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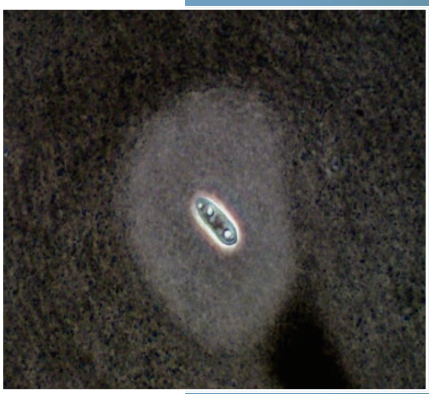

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(1) Presented in “Developmental Disorders: From Mechanism to Treatment” - Meeting, Sep 14~17, 2021, United Kingdom
Full length manuscripts in pre-print; under peer-review

(2) https://doi.org/10.1101/2021.10.26.21265505

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PUBLISHER By C Bryan Jones

Stepping Back into Reality

At last, one foot on the other side of the pandemic

Most members of the American Chamber of Commerce in Japan (ACCJ) will agree that a greatly missed part of business life over the past two years has been meeting fellow professionals in person. I know that, as a writer and editor, covering the chamber's events is a highlight of putting together each issue of *The ACCJ Journal*. It's been a long road through the pandemic but, thankfully, the ACCJ is once again hosting in-person sessions.

The number of these events is limited, but it is wonderful to see that opportunities for networking in the physical world are returning.

What's even more exciting to me is that these events include a virtual component—and one that goes beyond the typical online meeting. The hybrid experience will allow the flexibility that we have enjoyed during the pandemic to remain. This will make attending events much easier for busy professionals, as well as those based far from the ACCJ hubs of Tokyo, Osaka, and Nagoya.

It's been a long road through the pandemic but, thankfully, the ACCJ is once again hosting in-person sessions.

One such major event in Tokyo took place on November 1, when economist Jesper Koll presented a look at the road ahead and opportunities for Japan in 2022–23. Koll's events are among my personal favorites, and sharing his engaging energy and deep knowledge is a wonderful way to take a big step back into "normal."

Speaking of Koll, he has once again written an insightful column for us, which you will find on page 22. More on that later.

Charity Ball

One event that, unfortunately, won't be returning to an in-person format this year is the ACCJ Charity Ball. Organizing the annual gala is a major undertaking with a long lead time, and the uncertainty that has defined life in Tokyo throughout 2021—with a near-continuous state of emergency—means a virtual format is once again the best option. Last year, the Charity Ball Committee did a phenomenal job of staging a fun and successful online event that, having raised ¥7.4 million, actually exceeded the funds raised at 2019's traditional evening.

This year, the Charity Ball will take the form of an online auction and raffle, running December 1–11. Many wonderful items will be up for grabs, including a large collection of artwork by ACCJ-Kansai member Royi Akavia and six other artists, as well as private musical performances by Rambling Steve Gardner and Felix Sonnyboy.

Many companies have stepped up to back this very important fundraising event, which supports the ACCJ Community Service Fund. And one thing that the past two years have shown us is that keeping that fund healthy is a must, because you never know when the community is going to need our help to overcome unexpected circumstances.

We have a preview of the Charity Ball starting on page 16, so please take a look and find out how you can help the chamber continue to take care of the community that supports our businesses.

Eyes on Japan

Last but certainly not least, a few words about the overarching theme of this issue: foreign direct investment (FDI). It's a great topic to look at as we start to emerge from the pandemic and Japan begins to reopen its borders. I don't want to put the cart before the horse, as Covid-19 remains—and probably for some time will continue to be—a threat. But as vaccination numbers rise and the risk of transmission drops, the business world can focus more attention on the long term. FDI is a critical part of Japan's road map to a prosperous future, so, we hope, more companies from abroad will choose to invest here.

Doing so is, of course, not always easy—even without a pandemic. While attractive, Japan can be difficult to navigate. We wanted to explore the FDI landscape, and you'll find extensive coverage in this issue. Starting with Koll's column on page 22, four in-depth stories focus on the current state of affairs, the obstacles that must be overcome, promising business ventures now underway, government efforts to boost FDI, and more.

I hope you'll enjoy reading this issue of *The ACCJ Journal* and look forward to seeing you at a future in-person event. ■

C Bryan Jones
Publisher and editor-in-chief

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PRESIDENT

By Jenifer Rogers

2021 State of the Chamber

A look back at a year of challenges as well as great progress and success

Jenifer Rogers
ACCJ president

On October 26, at the American Chamber of Commerce in Japan (ACCJ) Ordinary General Meeting, I had the honor of sharing with the chamber membership an update on the progress the ACCJ has made over the course of 2021—a year still marked by the challenges brought forth by the coronavirus pandemic.

At the start of the year, when I took on the role of president, I set out three main strategic priorities:

- Help member companies to be agile and recover more quickly from the challenges of Covid-19
- Transform the membership experience through digitalization
- Create a more resilient and sustainable chamber

I'm proud to say that not only have we made significant progress toward these goals, but our members have gone above and beyond over the past year to help fellow members seize new opportunities, give back to the community, and stay true to our mission of improving the international business environment in Japan.

The pandemic has challenged the ACCJ, but we have come together to help our member organizations chart a path to recovery.

The pandemic has challenged the ACCJ, but we have come together to help our member organizations chart a path to recovery. One way we have done this is by advocating for an easing of restrictions on entry into Japan—something that is finally becoming a reality as this issue of *The ACCJ Journal* goes to print—as well as facilitating an unprecedented and successful vaccination rollout to members and their families.

Catalyst for Change

These challenges have brought about exciting changes at greater speed, such as the acceleration of the chamber's digital transformation.

I'm grateful to each member for their contributions, which have had a positive impact on the US–Japan Economic Dialogue and further reinforced the ACCJ as the preeminent voice of international business in Japan. Here are some highlights of the progress we have made.

Goal 1: Help member companies to be agile and recover more quickly

To help members emerge stronger from the pandemic and to reinvigorate the Japanese economy, the chamber's proactive advocacy efforts have focused on easing entry to Japan, post-Covid economic recovery, digital transformation, healthcare policy, and reforms to help build a more sustainable society.

During 2021, the ACCJ published more than 50 advocacy documents, including those aimed at:

- Improving corporate governance
- Promoting uniform reporting requirements for environmental, social, and corporate governance
- Introducing regulatory changes to make Japan more attractive to foreign investors

In February, the chamber issued the *Japan Digital Agenda 2030*, a monumental report produced in collaboration with McKinsey Japan which lays out a 10-year road map for the country's digital transformation.

The Financial Services Forum issued a white paper entitled *Reimagining Japan as a Global Financial Center*, which outlined recommended actions for Japan to become a globally relevant financial center. This was followed by a miniature Diet Doorknock during which ACCJ leaders engaged with Japanese lawmakers.

Our relationships with the Japanese and US governments have remained strong through the transitions to a new administration in the United States as well as two prime ministers in Japan. Our steady engagement has allowed us to offer real-time feedback on behalf of our members. This summer, we completed a very impactful Diet Doorknock and held 37 meetings—the most ever. Twelve were at the minister level and included audiences with now-Prime Minister Fumio Kishida and several members of his cabinet.

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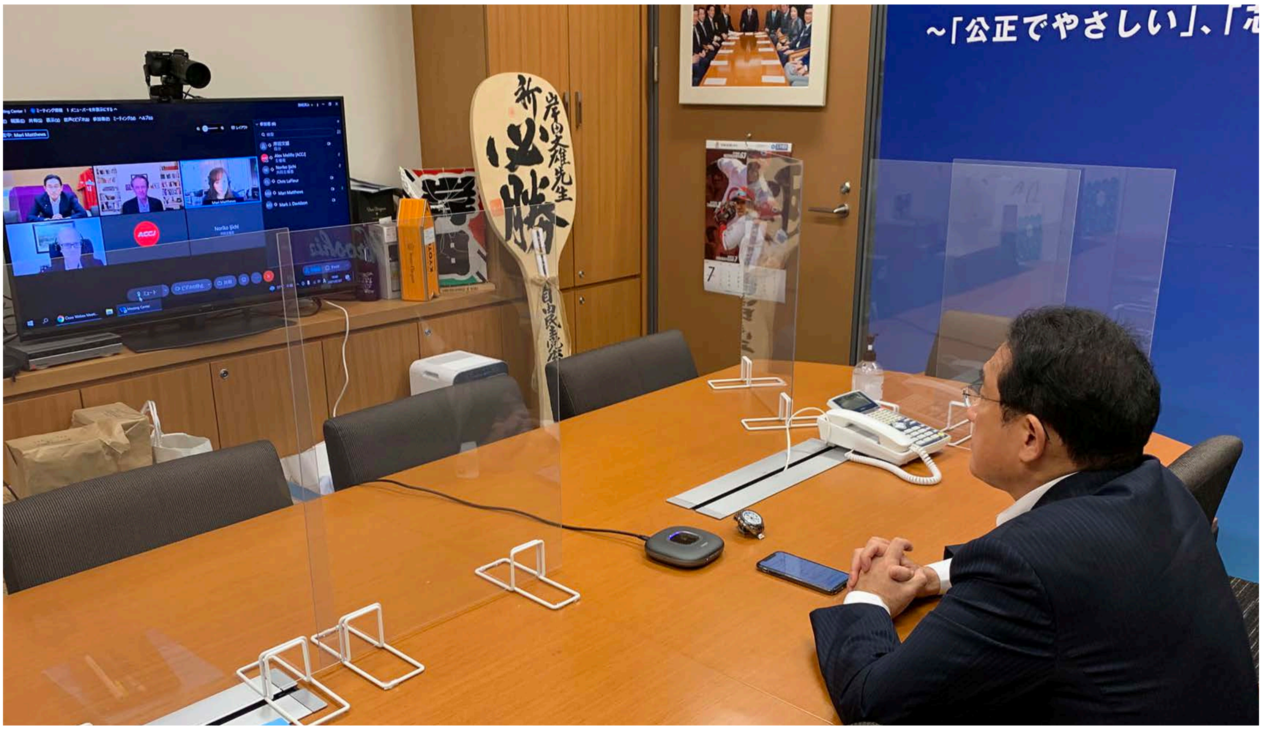


ACCJ leaders held 37 meetings during this summer's Diet Doorknock, including an audience with now-Prime Minister Fumio Kishida.

We have also advocated directly with senior officials from the Ministry of Economy, Trade and Industry and the Immigration Services Agency on both easing entry restrictions related to Covid-19, and recognizing international vaccination certificates.

In May, we formed the Special Digital Task Force to assist the Government of Japan in achieving its digitalization goals.

We continue to build on our relationship with the US Embassy through meetings with Chargé d'Affaires Ray Greene and Minister-Counselor for Commercial Affairs Alan Turley. These were in addition to our regularly hosted embassy conferences.

The chamber has also been at the forefront of helping members navigate the evolving vaccine and reentry information through the Vaccine Information Hub and Reentry Resources pages on the ACCJ website.

To provide immediate and concrete avenues to vaccination for members, the ACCJ secured 1,000 vaccinations for members and their guests. Of these, we provided 300 ourselves, with the recipients including many of our small and medium-sized enterprise members. A further 700 vaccinations were provided in partnership with our member companies, private entities, and other foreign chambers of commerce.

Goal 2: Transform the membership experience

Our second strategic goal is to transform the membership experience, including through digitalization, to provide the greatest value possible to the ACCJ network, which comprises 3,000 members and 550 commercial memberships.

We have had strong growth in the Corporate Sustaining Member (CSM) category, which has increased by six percent since January to 83 CSMs. The Small Company package has been very successful; the category has nearly tripled in size since its creation in 2019. And we have 50 new commercial memberships, an eight-percent increase from this time last year.

We continue to see strong engagement by members through a varied and informative lineup of virtual events and meetings. We hosted nearly 380 sessions in 2021, garnering 9,500 member and guest registrations. These figures are on par with those of previous years, indicating that our virtual events continue to provide valuable information and interaction for members.

These events have enabled the ACCJ to become truly borderless and expand our reach through even more world-class speakers and topics. An example is the ACCJ/NAJAS Leadership Speaker Series, which provided global networking opportunities with the National Association of Japan–America Societies in the United States.

Members have participated in virtual networking opportunities through breakout rooms, workshops, and mentorship programs.

Now, with the lifting of the most recent state of emergency and a lower risk of Covid-19 transmission, the ACCJ is making plans to resume in-person aspects of our events. The planning includes guidelines and safety protocols to protect attendees, as well as technology to deliver seamless event experiences to those attending virtually.

Goal 3: Create a more resilient and sustainable chamber

In terms of our third strategic goal, I established the Governance Task Force to assess areas of governance about which members have expressed concern and to ensure that we continue to evolve as an organization that reflects contemporary business practices.

Specific areas on which the Governance Task Force is focused include the role and authority of the Executive Committee, the role of presidents emeriti, succession planning, and document management, as well as guidelines for the Nominations and Election Supervisory Committees.

To coordinate crosscutting, multiyear advocacy initiatives, the Board of Governors introduced the new Advocacy Coordination Groups, which work with committees and councils to guide the chamber's advocacy strategy.

These groups will ensure inclusive and transparent communication within the chamber on important issues in order to attain more impactful and sustainable change.

As a voice for championing women and diverse leaders in the workforce, the ACCJ is a positive driver for growth and innovation, both in Japan and the chamber. The quality and range of our white papers, statements, and events are a direct result of the diversity—as well as the depth of knowledge and experience—of our membership.

We continue to promote diverse leaders on all committees and, this year, 40 percent of our Board of Governors and 31 percent of committee leadership positions are held by women—a goal we achieved at the end of 2020.

On International Women's Day, the chamber launched the Women in Business Reading List, an online library of critical resources for women in the workforce.

