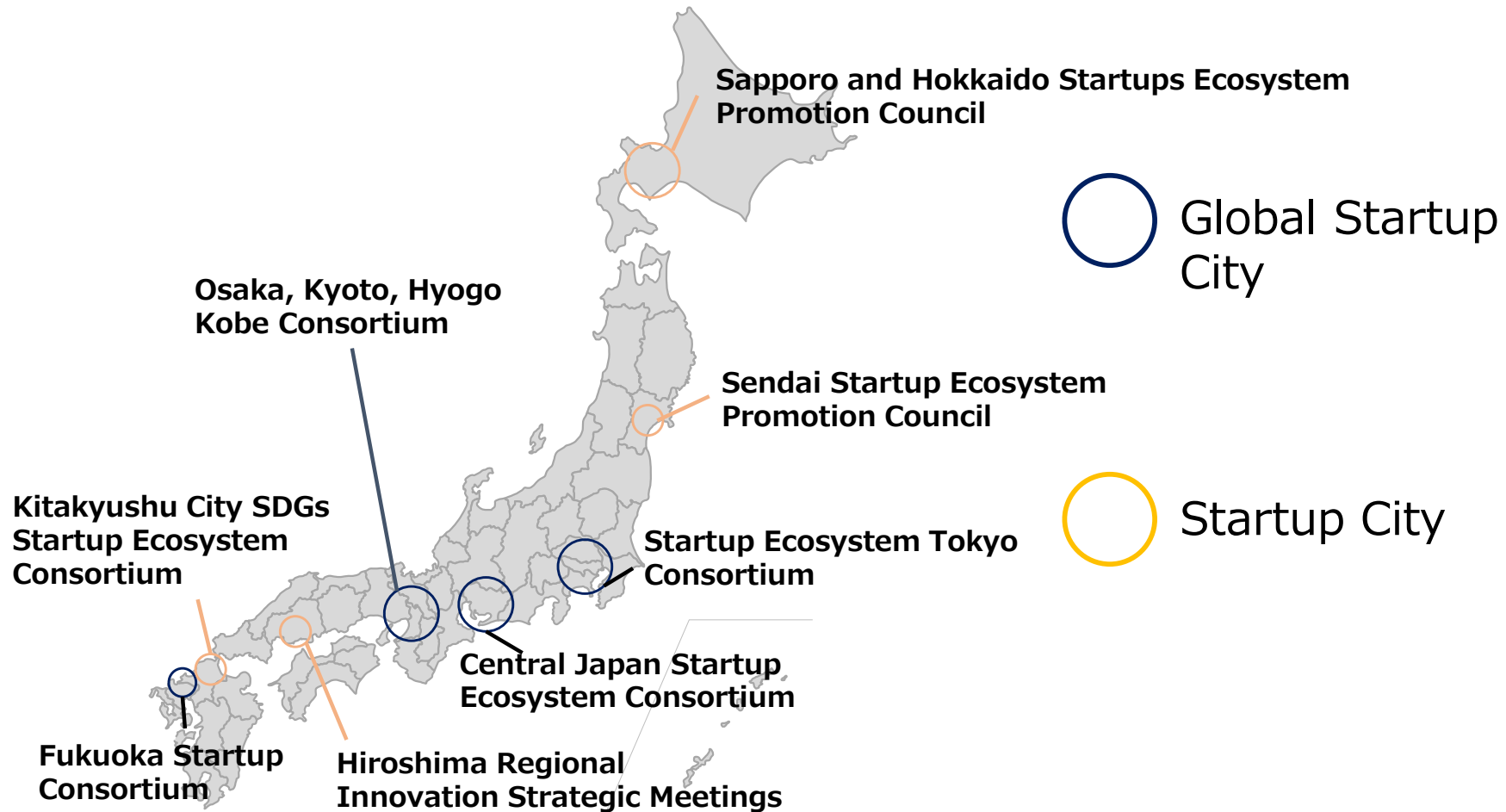
- **Tax measures to promote open innovation**  
Open innovation taxation will be applied to acquisition of existing issued shares, limited to those that contribute to the growth of startups. Promote M&As, which lead startups to achieve significant growth under the umbrella of operating companies. In addition, preferential measures for R&D taxation in case of collaboration with startups will be expanded.
- **Study for the further acceleration of reorganization**  
In order to encourage large enterprises to realize the potential of their business resources (human resources, technology, etc.), tax exemption is to be introduced in case where a company retains a part of its equity in a spin-off company.
- **Expansion of voluntary application of International Financial Reporting Standards (IFRS)**  
Promote voluntary application of IFRS, that does not amortize goodwill.