In April, we issued the 2021 edition of the *Women in Business Toolkit*, which highlights actions that member companies are taking to increase the participation of women and diverse leaders at all levels.

In March, we issued comments supporting the Sapporo District Court ruling that it is unconstitutional not to recognize same-sex marriage. Our marriage equality viewpoint was cited in multiple national and international news outlets.

One of our four core pillars is Community, and we are committed to responsible corporate citizenship and supporting the recovery of our local community. To that end, we donated ¥1.25 million to local charities facing challenges due to Covid-19, including the non-profit organizations Save Food, Mirai no Mori, and Hands On Tokyo. We will support more organizations through the virtual Charity Ball auction which will run December 1–11 (page 16). Last year, the event raised ¥7.4 million.

This year, the ACCJ Community Service Advisory Council offered new opportunities to support and promote local charities through a new listing and donation request form available directly on the ACCJ website.

The Chubu chapter has provided strong support for the community and member businesses. This year marks an important milestone for the Chubu Walkathon, which celebrates its 30th year and raised nearly ¥5.6 million for 18 charity organizations.

Since 2019, the chapter has seen a 30-percent increase in the number of committee meetings since 2019, and a 31-percent rise in event attendees from across all three chapters since 2020.

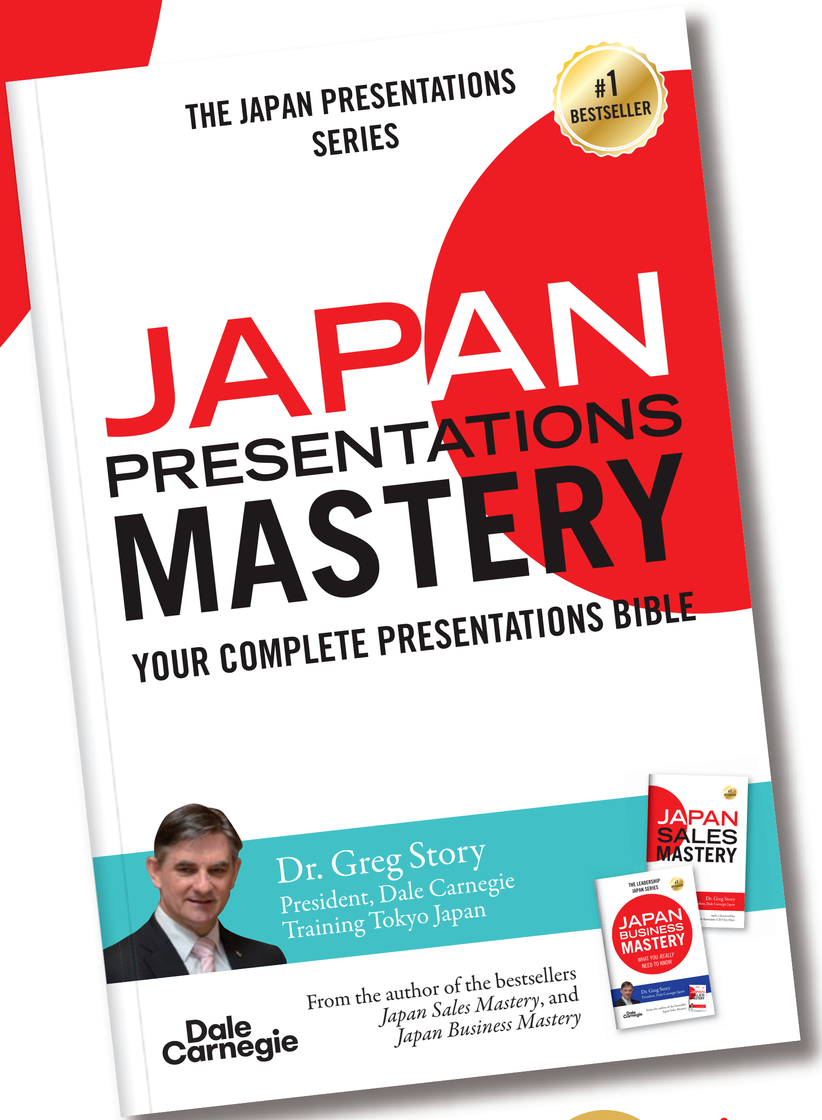
The Kansai chapter continues to drive exciting and impactful initiatives, including the 7th Annual Kansai Diversity & Inclusion Summit Series; 2nd Annual Healthcare x Digital Pitch Event and Ideas Day; and the Kansai Leadership Series, which had a record 102 participants in this—its 10th—year.

We should all be proud of what we have accomplished as a chamber.

One motto that I personally like is: Be the change you want to see in the world. The ACCJ is an embodiment of that message and the power of what can be achieved when we work together. ■

2021 Major Advocacy Papers

STOP HOLDING YOURSELF BACK!



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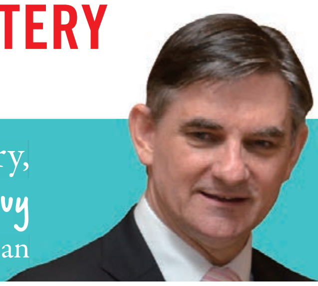

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Dale Carnegie

By C Bryan Jones

Spectrum of Benefits

Former AIG chief Robert Noddin shares what the ACCJ has meant to him

After nearly a decade as president and chief executive officer of AIG Japan Holdings KK, American Chamber of Commerce in Japan (ACCJ) member Robert Noddin retired this year. Among his numerous contributions as an ACCJ leader, he served as co-chair of the Education Committee, inspired many as a speaker at the ACCJ-Kansai Women in Business Leadership Series, and played a key role in the formation of the F500 CEO Advisory Council, which he served alongside Jonathan Kindred as one of the first co-chairs. As Noddin retires, *The ACCJ Journal* talked to him about his experiences with the chamber and why he encourages professionals to get involved.

How did you come to be part of the ACCJ?

During my second assignment to Japan with AIG (2002–06), I was initially introduced to the ACCJ via the annual fundraising gala, as a guest. I wasn't in a senior position at the time, and folks such as Don Karnak were at the helm of AIG—so there really wasn't a place for me. When I returned in 2009, to take on a larger role—first as chief operating officer of the American International Insurance Company, followed shortly afterwards as CEO—it made a lot more sense for me to engage. I started attending informational and exchange events, the Ordinary General Meeting, and things like that. Then in 2012, I moved into the AIG Japan CEO role, and that meant a chance to engage more visibly as the AIG representative to the ACCJ. That's when things started to get interesting.

Why do you feel the ACCJ is important? Why should professionals become involved?

It doesn't matter whether you're the head of a small business in Japan or the CEO of a Fortune 500 company, the ACCJ vigorously tries to be of value to all its members in Japan. Whether issues are industry specific or cut across industries, the chamber is constantly striving to bring value to its members and to enhance the overall competitive environment for US companies—and, frankly, any foreign companies—in Japan.

The ACCJ continuously strives to bring value, working both internally with members as well as externally with local, prefectural, or national governments on issues in Japan, with state, embassy, and federal leadership in the United States, and with external advisors. That's always been powerfully evident to me.

Why was the formation of the F500 CEO Advisory Council important? What was it like to play a role?

The F500 CEO Advisory Council was created in 2018, and several years before that I was approached at an ACCJ event by then-CEO of IBM Japan Paul Yonamine and Jon Kindred, who at the time was CEO of Morgan Stanley. They wanted to get my views on how to help the chamber persuade the large-company CEOs to become more actively engaged. They were of the view that those CEOs had gradually stepped away from direct engagement while folks such as their corporate or government affairs leaders became more active.

Right after that, I was approached about joining a CEO-led DC Doorknock, the annual visit by ACCJ leaders to Washington. I was intrigued and joined. It really impacted me and, to be perfectly honest, was one of the more interesting and fulfilling things I did during my entire 12-plus years as an AIG leader in Japan. That solidified, in my mind, what Paul and Jon had first mentioned to me, so Jon and I agreed to see if we could get the F500 Advisory Council started. The intent was to ensure that the large-company CEOs help bring support and substance to issues bigger than those of concern to any one company or industry. We felt it would help the ACCJ project a powerful leadership presence in advancing strategic agendas from which all members could benefit.

How have you benefited from the ACCJ?

My personal benefit was having the chance to exchange ideas and experiences with leaders from many industries and of several nationalities. It was incredibly helpful for me to understand challenges and opportunities across the spectrum of foreign businesses in Japan. I was also quite heartened during the Doorknocks to see how much support and interest US government leaders have for US interests in Japan. And, truth be told, I developed some fantastic relationships and friendships that, personally and professionally, really made my life and career in Japan so much more fulfilling.

Anything else you would like to share?

I would encourage members to be active on committees and maximize the chances to learn from, and provide assistance to, other members. I can't imagine where else you could engage and benefit so richly from people who, on a daily basis, come through the ACCJ doors with the depth of experience and lessons they can share—whether virtually, at a function such as those held at Tokyo American Club, or at the ACCJ office. ■

EVENT

By Malcolm Foster

YPF NEXT GENERATION: FROM HR LEADER TO BUSINESS LEADER

STRYKER JAPAN CHIEF EXPLAINS WHY PASSION IS KEY TO A FULFILLING CAREER

Being self-aware—cognizant of your unique strengths and what sort of work brings you joy—and not just climbing the corporate ladder because that's what everyone else seems to be doing is critical to building a satisfying career.

That was one piece of advice shared by Satoshi Mizusawa, president and representative director of Stryker Japan K.K., when he spoke on September 16 at the latest installment of the Next Generation Leader Series, hosted by the American Chamber of Commerce in Japan (ACCJ) Young Professionals Forum (YPF).

Seeking out honest feedback from people around you—including from your subordinates—is also important, said the 43-year-old human resources (HR) leader turned healthcare executive. During his presentation, Mizusawa talked about his life journey and the path that led him to becoming president of one of the leading medical device makers in Japan.

Find Your Passion

"There are actually a lot of people who haven't thought through what it is they want to achieve in life," said Mizusawa, urging his listeners to think about what they want to have accomplished by age 60.

"What's most important is identifying which moments bring you joy and making sure your career aspirations really align with those," he said. "When that's clear, then you need to work backward to plan the steps to get there."

Born and raised in Saitama Prefecture, Mizusawa has followed a career path that, in Japan, is somewhat unusual. In 2002, right after college, he started out at a Japanese electronics company before joining a series of US-based companies. He's also a rare example of someone who has moved from HR to heading up a business.

Mizusawa spoke frankly about the ups and downs of his life and career, using a graph to chart his career trajectory, with a meandering line that indicated the emotional and professional highs and lows he experienced along the way.

His most difficult experience came when he was just 11, amid tension and conflict between his parents. He was the second of three sons, and his elder brother was drawn toward a rebellious lifestyle. "I wondered why only my family was like this. It seemed like other families were so happy. As I look back now, this was probably the toughest time in my life."

In middle school, his perspective of the world suddenly expanded thanks to a two-week homestay in Alabama—an experience that would shape the rest of his life. It was the first time he went abroad and first time he rode in an airplane. Everyone around him seemed cheerful, and he even fell in love with an American girl with whom he remained pen pals for seven years. "I began to think that I wanted to get a job that had some international aspect," he said.

Later, while at Aoyama Gakuin University, he explored study abroad programs, but he didn't have the Test of English as a Foreign Language (TOEFL) scores to qualify. So instead, he enrolled independently for a year at the University of Alabama, thanks to the influence of his American female pen pal, who he made during his middle school homestay.

First Steps

When Mizusawa joined a Japanese electronic company after college, he desperately wanted to work in international sales. But a grinning personnel staffer told him that he should first get some experience in HR before moving on to other departments—a typical practice in Japan meant to give new employees a breadth of experience.

Mizusawa's daunting first task was to overhaul the company's pension system. "I had no interest in this, but I decided to give it my best and hoped that would lead me closer to my career ambitions," he said.

After that, he was sent to business units in Malaysia and Thailand, where he gained a measure of international experience before returning to corporate headquarters.

Three years later, he decided to move to a leading global electronics and energy company and was immediately thrown into an intense, two-year HR training program in Milwaukee, Wisconsin. The program comprised three six-month assignments during which he was expected to build strong working relationships and deliver results—entirely in English.

Functioning in a fast-paced, rigorous environment full of ambitious young Americans who loved to debate and argue, Mizusawa found the program grueling and worlds apart from his Japanese corporate experience.

FUNCTIONING IN A FAST-PACED, RIGOROUS ENVIRONMENT FULL OF AMBITIOUS YOUNG AMERICANS WHO LOVED TO DEBATE AND ARGUE, MIZUSAWA FOUND THE PROGRAM GRUELING AND WORLDS APART FROM HIS JAPANESE CORPORATE EXPERIENCE.

At one point, he experienced a crisis of sorts when he discovered that he had been left off a group email from a team leader, making him fear that he was viewed as a non-contributing member. "In Japan, if you worked all night, you could somehow solve the problem," he said. "But in a totally different context, where culture and language were major issues, I really didn't know what to do."

Mizusawa approached a Chinese American colleague, hoping they would fix the problem by talking with the team leader. Instead, his colleague said Mizusawa needed to go directly to the team leader himself and tell her that, unless she added him to the group email, he couldn't do his job. "America isn't like Japan, where someone might try to help you," he explained. "You have to take the initiative yourself."

Being raised in a rough-and-tumble environment with two brothers, Mizusawa wasn't about to shrink from a confrontation. So, he mustered the courage to go talk with his team leader, who told him it was all an oversight and added him back to the group email chain. "This doesn't sound like such a big deal as I describe it but, at the time, it was a real crisis for me," he said. Soon after, he was put in charge of his own team.

ACCJ

No Show Charity Ball

online auction & raffle

Attend online!

December 1–11, 2021

Charity auction ends at noon on Saturday, December 11.