Source: Prepared from materials published by the Cabinet Secretariat



# Startup City Project

In order to strengthen the domestic startup ecosystem, the Cabinet Office announced a policy to support the development of startups and selected eight cities, four as "Global Startup City" and four as "Startup City."



Source: Cabinet Office



# Strategies for Startup Ecosystems

Support startup ecosystems in eight cities under seven strategies, involving cities and universities, and radically reinforcing entrepreneurship education and accelerator functions.

Strategy 1 : Creation of the startup city

Strategy 2 : Empowerment of university

Strategy 3 : Cutting-edge acceleration programs\*

Strategy 4 : Gap funding\*\* for tech startups

Strategy 5 : Public procurement for startups

Strategy 6 : Enhancement of networks

Strategy 7 : Increasing mobility of human resources

\* Programs to support the upgrading of business models and accelerate startup growth

\* \* Funds to fill the gap between basic research and commercialization, such as prototype development cost

Source: Cabinet Office

# Vision for a Digital Garden City Nation

- "Vision for a Digital Garden City Nation" is an initiative to shift from concentration in large cities to multi-polar concentration in rural and regional areas through digitalization, towards a "society in which everyone can live conveniently and comfortably anywhere in Japan." The initiative aims to solve social issues such as the hollowing out of industries, the aging population, and the depopulation in rural and regional areas. In November 2021, a "Council for a Vision for a Digital Garden City Nation Realization" was established to materialize this initiative. The Council discussed the "Basic Policy for the Vision for a Digital Garden City Nation" at the 8<sup>th</sup> meeting in June 2022, which reached the Cabinet decision in the same month.
- "Basic Policy for the Vision for a Digital Garden City Nation" aims to realize the vision with four pillars: (1) solving social issues using digital technology, (2) building hardware and software digital infrastructure, (3) training and securing digital talents, and (4) ensuring that no one is left behind. The Council has set key performance indicators (KPIs) to promote these efforts.
- Specifically, to enable "migration without job change," the government will support the development of facilities for satellite offices, etc., to further teleworking in regions and promote the development of communications infrastructures such as optical fiber networks, 5G, data centers, and submarine cables. In addition, to develop and secure human resources with digital skills necessary for solving social issues in rural and regional areas, the government will support their settling down in each area, including highly skilled foreign talents in the digital field.

## Outline of KPI in "Vision for a Digital Garden City Nation"

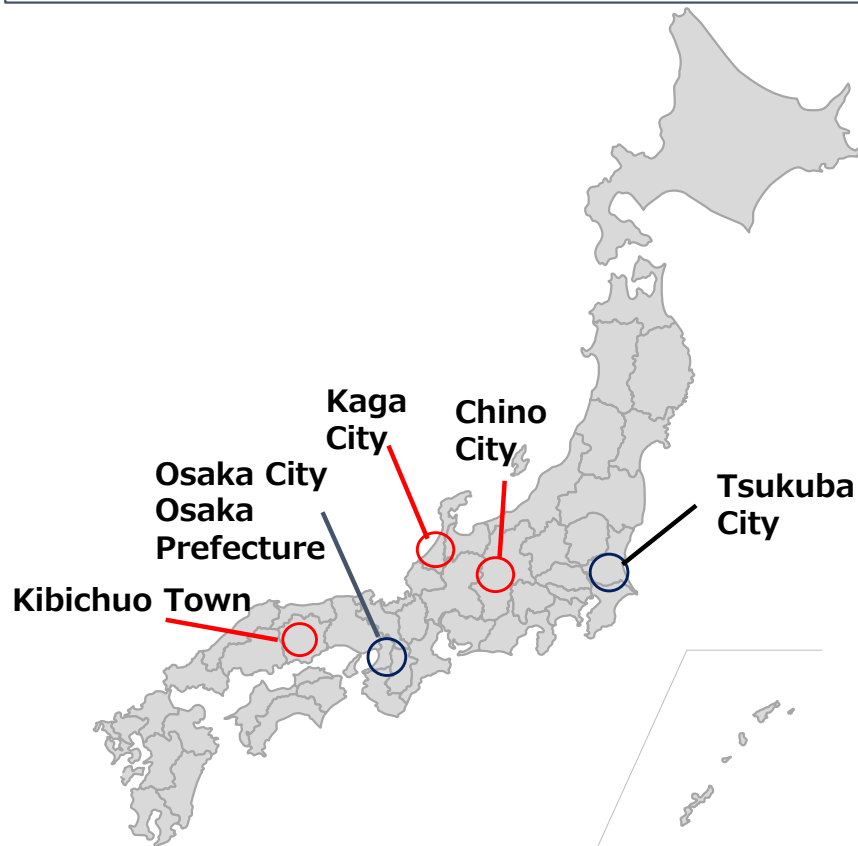
Policies for realizing the vision	KPI (Key Performance Indicator)
Using digital technologies to solve social issues in rural areas	<p>1,000 local governments to implement digitalization by the end of FY2024.</p> <p>Establish satellite offices, etc., in 1,000 local governments by the end of FY2024.</p> <p>Deploy management persons to 100 areas throughout the nation who will play a central role in driving regional and community development.</p>
Developing hardware and software digital infrastructure to support the Vision for a Digital Garden City Nation	<p>Achieve 99.9% household optical fiber coverage by the end of FY2027.</p> <p>Achieve 5G population coverage of 95% nationwide by the end of FY2023, 97% nationwide by the end of FY2025, and 99% nationwide by the end of FY2030.</p> <p>Build a dozen or more regional data centers around the country in about five years.</p> <p>Complete the "Digital Garden City Superhighway" using submarine cables surrounding the islands of Japan by the end of FY2025.</p>
Developing and securing human resources with digital skills	Develop 2.3 million human resources for digital promotion from FY2022 to FY2026.
Ensuring that no one is left behind	50,000 digital promotion committee members by FY2027.

Source: Cabinet Secretariat and Cabinet Office

# Super City Initiatives

The government is to accelerate the realization of a future society through the social implementation of advanced services with deregulation and other measures in selected cities, such as drone delivery, telemedicine and nursing care, and automated driving, as well as the linkage of data in a wide range of fields.

- In the Super City-type National Strategic Special Zones, multiple cutting-edge services utilizing the data coordination infrastructure will be implemented in conjunction with bold regulatory reforms, with the aim to realize a future society around 2030.
- The Digital Garden Health Special Zone aims to become a model that leads the "Digital Garden City Nation" concept by using digital technologies and focusing on solving local issues such as health and medical care.



## ○ Super City-type National Strategic Special Zone

### **Tsukuba City**

Realize innovation utilizing digital technology in a wide range of fields through industry-academia-government collaboration, taking advantage of the results of R&D at universities and other institutions and diverse human resources. Build a model of inclusive society that "Leave no one behind." (e.g., promoting business startup activities by foreign researchers, expanding employment opportunities for the disabled through the use of robots, etc.)

### **Osaka City / Osaka Prefecture**

Centered on the two greenfields of "Yumeshima" and "Umekita Phase 2," improve the quality of life of residents and strengthen urban competitiveness through cutting-edge services, with a view to carrying on the legacy of Expo 2025 Osaka, Kansai (e.g., social implementation of next-generation urban MaaS and flying cars).

## ○ Digital Garden Health Special Zone

### **Kaga City, Chino City and Kibichuo Town**

Utilizing the framework of the National Strategic Special Zone for Innovative Business Partnerships, three municipalities will strongly promote collaborative efforts in order to antecedently implement innovative projects in the health and medical care field, etc. (e.g., enhancement of telemedicine, rehabilitation, and nursing care services utilizing AI technology, etc.)

Source: Compiled from materials issued by the Cabinet Office.

## Establishment of "Regulatory Sandbox" System (from June 2018)

The new system allows companies to operate demonstration projects with new technologies/services, with the aim to introduce adequate regulations based on the data acquired from the projects.

**New technologies:** IoT, blockchain, etc.

**New businesses:** Platformer-type businesses, etc.

Difficult to commercialize due to regulations

Consultation with the Cabinet Secretariat

Application of demonstration projects to the minister having jurisdiction over the regulation

Regulatory exemption process

Demonstration experiments with conditions (areas, participants, etc.)