More details: www.accj.or.jp/charityball

Mizusawa's Key Advice for Young Professionals

- Be self-aware
- Find your passion
- Develop trust
- Seek feedback

Proving Yourself

In 2009, Mizusawa joined a US-based medical device company as senior manager of HR and was later promoted to director. There he gained experience in mergers and acquisitions, as well as staff integration and working with diverse colleagues—his first boss was Argentine and his second was Indian.

When he joined Stryker in 2014 as senior HR director, the company "didn't have that good a reputation in Japan," Mizusawa said. They were known for low pay, hard work, and a constantly changing management. "The head office asked me to change that."

Mizusawa explained that he implemented numerous changes, including moving personnel who had been doing the same job for 10–15 years, creating a talent development program, fostering motivation within teams, and even contributing to the overall business strategy.

Apparently, the bosses were pleased. Three years later, Mizusawa was promoted to vice president, heading up Stryker Japan's medical and surgical business. This was his first leadership experience on the business side of a company, and he said he studied very hard the first three months to get up to speed.

In 2020, he became general manager, leading Stryker's legacy business units and expanding his responsibility into orthopedics and other areas. In January 2021, he was promoted to deputy president, with responsibilities for the company's overall business in Japan and driving growth. In April, he was named president.

When asked how he made that transition from HR to company leader, Mizusawa said his overarching goals have remained the same: set a direction and build the organizational capacity to reach those goals.

"It shouldn't be just fireworks; the vision needs to be realistic," he said. "And just creating a new system isn't enough, either. You have to inspire workers and treat them as valuable." He told participants that, if they feel they have leadership gifts and focus on using them, they, too, may be given opportunities as he has.

More Advice

During the Q&A session, Mizusawa was asked what makes for effective communication. He explained that developing trust is vital. "If you give feedback to someone with whom you don't have a relationship of trust, they most likely won't take it very well," he noted. "But if you do have that kind of relationship, you can have those tough conversations."

Asked about key qualities for young, aspiring leaders, Mizusawa stressed the importance of being self-aware—something that he absorbed from his time in HR, which involved lots of self-assessments. "I was fortunate that I had a lot of people who gave me feedback," he said. "And I also sought out feedback. Even now, I seek out feedback from my direct reports, and their feedback has helped me grow."

> "I WAS FORTUNATE THAT I HAD A LOT OF PEOPLE WHO GAVE ME FEEDBACK … AND I ALSO SOUGHT OUT FEEDBACK. EVEN NOW, I SEEK OUT FEEDBACK FROM MY DIRECT REPORTS, AND THEIR FEEDBACK HAS HELPED ME GROW."

Mizusawa was also asked about how to promote diversity and inclusion in Japanese workplaces. He said that when he joined Stryker Japan, there were very few women in sales and senior management. But that has changed. "Women now account for more than 40 percent of directors," he said, adding that their presence has "brought new perspectives, changed the atmosphere, and made discussions livelier."

In closing, Mizusawa said that he feels comfortable and fulfilled when he's leading people. And when he sees that his staffers are motivated, that reinforces his own motivation. But everyone has different talents, and it's critical that you identify your gifts and then use them, he said.

"Instead of just thinking, 'I have to climb the corporate ladder,' try to think about what it is that you enjoy and how that might guide your career," he said. "I'm 43, so I'm still learning a lot." ■

Listen to this story: accj.or.jp/sound

EVENT PREVIEW

By C Bryan Jones

No-Show Charity Ball

Annual ACCJ gala offers a chance to give through virtual raffle and auction

Barbara Hancock
Chair
Charity Ball
Committee

Lori Hewlett
Vice-chair
Charity Ball
Committee

Kevin Naylor
Vice-chair
Charity Ball
Committee

Last year, the coronavirus pandemic made planning one of the biggest dates on the American Chamber of Commerce in Japan (ACCJ) calendar difficult, and the Charity Ball Committee (CBC) rose to the challenge with a successful online event that raised more than ¥7.4 million—topping the 2019 gala.

Despite the hope that 2021 would see a return to the traditional format, it was once again impossible to plan such an event. But as a cornerstone of the chamber's fundraising for community support, the Charity Ball remains a top priority and the CBC has organized a fun and exciting online auction and raffle which will run December 1–11.

"Though much has changed over the past year, what remains consistent is ACCJ members' passion for supporting and contributing to the communities in which we live and work," said ACCJ President Jenifer Rogers. "Each year, we are grateful for ACCJ members' enthusiastic and generous participation in the Charity Ball. This year is no exception."

Charities

The CBC and the Community Service Advisory Council select several charities to promote, publicize, and support each year with the funds raised through the Charity Ball. Favored are smaller non-profit organizations (NPOs) with specific needs that work to help the homeless and support women's issues, children, education, and US–Japan relations.

Three NPOs to which the ACCJ donated in 2021 through the Community Service Fund are:

- Hands On Tokyo, which focuses on children's homes, disaster relief, and those with special needs
- Mirai no Mori, which creates life-changing outdoor programs for abused, neglected, and orphaned children in Japan
- Save Food, which provides cooked food through Commune, a cafeteria where people can have meals together and connect

This year, the chosen charities focus on the homeless through the long-established Mike Makino Fund, which supports the Sanyukai homeless shelter as well as the Franciscan Chapel Center and Tokyo Union Church rice programs.

Money raised through this year's Charity Ball will also support the ACCJ Community Service Funds for Tokyo and Kansai, which traditionally help our communities through food banks, local children's homes, and programs that assist these shelters for at-risk children and women. For the first time, the ACCJ Kansai chapter is collaborating with the Tokyo chapter on fundraising through the Charity Ball.

"The Community Service Fund is an important part of our charitable giving as it enables us to respond quickly to urgent needs and emergencies that come up," explained Barbara Hancock, who chairs the CBC and works each year with vice-chairs Lori Hewlett and Kevin Naylor to plan the big event.

Community

Many great entertainers have lent their talents to the Charity Ball over the years, including:

- Steve Gardner
- Felix Sonnyboy
- Kevin McHugh
- Erika Abe
- And more to come!

Due to restrictions on public gatherings, many have lost the opportunities to perform and make a living during the past two years. The CBC would like

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You could have Felix Sonnyboy and Rambling Steve Gardner perform a private acoustic concern at your office event or home party.

The ACCJ supports Mirai no Mori, which creates life-changing outdoor programs for abused, neglected, and orphaned children in Japan. Photo: LIFE.14

to highlight them this year and hope that you will support them as they recover from the pandemic.

Likewise, restaurants that have supported the Charity Ball, including Soul Food House and Devil Craft, have also faced businesses challenges, and the CBC encourages you to help these beloved members of our culinary community.

Auction

Singer-songwriter Felix Sonnyboy, in collaboration with artist Erika Abe, is auctioning off a one-of-a-kind, hand-painted sunflower-themed ukulele. The price for this item will include a one-hour ukulele lesson with Sonnyboy and a one-hour painting demo with Abe.

Together with Rambling Steve Gardner—a Charity Ball favorite—Sonnyboy is also presenting a private acoustic concert. The duo is offering either a performance at your office event or home party or a workshop/concert for your service organization, club, or school.

Gardner is also making available some of his amazing photographs from the Old South that are in his book *Rambling Mind*, which traces the blues across Mississippi in stunning black-and-white imagery.

Art lovers will be thrilled by a major offering organized by 2018 ACCJ Volunteer of the Year (Kansai) Royi Akavia, who is a long-term supporter of ACCJ featured charity Food Bank Kansai. For this year's auction, Akavia and his companies—Double Bounce Productions, Inc. and KOA Production, Inc.—have arranged a donation which includes art by both himself and six other artists: DAAS, Eamon Harrington, Clifford Land, Roberto Mitrotti, Dorit Schwartz, and Shlomo Tuvia. A curated selection will be available for bid.

More enticing auction items are expected between publication of this issue of *The ACCJ Journal* and the start of the event.

Join us!

While the No-Show format is a departure from the traditional year-end gala, it builds on the great success of last year's virtual event and offers even more opportunities for ACCJ members and their guests to support the chamber's mission of helping the community and those in need.

"We look forward to your support for our charities and those who continue to struggle through the prolonged pandemic," said Hancock. "Please watch our website for updates. We look forward to your participation!"

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EMBASSY

By C Bryan Jones

RTO Diplomacy

New embassy role focuses on technology leadership and collaboration

Matt Chessen
RTO
Embassy of the
United States, Tokyo

As the pace of digitalization quickens and technology plays an increasingly important role in our lives, maintaining global leadership in science, technology, and innovation is critical. To do so, the United States Foreign Service has created a new position—regional technology officer (RTO)—which will focus on enabling the United States to maintain its leadership through transnational approaches to technology policy and development initiatives.

RTOs will focus on:

- Promoting US leadership in technology
- Ensuring that technology ecosystems support democratic values
- Securing US economic assets
- Enhancing US competitiveness with strategic competitors

The RTO program will place foreign service officers (FSOs) at key global innovation hubs, where they can engage with the local technology community, promote regional cooperation and public outreach, and energize global technology hubs to accomplish US policy objectives.

I was recently introduced to the Business Software Alliance's Framework to Build Trust in AI. I see this kind of work as a positive evolution in the concept of corporate responsibility, where businesses recognize that there are risks inherent in new tools and are proactively taking steps to mitigate those risks.

The US government welcomes the participation of the private sector, encouraging it to play a strong role in the development and adoption of principles and norms for technologies. In fact, governments can't and shouldn't develop these frameworks without working hand in hand with the private sector and other stakeholder groups.

RTOs will focus on some of the same topic areas as their corporate counterparts, such as promoting an environment conducive to US business. RTOs have an outreach role which is analogous to private-sector public relations. This could involve working with our public diplomacy colleagues to enhance messaging around technology issues, or speaking on behalf of the US government. Because RTOs have deeper expertise in technology policy, they will serve as panelists and speakers at regional events, both governmental and non-governmental.

ENSURING US AND JAPANESE LEADERSHIP WILL REQUIRE ENHANCED COOPERATION ACROSS THE TECHNOLOGY SPECTRUM.

This year, the US Department of State is deploying three RTOs. Matt Chessen (RTO Tokyo) and Jim Cerven (RTO Sydney) have arrived at their posts, and Charlette Betts is due to begin her RTO role in São Paulo, Brazil, in November. There are plans to deploy three more RTOs in 2022, with additional officers rolling out in the coming years.

To learn more about the RTO role, *The ACCJ Journal* spoke with Chessen about the overall goals as well as his mission in Japan.

How does an RTO in a diplomatic capacity differ from one in a corporate capacity?

This is a great question, as there are some similarities and analogues, but also important differences in our work.

One interesting observation from the diplomatic perspective is how we're increasingly seeing corporate representatives playing a more proactive role in areas that traditionally were the domain of governments, such as the creation of normative value frameworks for particular areas of technology.

There are also some differences between RTOs and our corporate counterparts. We are focused on a broader range of critical and emerging technologies than are most private-sector representatives. Even within the technology sphere, we are generalists compared with our private-sector colleagues. RTOs have an internal capacity-building role in which we are tasked with raising the level of technology awareness and expertise among our diplomats in the region. We also have a strategic foresight function, where we're expected to analyze emerging-technology markets and report on trends that generate opportunities and risks for economic and national security.

Why has the US government created this role?

The decision to establish the RTO positions was well supported by evidence from outside and inside government. The National Academies of Sciences, Engineering, and Medicine first proposed the idea of regional technology diplomats in their 2015 report Diplomacy for the 21st Century: Embedding a Culture of Science and Technology Throughout

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the Department of State. The National Security Commission on Artificial Intelligence made similar recommendations in their final report, where they recommend that the Department of State "establish a cadre of dedicated technology officers at US embassies and consulates to strengthen diplomatic advocacy, improve technology scouting, and inform policy and foreign assistance choices."

Concurrent with these analyses, the Department of State noted four trends that made the case for RTOs.

First, as we've seen with 5G communications technologies and trusted infrastructure, technology issues are closely connected with many US core geopolitical interests.

Second, technology issues—such as semiconductor supply chains—are increasingly transnational in nature.

Third, there is a proliferation of international forums where technology issues are discussed, and we need officers with deeper expertise and focus on technology issues who can represent the United States in these forums.

And fourth, there is a recognition that, to maintain global leadership in technology, we have to build networks of regional partners that include the private sector, non-governmental organizations, and academia—in addition to governments.

Most of our FSOs are generalists who could be issuing visas in one assignment and coordinating climate policy in their next. The RTO initiative is a means of placing greater focus on technology issues and has a side benefit of cultivating a cadre of FSOs with deeper technological knowledge.

How will you liaise with the Japanese government?

In addition to their regional responsibilities, each RTO has a bilateral portfolio focused on their host country. For myself, I'll be focusing on building additional cooperation with Japan on artificial intelligence (AI) and enhancing our partnership on standards for emerging technologies. I will also be focusing on how we can partner with Japan on broader regional technological issues such as regional data governance or promoting trusted infrastructure in ASEAN member states.

Will you be supporting Japan's digitalization efforts?

I wouldn't want to give the impression that the RTO becomes the focal point for all bilateral technology issues. We have officers that cover everything from digital economy issues to emerging energy technologies to fintech. We also have a large team here at the embassy focused on digitalization, both in the Trade and Economic Policy Unit and the Foreign Commercial Service Office. The RTO will serve to support their efforts.

Somewhat related, one of my goals is to improve collaboration between the United States and Japan on basic research in AI. Japan has tremendous capabilities in hardware and robotics, while the United States is strong in software and data. Enhancing our basic research cooperation will allow us to capitalize on each other's strengths.

What are the biggest technological threats and challenges facing the United States and Japan?