JETRO

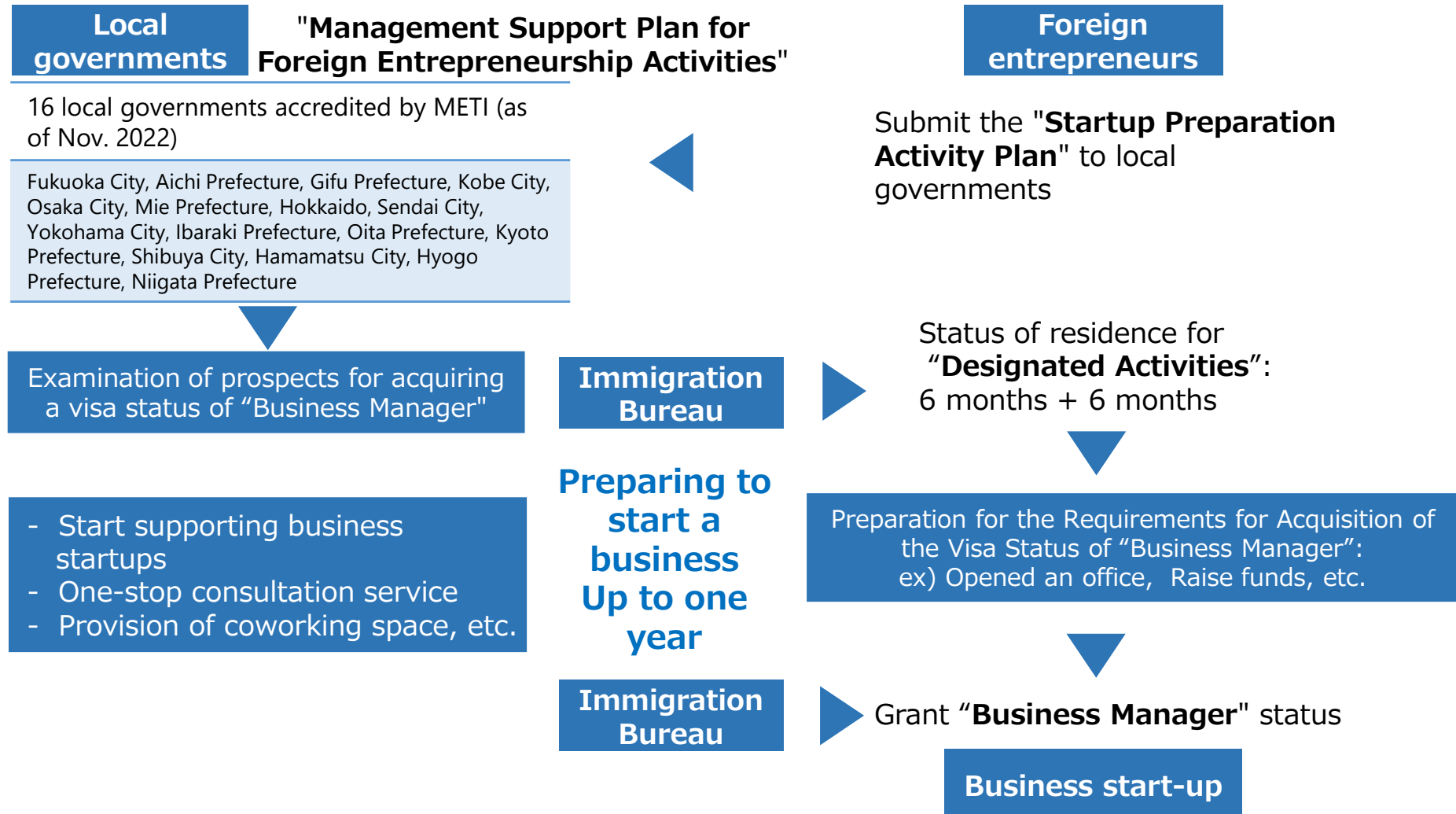
Liaison and coordination between foreign enterprises/foreign affiliates and a centralized contact point

Japanese government

Regulatory Reform based on Empirical Data  
Policy formulation through dialogue and demonstration with the market

## "Foreign Entrepreneurship Promotion Program" (known as "Startup Visa")

A system that grants a status of residence for "Designated Activities" to foreign entrepreneurs who receive supports from local governments, for up to one year for startup preparation activities.

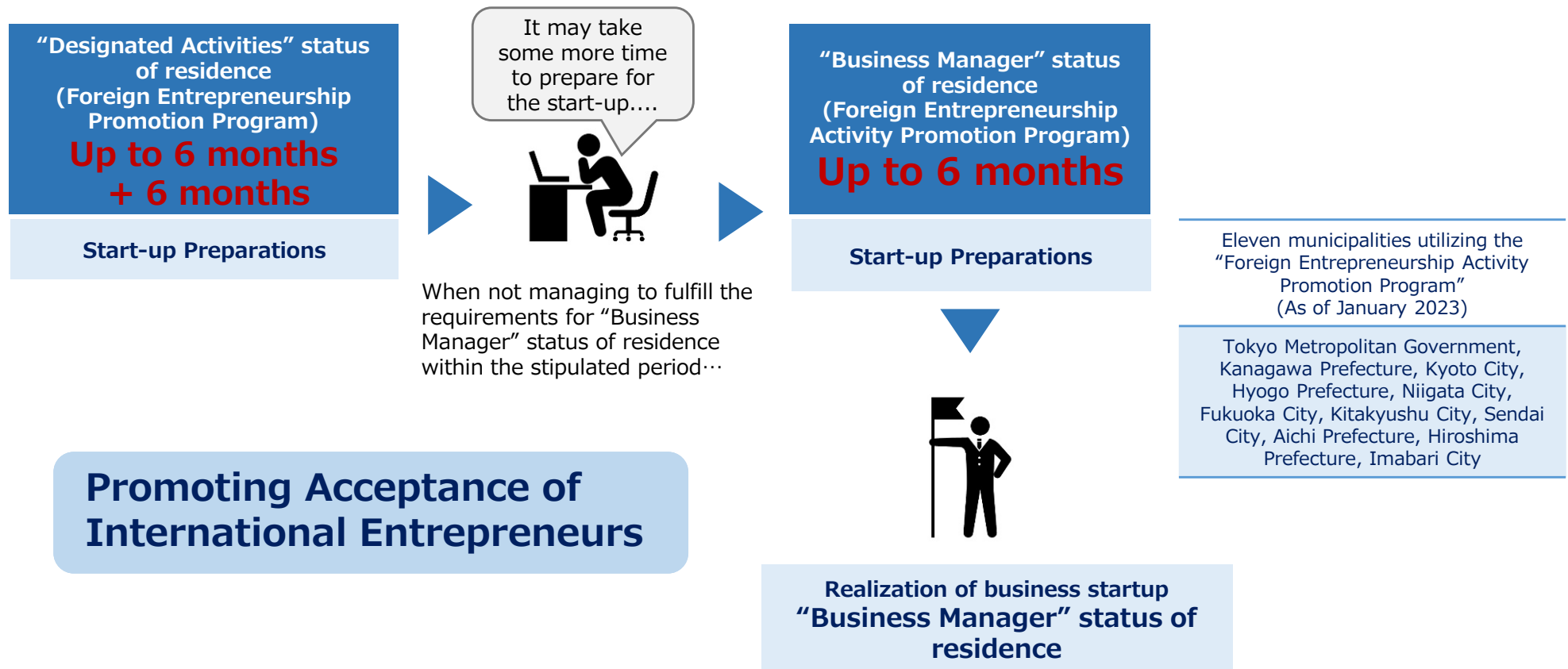


Source: Outline of System for Promotion of Foreign Entrepreneurship Activities (METI)  
<http://www.meti.go.jp/policy/newbusiness/startupvisa/index.html>

# Extension of Period for Startup Preparation Activities

In December 2022, it became possible to combine two startup visa systems, which are under the "Foreign Entrepreneurship Promotion Program" and the "National Strategic Special Zone Foreign Entrepreneurship Activity Promotion Program\*." In case that international entrepreneurs require an extended period beyond the period stipulated by the "Foreign Entrepreneurship Promotion Program," so as to start-up business, the "National Strategic Special Zone Foreign Entrepreneurship Activity Promotion Program" may be applied. This will provide international entrepreneurs a preparation period of up to 18 months in total to obtain the "Business Manager" status of residence.

(\*This program has been implemented since July 2015)



Source: Prepared by JETRO based on data from the Ministry of Economy, Trade and Industry and the Cabinet Office



# Promoting Highly-skilled Foreign Personnel

The period of stay required to apply for permanent residence permits for highly-skilled foreign personnel has been significantly reduced since April 2017. In addition, the requirements for the point-based system for highly-skilled professionals have been revised. Highly-skilled foreign professionals are expected to play an important role to expand their businesses overseas and to accelerate innovation.

Employment and retention of highly-skilled foreign personnel

**Status of Residence:** "Researcher", "Engineer/Specialist in Humanities/International Services", "Business Manager" and "Legal/Accounting Services"

**Point-based system for highly-skilled professionals\*:**

Age, educational background, career track, annual income + point incentive measures = 70 points or more to obtain high-level specialist status

Active participation of highly-skilled foreign personnel

"Advanced academic research activities," "Advanced specialized/technical activities," and "Advanced business and management activities"