I believe that the United States and Japan must work together, and with other democratic partners, to ensure we remain the global leaders in technology, and that technological ecosystems reflect our shared values. We are facing a new geotechnological environment, where the People's Republic of China aspires to lead the world in technology and is using technology to undermine democratic values, the rule of law, and human rights. Ensuring US and Japanese leadership will require enhanced cooperation across the technology spectrum, from research and development to principles and governance.

We also need to make certain that markets are fair and that our economic assets are protected. The key will be enhancing our shared economic security without veering into policies that become protectionist or, worse, undermine the very industries we are trying to cultivate. We believe we can strike this balance and we look forward to working with Japan and other regional partners—especially our friends in the private sector—to promote our mutual economic and national security through global technology leadership. ■

IN MEMORIAM

By C Bryan Jones

Unsung Hero: Dr. Tatsuya Kondo

Remembering the former PMDA chief executive and how he changed medicine in Japan

One year ago, we featured Dr. Tatsuya Kondo on the cover of *The ACCJ Journal*. The American Chamber of Commerce in Japan (ACCJ) had recognized him for his contributions to the healthcare industry with the 2020 ACCJ Outstanding Achievement Award. Dr. Kondo played a key role in Japan's healthcare efforts as chief executive of the Pharmaceuticals and Medical Devices Agency (PMDA) from 2008 to 2019. Sadly, he passed away on September 26 after a battle with prostate cancer. ACCJ members shared thoughts and memories with *The ACCJ Journal* about what Dr. Kondo meant to them and the industry.

Strong Supporter

"We are all deeply shocked and saddened to hear the news of Dr. Kondo's passing and would like to extend our deepest condolences to his family," said Zimmer Biomet G.K. Executive Officer and Chairman Kazuya Ogawa, who is also chairperson of the American Medical Devices and Diagnostics Manufacturers' Association (AMDD), adding that the AMDD Executive Committee offered a silent prayer for his soul at its October meeting.

"Dr. Kondo was respected as a strong supporter of the need to resolve the medical device lag issues. His thoughtful, sharply focused actions, always led to a quick resolution of serious lag problems. I personally recall intense discussions with him about more than 300 files of outstanding orthopedic reviews on hand at the PMDA, just as some 100 new applications were coming in. He promptly organized a task force to tackle the issues and cleaned them up in a very short time frame. He demonstrated great leadership during his time at the PMDA, and we feel very honored to have had opportunities to work with him."

Man of Results

ACCJ Governor James Feliciano, who serves as chair of the Japan-based Executive Committee of the Pharmaceutical Research and Manufacturers of America, highlighted some of the results.

"Dr. Kondo was nothing short of a Japanese hero. Through his untiring efforts over so many years, he transformed the PMDA into a premier regulatory review and approval body," he said. "We can look at the results in terms of months of review, number of new products approved, or the elimination of the drug lag compared with Western countries. However, the real measurement should be the number of Japanese patients who received access to lifesaving and life-changing innovative pharmaceutical medicine. Kondo-san is the unsung hero for so many patients in Japan."

Leader of Change

Simone Thomsen, president and general manager of Eli Lilly Japan K.K. and ACCJ governor–Kansai, praised his leadership.

"We would like to express our deepest sympathy on the passing of Dr. Tatsuya Kondo, chief executive emeritus of the PMDA. He was truly a great leader for Japan who advanced our efforts to eliminate the drug lag for Japanese patients," she said.

"Under Dr. Kondo's leadership, regulatory science was truly developed and incorporated into the PMDA's review, which yielded greater transparency for the industry. We appreciate the opportunity to have had the chance to work with him."

Warm and Supportive

ACCJ Vice President and former PhRMA Japan Representative Amy Jackson, who is APAC senior director of government affairs and policy at Janssen Pharmaceutical K.K., said: "Dr. Kondo had a powerful and long-term impact on the Japanese healthcare system. Countless Japanese patients got early access to needed, lifesaving medicines thanks to his vision and efforts to make the PMDA a truly world-class regulatory system. Not only was Dr. Kondo a great leader, he was also an excellent ambassador between the PMDA and international stakeholders. I so fondly remember the many times PhRMA had meetings with him and his team. Dr. Kondo would always walk into the PMDA conference room with a big smile on his face. He would greet his international visitors with great warmth and would earnestly urge them to share, without reservation, any comments or concerns they had about the Japanese regulatory system. He will be greatly missed."

Thank You

ACCJ Healthcare Committee Co-chair John Carlson summed up Dr. Kondo's support of the chamber. "He was no stranger at the ACCJ. During the course of his career at the PMDA, he visited the chamber on numerous occasions to share his thoughts on the future of the agency and exchange opinions with members of the Healthcare Committee," he recalled. "His commitment to public–private partnership was compelling. The ACCJ extends its deepest gratitude to Dr. Kondo and condolences to his family. He was a transformational healthcare leader." ■

HEALTHCARE

By Mikiro Suga

The Power to Innovate

Covid-19, mRNA, and government and private sector roles in healthcare

The Japanese public is concerned that domestic pharmaceutical companies have yet to launch a single Covid-19 vaccine. Some may argue that this is due to a low rate of vaccine confidence, as is seen in the national tendency to avoid the human papillomavirus (HPV) vaccine, which has, in turn, caused a problem for vaccine development.

Although there may, indeed, be such a factor, this would not be the primary reason—especially not for the delay in the domestic development of a messenger ribonucleic acid (mRNA) vaccine.

It should be noted that Moderna, Inc., the US pharmaceutical and biotechnology company that has produced an mRNA vaccine to combat Covid-19, had been advancing cancer therapeutic vaccine development since well before the pandemic.

In Japan, however, initiation of development was delayed compared with other advanced countries, and efforts to develop products based on mRNA technology have failed to make significant progress. This is not because the environment surrounding a prophylactic vaccine is unfavorable but, rather, it is due to the lack of an environment in which companies can take risks and consider new modalities.

The Role of Government

The coronavirus pandemic has made me reconsider what the government should do to promote the development of innovative healthcare products. Among the various ideas I have come up with, I would like to conclude—even though this may be obvious—that the primary responsibility of the government is to create an environment in which innovative products are highly valued and the private sector can invest in a broad range of research and development (R&D).

I see that Operation Warp Speed—the public–private partnership backed by the US government to support rapid development of a Covid-19 vaccine—has had a huge impact. This underlines the fact that the Japanese government needs to invest directly in companies that can provide clinical research and manufacturing facilities, especially during a public health emergency.

Yet, under normal circumstances, it is fair to say that the private sector in Japan can make more efficient investments than can the government. It is extremely challenging for the government to pinpoint and invest in a promising company and product. Further, a massive direct investment by the Japanese government is unlikely, given the current budgetary issues.

By evaluating the history of mRNA technology, we can see how difficult it is to identify rising stars. Thanks to its wide use around the world to prevent Covid-19 infections, mRNA technology is now well known. Before the pandemic, however, only a few of us predicted such a quick, practical application. A researcher from Hungary, according to media reports, even struggled to have the merits of her research results recognized, despite years of studies.

The coronavirus pandemic has made me reconsider what the government should do to promote the development of innovative healthcare products.

Private Sector Stands Ready

I believe that Japanese and US companies in the private sector are willing to take risks and engage in R&D if they recognize innovative product candidates and can appropriately evaluate them under the right conditions.

But how can Japan create such an environment? I will be committed to accomplishing this once I complete my current assignment in the United States, and policymaking becomes my direct responsibility in the government.

US corporations are involved in the two mRNA vaccines currently in use, a fact that highlights US power to pursue innovation. The collaboration between Pfizer Inc. and BioNTech SE in Germany brought us a Covid-19 vaccine, thanks to the US pharmaceutical company's attitude of aggressively seeking cooperation among companies beyond the borders that might restrain activity under normal circumstances. It has made me realize, once again, the importance of open innovation.

During the rest of my stay in the United States, I look forward to gaining further insight into what drives the US power to innovate. ■

Mikiro Suga
Head of health and welfare
JETRO New York

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ECONOMY

By Jesper Koll

Misplaced Pressure

National security must strengthen, not close, Japan Inc.

Jesper Koll
Global ambassador
Monex Group Inc.

The government of newly elected Japanese Prime Minister Fumio Kishida deserves to be congratulated for having elevated national security to a top priority by establishing the new position of economic security minister, filled by former Ministry of Finance bureaucrat Takayuki Kobayashi. Global investors and business leaders will certainly welcome the creation of a "control tower" to coordinate, focus, and, hopefully, streamline the increasingly complex trade and investment rules and directives now governing global engagement with Japan Inc.

Unfortunately, there is significant risk in this undertaking. More bureaucracy can easily backfire. Instead of streamlining and centralizing procedures, there is a great danger of duplication and increased bureaucratic red tape, given the vested interests and institutional pride of the incumbent ministries.

Kishida's new ministry could end up making it more difficult and cumbersome for global investors to buy Japanese companies and trade with Japanese suppliers. In the name of national security, the new Ministry of Economic Security could actually bring on a new trend of insularity and ossification in corporate Japan.

In fact, the empirical reality of Japan's market verifies this point with great clarity. Almost all successful corporate turnarounds in past decades originated in either substantial foreign direct investment (FDI) or global investors' lobbying for change. Nissan, Sharp, Sony, Fanuc, and Shiseido are just some of the highlights.

Make no mistake: for global relevance and future competitiveness, the more interaction with global investors, the better it will be for Japan's national competitiveness and, thus, her national security.

Poison Pill?

Leveraging global investor knowledge and insight is an existential imperative for Japan. For all the talk about self-sufficiency, let us remember that slightly more than 60 percent of listed companies' profits come from global sales. From here, Japan's domestic economy probably will see lower growth than other global markets, so the need for more global and open perspectives—as well as challenges to the status quo—are poised to grow in importance.

Unfortunately, some Japanese leaders appear ready to use the powers of the new ministry to shut out global challengers and justify business as usual behind the excuse of national security.

Clear speak: Kobayashi could easily find himself leading a "poison pill" ministry, preventing necessary renewal and innovation. Domestic corporate leaders will get busy and, in the name of national security, lobby the new ministry for protection. The new ministry could easily become a creeping liability for the future dynamism and global competitiveness of corporate Japan. Clearly, corporate ossification and a retreat from globalization cannot be in Japan's national interest.

Specifically, new and tighter rules are poised to, in effect, shut out Japanese companies from the forces of the global competition for risk capital. Under the mantle of national security, this could also feed complacency and stagnation. Already, Japanese conglomerates

WHAT JAPAN REALLY NEEDS ARE MORE ACTIVE AND ENGAGED DOMESTIC INVESTORS AND FUND MANAGERS WHO AREN'T AFRAID TO ENGAGE AND CHALLENGE SENIOR CORPORATE LEADERS.

Path to Security

Of course, it is easy to understand the reason Japanese leaders feel pressured to follow the lead of the United States in seeking to raise bureaucratic and political oversight over global investment flows.

However, the fact that all this happens in the name of supposedly protecting national security is, in my view, the real red flag. Why? Because the best way to ensure economic security is to ensure that your nation's corporate sector is strong, innovative, and globally competitive.

If corporate Japan is to have a bright future, it certainly needs more active debate with the stewards of global finance. And yes, sometimes the investors' threats to challenge board members and existing corporate structures are absolutely key to the mid- and long-term competitiveness and sustainability of all stakeholders.

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have fallen behind in many new leading-edge areas, such as cybersecurity, quantum computing, and drone technology.

Whether we like it or not, global finance is the most efficient and effective tool to force senior management to stay on top of their game. Therefore, there is a great risk that the new rules will merely protect already outdated technologies, feeding a new breed of so-called zombie companies in Japan. This is particularly true since, unlike the United States, where the move toward tighter restrictions began, Japanese companies no longer have a natural competitive strength in cutting-edge technology.

FDI

What about global investors? Technically, tightening national security supervision will raise both the cost of investing here as well as the risks. Internal compliance and controls will have to be tightened to ensure that new potential criminal liabilities are minimized.

Here, transparency is key. Right now, we know that rules will be tightened, but we don't know how and where, nor on what basis. Kishida would be well advised to be more proactive and engage with foreign investors and business leaders on how to best balance national security with technology transfer, innovation, and transformation.

However, no matter how smooth the procedures may become, the net result is a higher compliance–cost base for investing in Japan. For large, established players, this should not be a problem. But smaller startups that are trying to explore opportunities in the Japanese market are poised to suffer disproportionately from the higher compliance and legal costs resulting from new rules. Tokyo's reputation as the global finance-compliance center will grow.

From a Japan equity strategist's perspective, much of the bull case for Japan depends on unlocking the deep value offered by Japanese businesses that is well documented in the historically low valuation metrics and high cash balances of listed companies.

We need a catalyst to unlock this value. Unfortunately, making it more difficult for non-Japanese to buy into and trade with Japan does not make it easier for Japanese to buy into Japan.

Real Needs

To truly strengthen security, the government should step up public incentives for technology companies to:

- Stretch and sweat their engineers harder by exposing them to more, not less, global exchange and interaction
- Raise R&D spending for university and corporate researchers
- Stimulate commercialization of new technologies deemed to be in the national interest by offering tax breaks to researchers, to startup entrepreneurs, and for in-house development

Protection is typically backward-looking, and what Japan needs is forward-looking incentives to unlock next-generation innovation and commercialization. To get there, Japan requires more, not less, pressure from global financial investors.

What Japan really needs are more active and engaged domestic investors and fund managers who aren't afraid to engage and challenge senior corporate leaders. Policies designed to help domestic asset owners unlock corporate value are not just welcome, but essential to allowing a new catalyst for corporate revival.

This is where policy action is needed, to promote Japan for the Japanese. National security is based on homegrown strength and policies to unlock domestic aspirations, not on restricting global capital from becoming partners in this process. ■

FDI

By John Amari

STEPS TO RECOVERY

JAPAN FDI SET TO PICK UP PACE AFTER COVID-19, DESPITE MAJOR CHALLENGES

Since the start of the Covid-19 pandemic in early 2020, inbound and outbound foreign direct investment (FDI) has been on the decline around the world.

A reflection of foreign ownership of companies via investment, acquisition, or joint venture, in 2020 FDI decreased globally. It was down 37 percent on the year to $998.9 billion.

Calculated on a balance of payments basis—net and flow—this was the lowest level since 2005, according to the United Nations Conference on Trade and Development (UNCTAD), a 194-member intergovernmental organization that promotes the interests of developing nations in trade.

According to UNCTAD's *World Investment Report 2021*, "this is a major concern, because international investment flows are vital for sustainable development in the poorer regions of the world."

"But now, Japanese companies have more cash on hand than they did at the beginning [of the pandemic]. They've done a lot of equity offerings and debt issuances, so they have lots of cash. As travel becomes easier, I suspect they will go shopping soon."

In and Out

In Japan, inbound and outbound FDI in 2020 declined overall, although there is data for specific industries in which that was not the case.

Here, inbound FDI in 2020 increased 65.2 percent on the year to $66 billion—mostly in the form of debt issuance—according to data from the Japan External Trade Organization (JETRO) and other national groups.

But that's only if you discount equity capital and reinvestment of earnings, which were down year over year. M&As and new investments in Japanese markets were also slow, according to JETRO and others.

DIGITIZATION—INCLUDING LEVERAGING E-COMMERCE, FINANCIAL TECHNOLOGY, AND CROSS-BORDER DATA TRANSFERS—HAS BECOME A PRIORITY FOR BUSINESSES AND GOVERNMENTS IN THE POST-COVID-19 WORLD.

Local Impact

While UNCTAD's report sheds light on the effect of Covid-19 on FDI in developing nations, major economies—including Japan—also have been affected adversely.

In 2020, Japan experienced a significant inbound FDI decline, in the wake of what had been a steady increase over several years prior to the pandemic in sectors such as retail and e-commerce. Outbound FDI by Japanese companies looking to collaborate with, or acquire, overseas enterprises had also been on the rise.

Which leads one to ask: What's the outlook for inbound FDI here—and the rest of the world, for that matter—post-Covid-19?

As "economic and geopolitical uncertainty looks set to dominate the investment landscape in the midterm," the UNCTAD report notes, the outlook beyond 2021 remains unclear.

At their most optimistic, projections of experts suggest that a rebound to pre-Covid-19 FDI trend lines may occur before 2022. But there are looming geopolitical and economic challenges that lead to caution, if optimistically so.

Kenneth Lebrun—a partner at international law firm Davis Polk and Wardwell LLP, and co-chair of the American Chamber of Commerce in Japan (ACCJ) FDI and Global Economic Cooperation Committee—spoke to *The ACCJ Journal* about outbound mergers and acquisitions (M&As). He noted: "As we exit Covid-19, there will be a rebound in outbound M&A activity, which basically stopped due to travel restrictions.

Japan's inbound FDI was led by Asia, even as it declined sharply from China (-29.9 percent) and Hong Kong (-44.7). Next was North America—in particular the United States, where the Japan FDI growth rate remained positive (+23 percent)—and Latin America. Oceania, Europe, and the rest of the world followed.

Japan's outbound FDI during the same period, meanwhile, was $171.1 billion, marking a decrease of 33.8 percent on the previous year, led by a drop in large-scale M&A activities, outflows in equity capital and debt issuances, and reinvestment of earnings, JETRO reported.

Outbound FDI targets mirrored the inbound, led by Asia (China, Hong Kong, Singapore, and Thailand), North America (the United States), and Latin America. This was followed by Oceania, Europe, and the rest of the world.

However, the growth rate of outward FDI was negative in all countries and regions, with the exception of Thailand (+2.2 percent), Latin America (+3.6 percent), and Oceania (+54.3 percent).

What's more, JETRO notes that, in 2020, there was a 1.7-percent decrease to $134.5 million in Japan's FDI return (receipts) and rate of return—a measure of dividends from overseas subsidiaries of Japanese companies and reinvestment income equivalent to retained earnings on local companies.

According to reports, there had been a seven percent decline for two consecutive years in the return

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on investment, calculated via revenue (receipts) divided by the average FDI balance at the beginning and end of the period.

Revised Strategies

As noted by UNCTAD, the Covid-19 pandemic has exacerbated national and geopolitical fault lines, with US–China relations among other national, regional, and global events posing continuing risks to global FDI.

As a result, companies in Japan and abroad are revising their business strategies for the post-pandemic period, according to the 2020 *JETRO Survey on Business Conditions of Japanese Companies Operating Overseas*.

According to the survey, more than half the Japanese companies with operations overseas are planning to renew their overseas business strategies and models across the board, from sales to procurement to production. For instance, 38.1 percent of respondents said they planned a review of sales destinations, while 20.6 percent said they planned cancellations or postponement of new investments and capital investment.

With regard to sales, companies mentioned plans to review their promotion of virtual exhibitions (30.4 percent) and digitalization, including utilization of artificial intelligence (27.8 percent), as well as to review sales products (24.8 percent).

A small but significant number (12.5 percent) referred to plans to sell their products on e-commerce sites.

As for procurement and production, a fifth of the respondents said they planned to change their procurement sources (20.5 percent), while others shared that they intended to scale up the promotion of automation and labor saving (15.7 percent), as well as to implement multiple procurements (15.5 percent).

Interestingly, a significant minority stated that they planned to use e-commerce sites—a sign that more companies in Japan are embracing digital platforms.

What's more, companies in the hotel and travel industry (86 percent), employment agency and temporary staffing sector (85 percent), and food services industries (82 percent) are among those that said they had revised, or were planning to revise, their business strategies and models in response to shifting trends in global trade.

Educational and research institutions, organizations in the healthcare and welfare sectors, as well as companies in advertising, marketing, and research expressed similar sentiments.

New Rules

In addition to hastening public health countermeasures, such as social distancing and restrictions on cross-border travel, the pandemic has laid bare global challenges, including those involving trade agreements, national security, and climate change.

In response, many of the world's leading economies are seeking to update trade agreements, relocate certain industries within national borders, or add restrictions to FDI—especially where there are national security concerns, such as in the semiconductor industry.

As a key pillar of the post-Covid-19 economic recovery plan, the United States, for instance, has taken steps to ensure supply chains are "flexible, diverse, and secure," JETRO noted.

To that end, the administration of US President Joe Biden has tightened export control systems and revised the list of controlled items, technologies, and entities that are subject to import restriction.

Since May 2020, the United States has imposed export restrictions in industries that include telecommunications and textiles, infrastructure and semiconductor manufacturing, as well as supercomputing.

But this trend goes beyond the United States. Indeed, among major economies, rules are being tightened for screening of FDI investment mechanisms. This is especially true in high-tech fields that require cross-border data transfers.

Sustainability

Despite posing challenges, the Covid-19 pandemic also has created or accelerated business opportunities, not least of which

San Francisco-based sustainable lifestyle brand Allbirds opened its second retail shop in Japan on June 3, in Tokyo's Marunouchi district. The first, in Harajuku, opened in January.

is a renewed drive to develop sustainable business models that "will all have far-reaching consequences for the configuration of international production in the decade to 2030," UNCTAD's report notes.

And those trend lines have reached Japan. Indeed, even before the pandemic, companies from abroad with sustainability at their core had identified this market as ripe for investment.

That was the case when New Zealand–American footwear and apparel brand Allbirds entered Japan in 2020. They took advantage of Tokyo's position as a global trendsetter in fashion, while seeing Japan as being ready to support sustainable businesses.

"Japan is a very important market for Allbirds. As you know, Tokyo is the destination for any fashion brand if they want to be global," explained Mits Minowa, marketing director at Allbirds Japan. "And, as history shows, fashion and street culture trends often come from Japan, and have spread to the world. Thus, having Allbirds stores here was a priority for the company when we decided to go global."

Allbirds was established in 2016 by co-founders Tim Brown, a former soccer player, and Joey Zwillinger, an engineer. The company is certified by non-profit organization B Lab as a B Corporation—an entity that has environmental and social concerns at the core of its business strategy.

A relatively new concept in Japan, B Corporations prioritize sustainable sourcing of materials in a bid to help tackle environmental challenges: "We believe that we can 'reverse climate change through better business,'" said Minowa.

"That's why we measure the carbon footprint of all our products, label the score on the product, and open source the calculation of the carbon footprint. Without measuring the carbon footprint, we cannot reduce it.

"Allbirds provides a life cycle assessment of materials, production, transportation, use, and end-of-life of each product," he added.

While Covid-19 countermeasures led to the temporary suspension of business, Allbirds in Japan has returned to regular hours, and the company feels confident that the country's post-Covid-19 mindset will be in line with Allbirds' core values.

"On the positive side, the mindset and lifestyle of people living in Japan has changed since the coronavirus hit. Many people here, especially Japanese aged between 30 and 40, realize that we need to change and to treat the planet well to maintain it for themselves and the next generations."

Digitization

In addition to sustainability, UNCTAD's report notes that digitization—including leveraging e-commerce, financial technology, and cross-border data transfers—has become a priority for businesses and governments in the post-Covid-19 world.

Japan, long considered a laggard in digital transformation, is now among those countries that have fully embraced it as an imperative. Thus, in September, the Japanese government launched the country's first digital agency.

Yet even before digital transformation became front and center in Japan, foreign companies with digital solutions, including Canada-based e-commerce provider Shopify Inc., had already made this market a priority.

Sustainability is at the heart of Allbirds, and the New Zealand–American brand sees Japan as being ready to support sustainable businesses.

Key Inbound FDI to Japan (2006–21)

atmos
Japanese apparel and footwear maker founded in Tokyo in 2000; acquired by Foot Locker in 2021.

Farfetch
British–Portuguese fashion brand founded in 2007; entered Japan in 2014.

Warby Parker
US eyewear brand founded in 2010; began Japan sales in 2016.

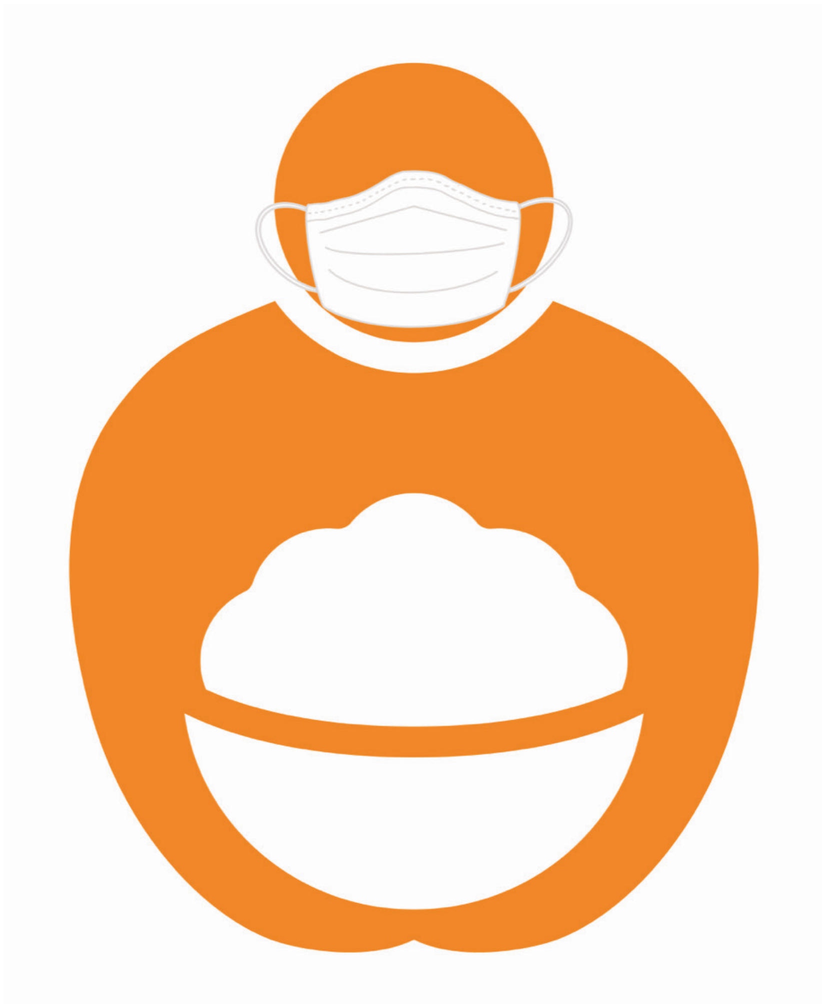
Shopify
Canadian e-commerce company founded in 2006; entered Japan in 2017.

Paidy
Japan-based fintech company founded in 2008; acquired by PayPal in 2020.

Allbirds
New Zealand–American footwear and apparel brand founded in 2016; entered Japan in 2020.

DoorDash
US-based delivery platform founded in 2013; entered Japan in 2021.

Still out there making sure
people have enough food.



Thank you.