70 points + a three-year stay

80 points + a one-year stay

Accelerate innovation productivity improvement

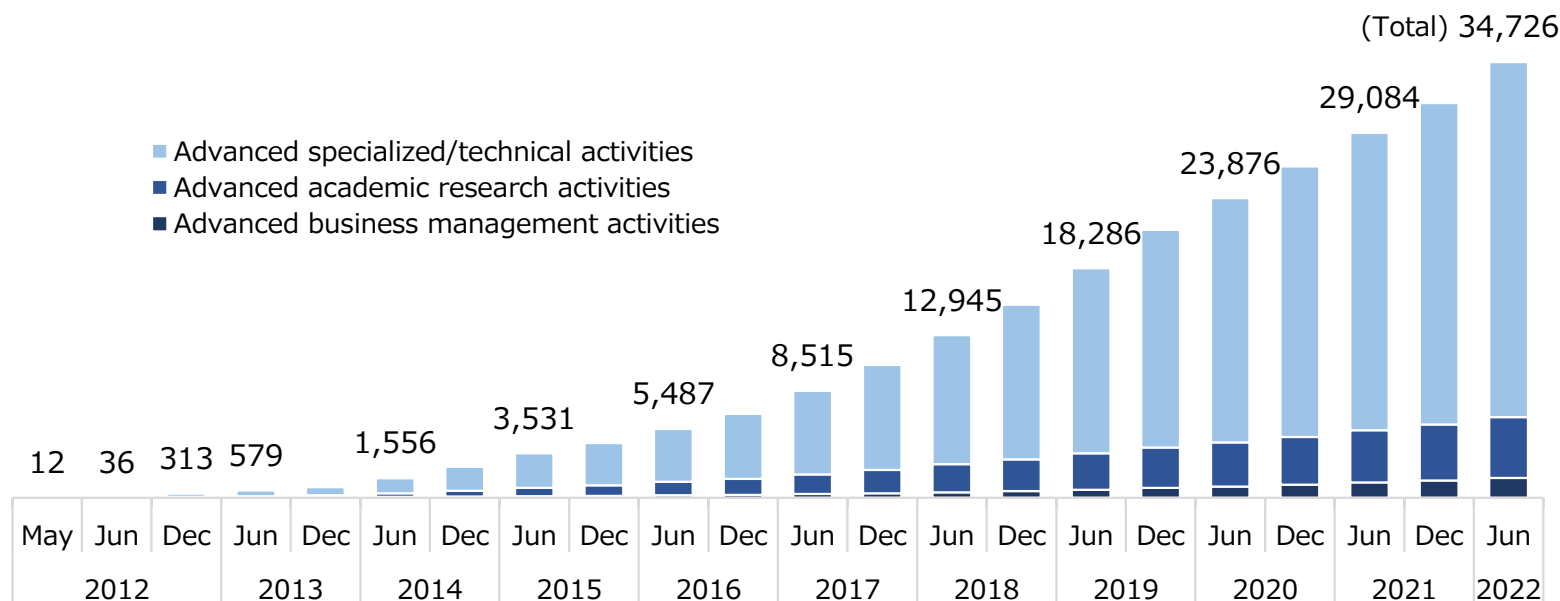
**Japanese Green Card for High-skilled Foreign Professionals:**  
Can apply for "indefinite period of stay"

\* Number of approvals and point calculation examples on the next page

Source: Ministry of Internal Affairs and Communications, JETRO Advanced Foreign Human Resources Promotion Platform <https://www.jetro.go.jp/hrportal/>

# Number of Approvals Based on Highly-skilled Foreign Professionals

The number of accredited cases under the point-based system for highly-skilled professionals is about 34,700 (as of the end of June 2022).



Eg: Acquire 70 Pts

Age	Pt.	Academic	Pt.	Job Experience	Pt.	Salary	Pt.	Activity
23	15	Graduate from top Japanese university	30	-		¥4M	10	IT-related
		Japanese Proficiency Exam N1	15					
30	10	MBA from foreign university	25	7 years in IT	15	¥6M	20	Development of business management software
36	5	2 IT-related exams	10	10 years in IT	20	¥7M	25	Management of IT system operation
		Japanese Proficiency Exam N2	10					
39	5	Graduate from foreign university	10	11 years in IT	20	¥9M	35	Management of information processing division

Source: Immigration Services Agency

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# Amended 5G Promotion Act

- The global progress of digitalization has reaffirmed the significance of semiconductors as vital products. The usage of semiconductors is expanding into all industries, including automobiles and medical equipment. Securing semiconductors is essential from an economic security perspective, as the global supply-demand situation is tightening. In order to establish a stable production system for semiconductors in Japan, revisions of the laws concerning supporting semiconductor-related capital investment were enacted in December 2021 and went into effect in March 2022.
- Specifically, the Act on Promotion of Developing/Supplying and Introducing Systems Making Use of Specified Advanced Information Communication Technologies (5G Promotion Act) and Act on the New Energy and Industrial Technology Development Organization (NEDO Act) were partially revised. The revised 5G Promotion Act establishes a certification program concerning plans to develop production facilities for high-performance semiconductors in Japan. Plans certified by the revised NEDO Act will be eligible for receiving grants.

Certification program and support for high-performance semiconductor production facilities, etc.

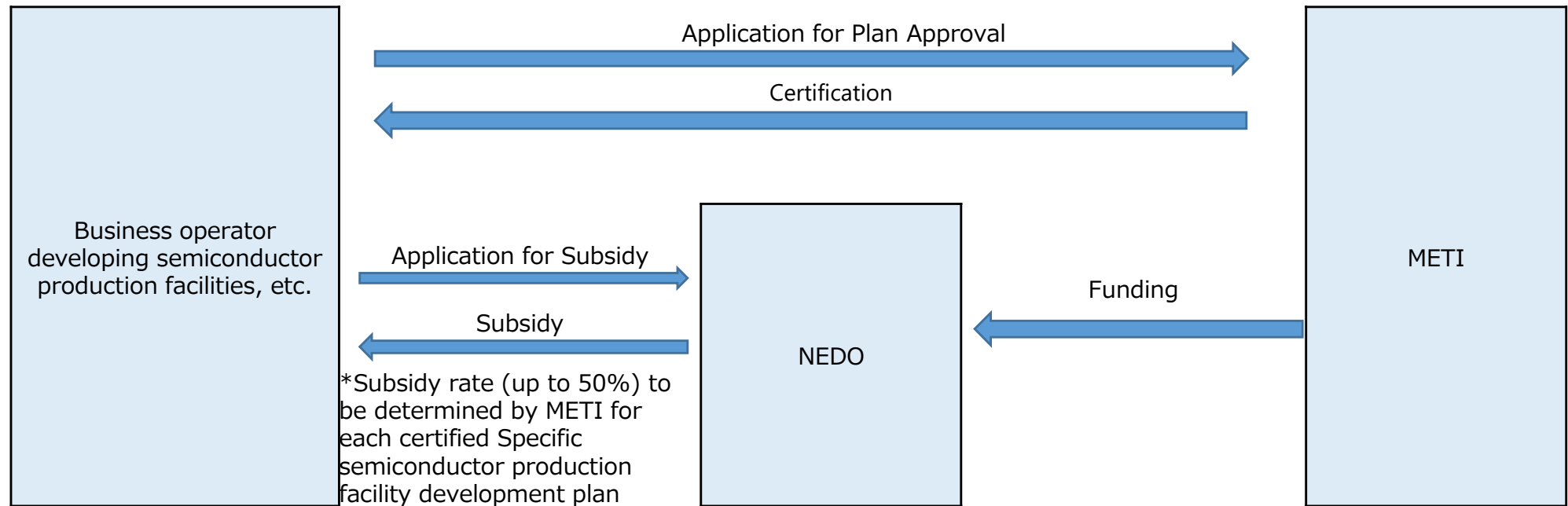
Support target	The program certifies plans to develop and produce production facilities for specified semiconductors*1, etc. *1 Semiconductors that enable high-speed processing of large amounts of information essential for 5G information and communication systems and especially need stable production in Japan due to limited international production capacity.
Certification criteria	(a) Conformity to guidelines, the certainty of project implementation (b) Continuous production over a specific period (c) Contribution to stable domestic production (Investment to increase production, expand production capacity under tight supply, and for R&D, etc.) (d) Establishment of a system to manage technological information
Support measures	The following support measures for projects associated with the certified plan are available under specific conditions: 1. Loans by Japan Finance Corporation for financial institutions that provide loans for businesses (support for supporting financial institutions) 2. Subscription of shares issued by a joint stock company established to implement the project by Small and Medium Business Investment & Consultant Co., Ltd.(support and fundraising) (Note) A government agency that provides long-term stable funds to growth-oriented venture companies, SMEs/medium-sized enterprises to support business stabilization and corporate growth while enhancing capital adequacy 3. Application of Special Provisions of the Small and Medium-sized Enterprise Credit Insurance Act, which provides certain guarantees for loans to SMEs for business innovation (support in terms of guarantees for loans) (Note) See Page 33 "Amended NEDO Act" 4. Subsidies*3 for certified businesses by the New Energy and Industrial Technology Development Organization (NEDO) and interest subsidies to financial institutions that provide loans to certified businesses

Source: Ministry of Economy, Trade and Industry(METI) website

# Amended NEDO Act

- The government revised the Act on the New Energy and Industrial Technology Development Organization (NEDO Act) and established a fund for NEDO to provide grants for developing production facilities of high-performance semiconductors, etc. under the certified plans.
- NEDO will provide subsidies for the development of production facilities for specified types of semiconductors approved by the Minister of Economy, Trade and Industry, utilizing a fund of 617 billion yen set aside at NEDO. The subsidy will be provided at a rate of up to 50% (The subsidy rate to be determined by METI for each certified specific semiconductor production facility development plan) for the cost of civil engineering and construction work and the production and purchase of machinery and equipment, etc., that are deemed to be part of the development of production facilities. Applications have been accepted since May 2022.