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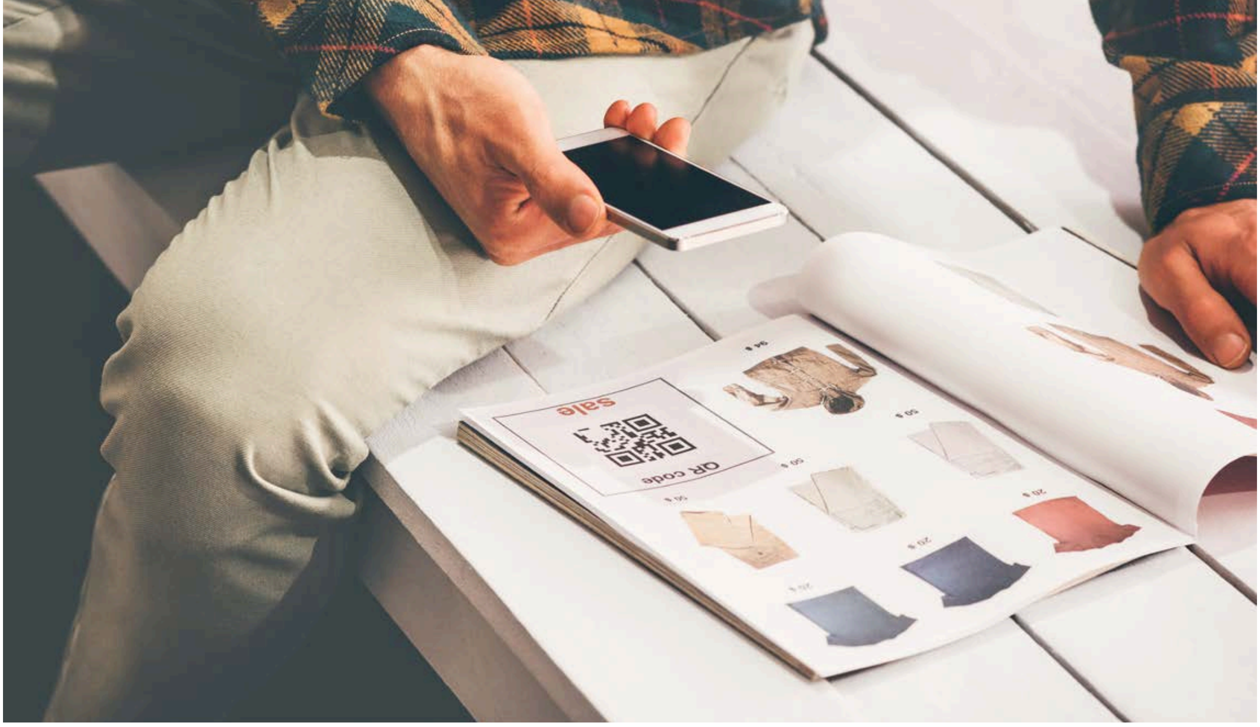


Although adoption of online shopping by Japanese consumers lags the United States and other countries, the pandemic has pushed things forward and Shopify sees tremendous room for growth in Japan's e-commerce sector.

"Despite being a top-five global e-commerce market in terms of size, having grown 9.1 percent in 2017, there was tremendous room for growth in Japan's e-commerce sector when compared with the United States and China, at 16 and 32 percent growth, respectively," explained Shopify Japan Country Manager and Director Makoto Tahara.

Has the pandemic accelerated digital adoption in Japan? It has, particularly among young consumers.

"The pandemic has brought forward the future of retail by a decade, prompting lasting changes to consumer habits and accelerating the shift to online shopping. However, consumers have not only been shopping online, but also in stores, as well as on their smartphones, social media, and PCs," explained Tahara. "Businesses have suddenly been forced to quickly pivot and start selling online, or to upgrade their e-commerce offerings to reach those customers who shop anytime and wherever they prefer."

Despite the dash to digital—about 40 percent of consumers here are shopping online, the second-lowest adoption rate among the advanced economies—many still choose to shop locally in physical stores, making Japan an outlier among surveyed nations.

However, they are prioritizing sustainability in their purchasing choices.

"Japanese consumers are very supportive of local brands, choosing to buy from local independent businesses even as they still make purchases on digital marketplaces for convenience," Tahara added. "They also are expected to vote with their wallets by choosing to support sustainable and green brands that demonstrate authenticity, transparency, and accountability."

DESPITE THE DASH TO DIGITAL, ABOUT 40 PERCENT OF CONSUMERS HERE ARE SHOPPING ONLINE, THE SECOND-LOWEST ADOPTION RATE AMONG THE ADVANCED ECONOMIES.

Recovery

As the world emerges from the pandemic, is there a silver lining? According to industry experts, there is: global vaccine rollouts. And that ties directly into kickstarting FDI.

By the first quarter of this calendar year, 33 of the world's major economies and regions had exported vaccines worth $13 billion around the world.

In Japan, the percentage of the population that had been fully vaccinated—at the time of writing—stood at more than 68 percent, compared with 57 percent in the United States.

Globally and by country, Portugal led the way for the number of individuals fully vaccinated per 100 population. Japan was ninth, just behind France, the United Kingdom, and Italy, while the United States was 13th, the Nikkei reported in October.

In the wake of global vaccination programs, at the time of writing international trade (on a customs clearance basis) was heading toward recovery, including in Japan.

While exports had declined 9.3 percent in 2020 from the previous year's total of $640 billion, and imports had decreased 12 percent to $634.1 billion, exports had recovered by mid-2021.

Japan's exports grew 26.2 percent year on year to ¥6.6 trillion in August 2021, the sixth straight month of double-digit sales growth, according to reports. This has led some experts to be optimistic in areas such as outbound M&As.

"If you look through the mid-term plans of Japanese companies, almost all will say, 'We are going to allocate additional capital to outbound M&A activity to change the percentage of our overseas sales from 10 to 30 percent of our group sales over x number of years,'" Tokyo-based lawyer Lebrun notes. Other experts who spoke to *The ACCJ Journal* share similar sentiments. ■

POLICY

By Julian Ryall

LOST CHANCE

HOW ENTRY RESTRICTIONS HAVE IMPACTED BUSINESS AND EDUCATION

Over the past 18 months, the vast majority of foreign and domestic companies that have received assistance from the Japanese government—to get through a period widely regarded as the most challenging for businesses in living memory—have been deeply appreciative of that support. Companies across the spectrum have struggled to keep their heads above water as the coronavirus pandemic has raged around the world, ravaging their operations and forcing too many to pull down the shutters.

Yet there is one key area to which the policies of the Japanese authorities arguably have proved damaging.

Anyone in business knows that, by far, their most valuable assets are their people. But the government's decision to impose stringent restrictions on anyone seeking to enter Japan—whether to return to a job, take up a new position, or begin a course of study—has added an extra layer of difficulty for many.

It was particularly galling for companies struggling with personnel issues to see those same restrictions relaxed for thousands of athletes, support staff, media, and VIPs arriving for the Tokyo 2020 Olympic and Paralympic Games.

According to the Japanese government, a mere 17,700 foreign nationals entered the country in September, a figure that includes anyone arriving for any reason. That total is down 99.2 percent from the same month in 2019, the year before the pandemic gripped the global community.

THE FAILURE TO OPEN TO BUSINESS TRAVELERS—WITH ALL THE NECESSARY PRECAUTIONS AND CAVEATS IN PLACE—HAS DAMAGED COMPANIES' OPERATIONS, AND IT WILL TAKE TIME FOR MOST TO FULLY RECOVER.

Road to Recovery?

With infection rates falling and the number of people fully vaccinated rising steeply, the authorities in Japan have begun to ease restrictions on people being out and about, while the Go To Travel scheme is expected to be relaunched to encourage domestic trips. The hope is that the gradual loosening of restrictions will soon be carried over to the international sector and borders will once again be open.

For many in business here, that cannot come soon enough. The failure to open to business travelers—with all the necessary precautions and caveats in place—has damaged companies' operations, and it will take time for most to fully recover.

"The government restrictions on entry into the country have impacted my business in two ways," said Kenneth Lebrun, a partner with the law firm Davis Polk & Wardwell LLP in Tokyo. "First, we have been unable to bring new employees to Japan, whether internal rotations from our US offices or external hires, because the government is not issuing new long-term work visas. This has impacted the ability of professional service firms to provide services to Japanese clients concerning their overseas operations."

Mergers and acquisitions (M&As) as well as foreign direct investment (FDI) have also been affected.

"In addition, the blanket ban on foreign business travelers coming to Japan—and the quarantine requirements for Japanese residents traveling abroad, and then returning to Japan—has negatively affected the level of cross-border investment and M&A activity, which is a significant portion of our business," said Lebrun, who also serves as co-chair of the American Chamber of Commerce in Japan (ACCJ) FDI and Global Economic Cooperation Committee.

Brain Drain

The entry restrictions have also caused headaches for staff and students at the Tokyo campus of Temple University, the Philadelphia-based institution which will be marking 40 years in Japan next year.

"At present, we have individuals in four key positions who are unable to make it into the country based on current restrictions," said Matt Wilson, president and dean of the Japan campus.

"Not being able to have our chief academic officer, head of libraries and online learning, director of academic advising, and financial aid coordinator on site in Tokyo has been less than ideal," Wilson told *The ACCJ Journal*. "Although they are working remotely from the United States and doing their best to actively engage and work with students, it is especially challenging as we have continued to offer in-person courses throughout the pandemic."

The impact on the student body has been even more damaging, with the university forced to cancel four short-term study abroad programs in Japan, meaning that 500 students have missed out on opportunities to study here. There are concerns that the next intake of more than 150 students for short-term courses, which are due to start in January, may also be affected if Japan does not announce in November its willingness to reopen its borders to students.

Wilson explained that not only has the financial impact on the university been substantial, but they may lose students if the restrictions are not eased soon.

"If we have to cancel another short-term cohort, Temple and non-Temple students interested in the program may end up at another destination, such as at our Rome campus or one of our partner destinations in Europe or Asia," Wilson said. "Or—more likely than not—they will simply abandon their plans to study abroad. I have spoken with many students who have been waiting and waiting, and now they are running

Kenneth Lebrun
Partner
Davis Polk & Wardwell LLP

Co-chair, ACCJ FDI and Global Economic Cooperation Committee

Matt Wilson
President and dean
Temple University Japan Campus

Katheryn Gronauer
Founder
Thrive Tokyo

Vice-chair, ACCJ Sales Development Committee

Listen to this story:
accj.or.jp/sound

The Class of 2020 has many great memories of their time at Temple University Japan Campus, but entry restrictions have forced many students who had applied to study in Japan to switch to Temple facilities elsewhere.

out of time academically to study abroad as they prepare to graduate."

In addition, more than 200 undergraduates are taking courses remotely, often at odd hours of the night, while waiting for the borders to reopen so that they can either resume their courses here or start their studies. "Our overseas students want to be in Japan, not attending classes remotely from their home countries," Wilson emphasized. "Our concern is that the patience of our current students who are unable to enter Japan will run thin, and they will burn out on online education at strange hours in their home countries. They could decide to take a leave of absence, drop out, or pursue other opportunities.

"Because of the borders being closed, we have actually had some long-term, degree-seeking students who decided they were going to attend other institutions, take an indefinite leave of absence, or simply abandon their plans to study here in Japan."

And it did not have to be this way, he pointed out. Many students who had applied to study in Japan switched to Temple facilities elsewhere, such as the school's Rome campus.

Italy reported some of the worst coronavirus outbreaks in Europe, with close to 4.75 million cases to date and nearly 132,000 deaths. Japan, in comparison, has seen 1.72 million cases and just over 18,000 deaths, despite having more than double the population of Italy. Yet the Italian authorities chose to continue to host short-term study abroad courses throughout the pandemic. Similarly, while the United States kept borders open to foreign students—including those from Japan—the Japanese government refused to reciprocate.

"The 14-day quarantine imposed by Japan was much stricter than [the quarantine of] other nations and, personally, I believe this quarantine period would have eliminated any potential problems of new students bringing Covid-19 into Japan," Wilson said. He added that another tactic would have been to require all inbound students to demonstrate that they had received both doses of an approved vaccine as a precondition for receiving a student visa.

"BECAUSE OF THE BORDERS BEING CLOSED, WE HAVE ACTUALLY HAD SOME LONG-TERM, DEGREE-SEEKING STUDENTS WHO DECIDED THEY WERE GOING TO ATTEND OTHER INSTITUTIONS, TAKE AN INDEFINITE LEAVE OF ABSENCE, OR SIMPLY ABANDON THEIR PLANS."

Forced Change

Businesses and other organizations with operations in Japan have had little choice but to adapt to the vastly changed circumstances, said Katheryn Gronauer, founder of cross-cultural training and coaching company Thrive Tokyo.

Get full details of the latest policies and rules:

ACCJ (Re)Entry Resources & Advocacy
accj.or.jp/reentry-resources

"For business-to-business clients, what impacted my work wasn't necessarily the government's entry restrictions themselves, but the attitudes of the companies I have been working with in response to the entry restrictions," she said. "On the one hand, I have been able to do more work with companies that value online training and have trained not only those currently stuck overseas who will be moving to Japan, but also employees who will continue to be based overseas and communicate with Japanese colleagues.

"On the other hand, some companies have chosen to wait until their employees move to Japan before starting the training process in person, so work with those companies has been significantly delayed."

Gronauer, who is a vice-chair of the ACCJ Sales Development Committee, has worked through the challenges by moving much of her operations online and increasing her wellness-related coaching to meet demand from companies that have staff working from home. She is optimistic that the changes that have been forced on businesses—such as the growing acceptance of online training sessions—will hasten digital awareness.

Lesson Learned?

Both Lebrun and Wilson said that their staff adapted quickly and efficiently to new ways of working in the early weeks and months of the pandemic. Lebrun called the efforts of his company's current Japan-based workforce heroic, but said they hope that, in government, lessons have been learned which might enable the business community to avoid such problems should a similar crisis occur again.

"The Japanese government has clearly prioritized certain categories of travelers, such as visitors connected to the Olympics," said Lebrun. "We think that issuing new work visas for long-term stays should have a higher priority, as such employees are critical to Japan's competitiveness and economy.

"The longer the restrictions continue, the greater the long-term impact will be," he added. "I am encouraged to hear that the Japanese government is looking for a gradual relaxation of restrictions beginning in November, and I hope they focus on restarting the issuance of long-term work visas for professionals."

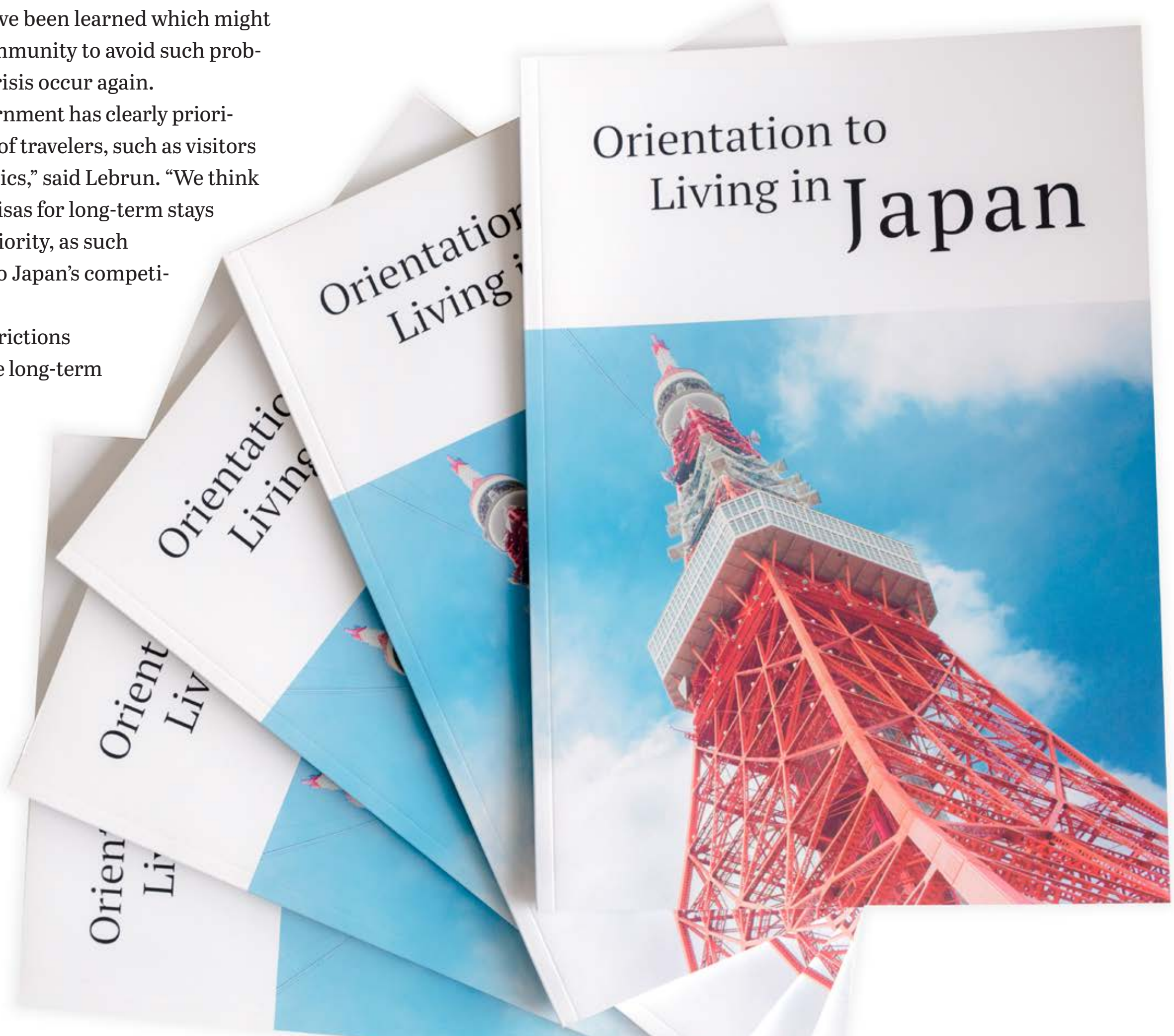
Temple University's Wilson echoed this, adding that while Japan "has no higher priority than the protection, safety, and health of its citizens," there was a need to better balance the different priorities and needs of society, which include education.

"Through the promotion and advancement of education, a country has the opportunity to elevate its citizens, improve society, enhance communication, and better prepare to tackle present and future challenges on a domestic and global scale," he said.

"In today's interconnected world, the pandemic has made it clear that many of our biggest challenges are global in nature. International education is vital. It builds lasting relationships, facilitates greater cross-cultural understanding, prepares future leaders, fosters innovation, improves competitiveness, strengthens economies, and ensures sustainable development," he continued.

"Academic exchanges and study abroad are two important keys to international education. And I worry that the loss of study abroad students due to closed borders will have an impact for decades to come. International education opportunities have been lost."

And the same goes for business. ■



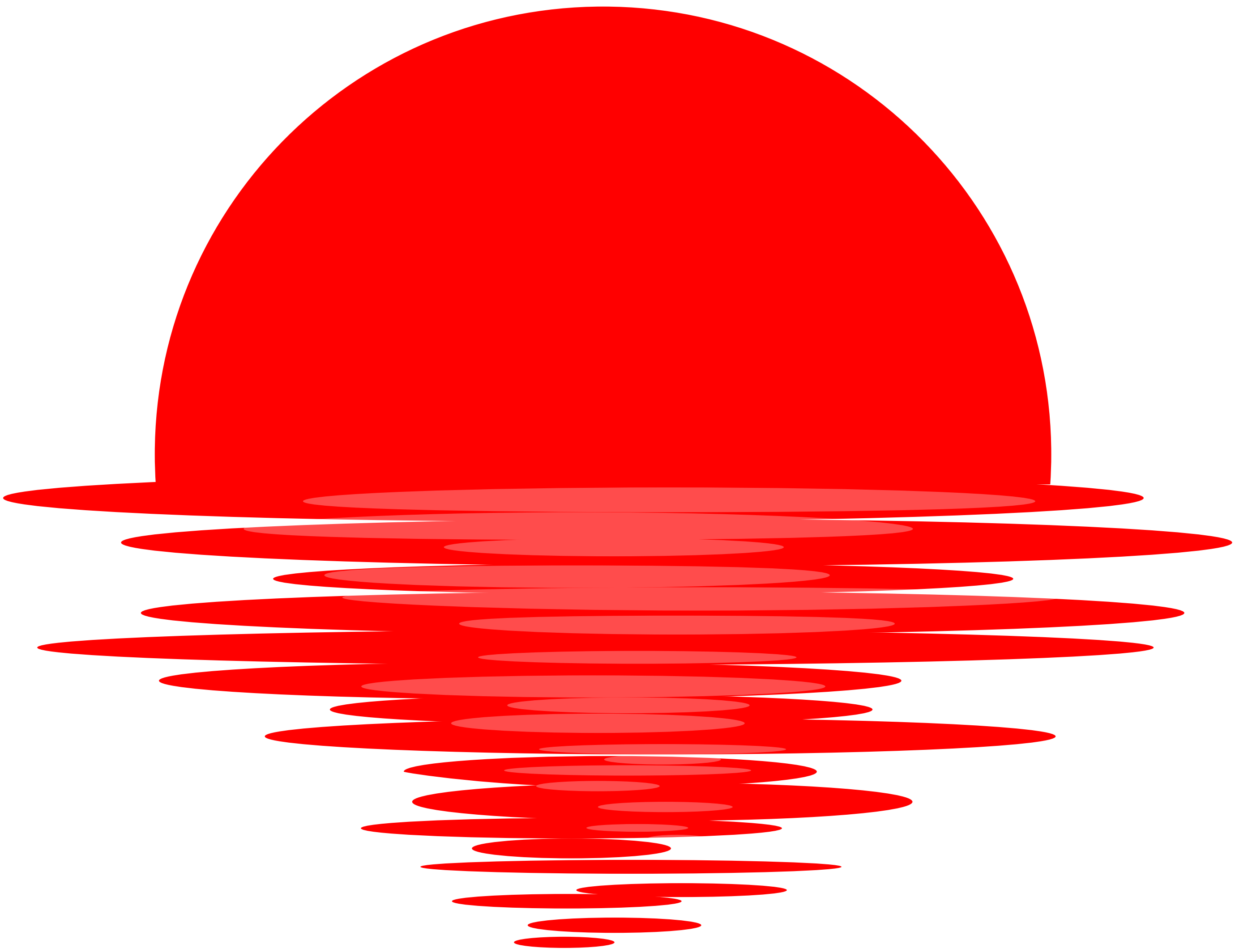
Katheryn Gronauer's Thrive Tokyo consulting, coaching, and training, which helps people adjust to living in Japan, has had to shift focus due to the entry restrictions.

M&A

By Richard Katz

JAPAN AS 196TH

THE TRUE NATURE OF INWARD FDI AND HOW TO IMPROVE IT



Richard Katz
New York City correspondent for *Toyo Keizai*

One hundred ninety-sixth out of 196 countries. Just behind North Korea. That's how Japan ranked in 2019 when the United Nations Conference on Trade and Development (UNCTAD) measured the cumulative stock of inward foreign direct investment (FDI) as a share of gross domestic product (GDP).[1] FDI ranges from foreign companies setting up new facilities to them buying domestic companies. What a shocking result considering the 20 years Tokyo has spent trying to increase its cumulative stock of FDI.

Unless policymakers understand why past efforts have failed, Tokyo is unlikely to realize the new goal it announced in June: to hike inward FDI to 12 percent of GDP by 2030. That would triple today's ratio. The main hurdle is Japan's impediments to carrying out the primary form of FDI, namely, foreign companies buying healthy ones to gain a built-in labor force, customer base, brand name, suppliers, and so forth. Typically, in a rich country, 80 percent of inward FDI takes the form of mergers and acquisitions (M&As). In Japan, it's only 14 percent.

While the government has yet to see the light, two new conditions may drive substantial change anyway.

One of these is a succession crisis at small and medium-sized enterprises (SMEs). Over the coming years, according to the Ministry of Economy, Trade and Industry (METI), 600,000 profitable SMEs may have to close because their owners are over age 70 and have no successor. Up to six million jobs are at risk.

To prevent this, a 2020 interim report of the cabinet-level FDI Promotion Council advocates helping these SMEs find suitable foreign partners by "facilitat[ing] business transfers between third parties,"; in other words, M&As. Unfortunately, the final report, published in June, has purged all talk of inward M&A. Clearly, some powerful forces feared foreign purchases more than the closure of hundreds of thousands of healthy companies. Still, the fact that the proposal even made it to the interim report is an encouraging sign.

A second potential driver is the push for corporate reform, as exemplified by the 2014 Stewardship Code and the 2015 Corporate Governance Code. The latter was proposed to the government by Nicholas Benes, a former American Chamber of Commerce in Japan (ACCJ) governor. Many ACCJ leaders believe that, as listed corporations face increased pressure to focus on profitability rather than just sales, they will increasingly focus on core competencies. Consequently, they will hive off lackluster divisions as well as hosts of affiliates that some other company could operate more productively. If so, this will not only boost Japan's growth rate, but also greatly increase the number of companies available for foreign purchase.

To assess these potential drivers, let's examine the lay of the land.

Sine Qua Non of Successful Reform

Increasing FDI was incorporated into Japan's growth strategy by Junichiro Koizumi during his time as prime minister (2001–06). That was a welcome reversal of attitude. Hardly any country has succeeded in economic reform without embracing inward FDI. Success stories range from the developing countries of Asia to the Eastern European transition states to mature economies. A study of 19 rich countries—where cumulative FDI had risen from six percent of GDP in 1980 to 44 percent by 2019—shows that inward FDI mainly lifted growth by improving output per worker.

TYPICALLY, IN A RICH COUNTRY, 80 PERCENT OF INWARD FDI TAKES THE FORM OF MERGERS AND ACQUISITIONS (M&As). IN JAPAN, IT'S ONLY 14 PERCENT.

It is not the higher efficiency of foreign-owned enterprises that provides the main fillip to the host country. Rather, it's the spillover effects as their new ideas boost the performance of local suppliers, business customers and, sometimes, even competitors. For example, when Japanese automakers took "transplant" factories to North America, Detroit learned that it cost less to prevent defects in the first place than to fix them afterwards. Japanese economists, such as Yasuyuki Todo, Toshihiro Okubo, and Kyoji Fukao, have found that foreign firms bring similar spillover benefits to Japan.

When Koizumi came to power in 2001, the stock of inward FDI was a minuscule 1.2 percent of GDP. In 2003, Koizumi vowed to double FDI. In 2006, he set a goal of five percent of GDP by 2011. At first, there was marked progress; by 2008, FDI had risen to four percent.

Then momentum stalled. Despite Prime Minister Shinzo Abe's 2013 pledge to double FDI, as of 2019

1. UNCTAD Foreign Direct Investment: Inward and Outward Flows and Stock, Annual https://unctadstat.unctad.org/wds/TableViewer/tableView.aspx?ReportId=96740

HOW MANY 70-YEAR-OLD OWNERS OF SMEs WOULD REFUSE TO SELL TO A FOREIGNER … IF THE GOVERNMENT OR A BIG TRADING COMPANY MADE THE INTRODUCTION AND VOUCHED FOR THE BUYER'S INTENTION TO HELP THEM GROW RATHER THAN ENGAGE IN MASS LAYOFFS?

the ratio had barely risen to 4.4 percent. That figure is dwarfed by the 44 percent median ratio in other rich countries.

To make matters worse, the government glosses over how badly it has failed. The Ministry of Finance (MOF) reported that inward FDI climbed to ¥40 trillion in 2020, thereby ostensibly achieving Abe's goal. In reality, however, the 2020 figure was just ¥24 trillion, according to the International Monetary Fund (IMF), the Organisation for Economic Co-operation and Development (OECD), and UNCTAD.