## Specified Semiconductor Funding Program Scheme



Source: NEDO website

# Review/Extension of 5G Introduction Promotion Tax

- 5G, the next-generation network standard of which service is now available in Japan, is attracting attention as an ICT infrastructure to contribute to solving local social issues in regions, such as automated delivery and smarter factories. The 5G Introduction Promotion Tax was introduced with the passage of a bill to partially revise the Income Tax Law and other laws in the Ordinary Diet Session in 2020. The 5G Introduction Promotion Tax aims to propel the expansion of 5G networks by providing tax incentives, such as tax credits or special depreciation on the amount of the investment, for specific national and local 5G capital investments made per approved deployment plans.
- In the tax reform for FY2022, the system was revised to accelerate the development of base stations, especially in rural areas, toward the realization of the "Vision for a Digital Garden City Nation." Its application period has been extended by three years with the introduction of descending tax credit rates to promote intensive development over the next three years. Target businesses, tax credit rates, etc. are as follows.

## Outline of 5G Introduction Promotion Tax

Applicable until March 31, 2025

Eligible Businesses	Tax Credit			Special Depreciation
Deployers of nationwide 5G networks	Less-favored areas (depopulated areas, etc.)	FY2022	15%	30%
		FY2023	9%	
		FY2024	3%	
	Other areas	FY2022	9%	
		FY2023	5%	
		FY2024	3%	
Deployers of local 5G networks		FY2022	15%	30%
		FY2023	9%	
		FY2024	3%	

\*The maximum deduction amount is 20% of corporate income tax amount.

### Applicable Facilities

#### 1. Nationwide 5G System

■ Base station radio equipment (master and slave stations installed outdoors)

\*Only multi-vendor and SA (stand-alone) type antennas are applicable.

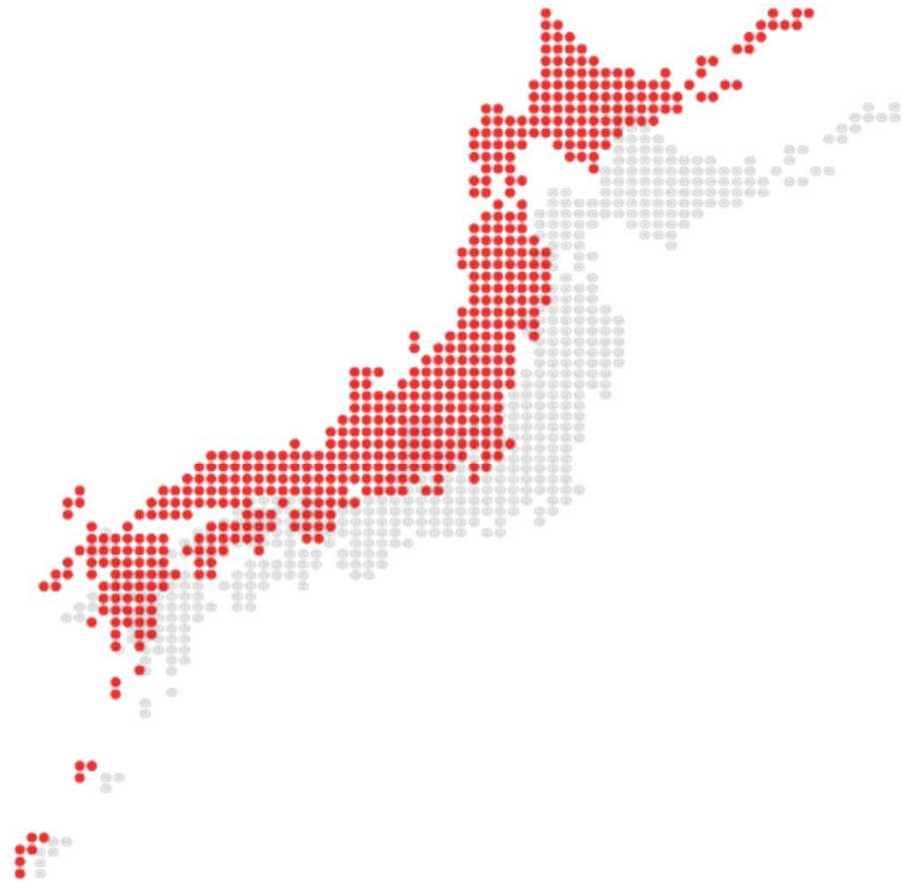
For "Other areas," only multi-element antennas or millimeter wave-compatible antennas are applicable (until the end of FY2023).

#### 2. Local 5G System

■ Base station radio equipment ■ Switching equipment ■ Transmission line facilities (using optical fiber) ■ Communication Modules

\*Applicable for only those used for advanced digitalization initiatives.

Source: METI, Ministry of Internal Affairs and Communications news release



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