How is such a huge discrepancy possible? Two sets of numbers are approved by the IMF, but only one—called the directional principle—is authorized for looking at a country's FDI over time or for comparing countries. MOF, by contrast, highlights the other set, called the asset/liability principle. The latter has its uses, but it also includes items having nothing to do with real FDI (e.g., loans from overseas affiliates back to their parents in Japan). A spokesperson for MOF confirmed that such loans accounted for most of the discrepancy. Asked about MOF's choice of numbers, an OECD official replied: "The directional principle is better suited to analyze the economic impact of FDI. It is the recommended presentation for FDI statistics by country and industry." If solving a problem requires recognizing that you have one—in this case low levels of inward FDI—then Tokyo is in trouble.

Why Did Japan Come in Last?

FDI has soared in other countries that switched from resisting FDI to welcoming it. In South Korea, inward FDI has leaped from two percent of GDP before reformer Prime Minister Kim Dae-Jung came to power in 1998 to 14 percent today. In India, the share has jumped from 0.5 percent in 1990 to 14 percent now. In post-Communist Eastern Europe, the ratio has mushroomed from seven to 55 percent. Why, then, have Japan's efforts failed?

In its June policy statement, the FDI Promotion Council wrote as if Japan didn't appeal to foreign companies. Hence, most of its focus was on creating an "attractive business environment." But the premise is inaccurate.

MOST ATTRACTIVE SME TARGETS ARE OUT OF REACH BECAUSE THEY BELONG TO CORPORATE GROUPS—THE VERTICAL *KEIRETSU* (COMPANY NETWORKS).

In survey after survey, multinational companies list Japan as a top target due to its large, affluent market, well-educated workforce and customer base, high technological levels, and so forth. In fact, Japan came in fourth out of 27 rich countries in the 2020 *Kearney Foreign Direct Investment Confidence Index*, an annual, global survey of senior executives conducted by the US-based global consultancy Kearney. Scholars Takeo Hoshi and Kozo Kiyota calculated that, if Japan performed like other countries with similar characteristics, the ratio of inward FDI to GDP would have already reached a very impactful 35 percent by 2015. In the 2021 survey, Japan slipped to fifth overall, but topped the list for economic outlook in net terms. Business leaders were most optimistic about Japan, Germany, Canada, and Switzerland, with the United Arab Emirates and Australia tied for fifth.

The real problem is that Japan's most attractive companies are largely off limits to foreign purchasers. The press covers the spectacular exceptions where foreign enterprises rescue failing giants such as Nissan Motor Corporation, Sharp Corporation, and Toshiba Corporation. But the data shows that most foreign investors seek good companies that can not only help their sales in Japan, but offer resources that enhance the parent's global expansion. By contrast, most domestic purchases are largely rescue operations. The foreign firms are not pursuing companies that need downsizing. In fact, the usual Japanese target for foreign acquisition has higher profits, better technical capacity, and a greater willingness to adopt new practices than the typical organization in its industry.

Foreign companies also select fairly sizeable targets. From 1996 to 2020, non-Japanese paid $112 million for nongroup companies on the stock market and $60 million for unlisted ones. Domestic buyers bought much smaller companies: group members worth just $11 million and nongroup companies worth $30 million.

Unfortunately, the most attractive SME targets are out of reach because they belong to corporate groups—the vertical *keiretsu* (company networks). Japan's 26,000 parents and their 56,000 affiliate companies employ 18 million people, a third of Japan's employees.

This does not count other attractive companies among unaffiliated subcontractors and closely allied suppliers where the parent holds no company stock. The Toyota Group, for example, has 1,000 affiliates plus 40,000 suppliers, of which the majority are subcontractors. From 1996 to 2000, non-Japanese were only able to buy a trifling 57 member companies of corporate groups, whereas they bought about 3,000 unaffiliated companies.

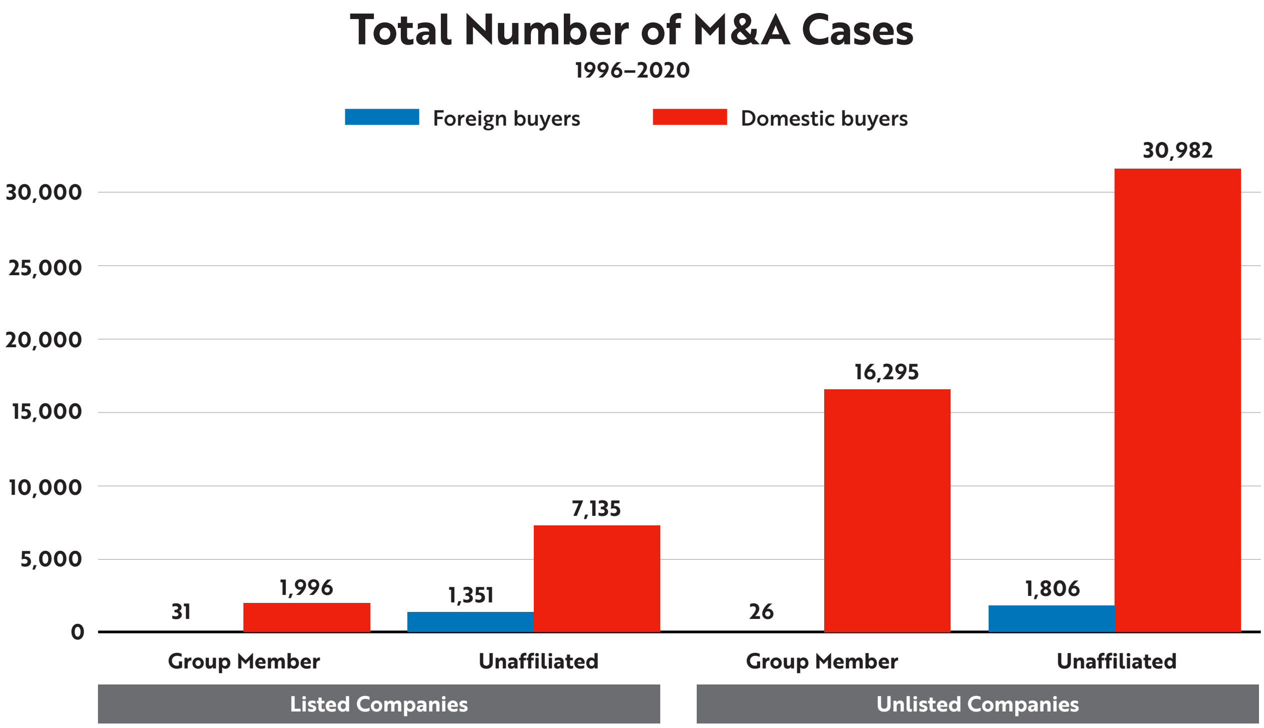
This obstacle is a legacy of the early postwar era, when Tokyo restricted FDI out of fear of foreign domination. In the 1960s, when Japan had to liberalize to join the OECD, the government devised what it called liberalization countermeasures to create structural impediments. These ranged from reviving cross-shareholding among corporate giants and their financiers, to shoring up the horizontal and vertical *keiretsu*.

Under Koizumi, with input from ACCJ leaders such as Benes and despite the resistance of the Keidanren (the Japanese Business Federation), Tokyo reformed the company law in 2007 to make inward M&A easier. For the first time, foreign companies were allowed to use cash in so-called triangular mergers to buy 100 percent of a Japanese company's stock and, for the first time, they could use their own stock to pay for a company using a triangular merger. In both cases, they could squeeze out small holders of stock.

In a triangular merger, the foreign buyer sets up a Japanese subsidiary as a vehicle for the purchase, and that subsidiary must meet certain conditions. Would-be buyers still face some unwieldy rules and unfavorable tax treatment, including the way capital gains are counted and taxed in stock swaps.

The good news is that, over time, many of these formal hurdles in the M&A rules have been ameliorated, or companies have found a way to outflank them, according to Benes, ACCJ FDI and Global Economic Cooperation Committee Chair Kenneth Lebrun, and former committee co-chair Bryan Norton.

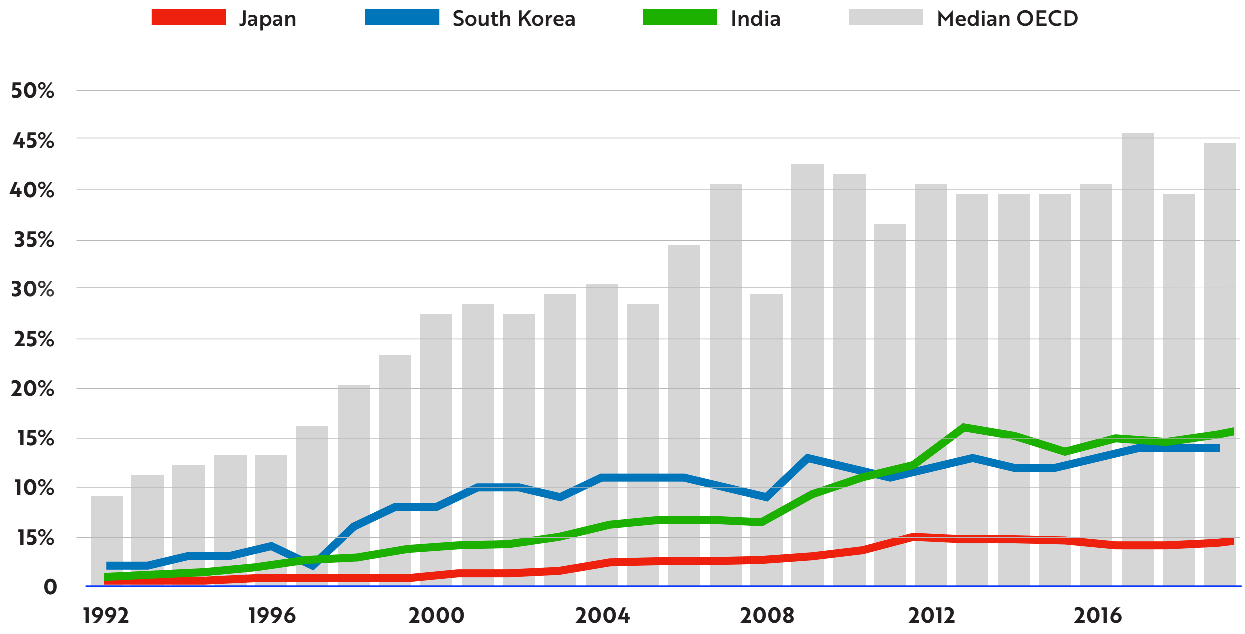
Both Lebrun and Benes have, in their professional careers, represented companies involved in inward M&A. The reported intention of Western Digital Corporation to use a stock swap to pay about $20 billion for Kioxia Corporation (the chip company spun off from Toshiba), will be a test case for the ease and cost of using an option that is more common and less tax-burdensome in other countries.



Source: RECOF M&A database: https://madb.recofdata.co.jp

Inward FDI: Japan vs. Others

Stock of inward FDI percent of GDP (1992–2019)



Source: UNCTAD Foreign Direct Investment: Inward and Outward Flows and Stock, Annual

Despite the remaining legal and regulatory hurdles in rules, the biggest impediment these days, said Benes, is the reluctance of companies to sell off divisions or affiliates to foreign strategic buyers. Yet he added that, largely due to governance reforms, even here the ice is beginning to crack.

"The difference now compared with 2005 is like night and day. Domestic M&A is common and, in some cases, shareholders have forced management's takeover defenses to be dismantled. This new atmosphere may be the biggest reason to expect more FDI via M&As in the future. Still, the floodgates will open more slowly than is optimal for Japan."

Despite this progress, many legacies of the past—from the vertical *keiretsu* to obsolete attitudes among some policymakers—still curb inbound M&As. One prominent US business executive noted how Toshiba's management and METI used the pretext of "national security concerns" in a failed attempt to block a shareholder vote against management. He feared that the same thing might occur in other cases.

Officials sometimes claim they are simply acquiescing to the public's fear of foreign takeovers. The reality is that the government lags a big change in the public mood. As early as the mid-2000s, 47 percent of respondents in surveys said the impact of foreign companies on the Japanese economy was positive, whereas only eight percent thought it was negative. Just four percent held the once-common view that foreign companies and financiers were "vultures" who wanted to buy Japanese companies on the cheap and then sell them to make a quick buck. Twenty percent of respondents said that they wanted to work for a foreign business while another 20 percent said that they did not want to. The rest offered no opinion.

Business leaders are divided. While the Keidanren has often been obstructionist, the more progressive Keizai Doyukai, the Japan Association of Corporate Executives, has welcomed FDI. In 2005, during the debate over Koizumi's Commercial Code reforms, it called for increasing inward FDI to 10 percent of GDP, twice Koizumi's goal. It advocated revising the tax code to allow deferment of capital gains taxes on M&As financed via stock swaps while warning against proposals that would impose a more difficult capital gains tax environment. In a 2015 document, it once again advocated better tax treatment of inbound M&As.

Keidanren, by contrast, recalled Benes, successfully lobbied METI to make the tax treatment for cross-border stock swaps as "burdensome and difficult as possible." At the very last minute, a senior METI official reversed the agreement that its own team in charge had already agreed on with MOF for convenient tax treatment. Unfortunately, the Keidanren continues to have much more sway with the government on these matters than does the Keizai Doyukai.

Three Drivers

Could inward FDI take a leap forward despite the government's resistance to inward FDI? Yes, it's possible because of three drivers.

First, as detailed above, is the sea change in attitudes among the general public as well as parts of the business community and some officials.

Second is the succession crisis at SMEs, also noted above. If necessity truly does give birth to invention, this could be the entrance ramp to making inward M&A a standard tool. How many 70-year-old owners of SMEs would refuse to sell to a foreigner, let their business die, and leave the employees jobless if the government or a big trading company made the introduction and vouched for the buyer's intention to help them grow rather than engage in mass layoffs?

Japan already has a number of companies, such as Nihon M&A Center Inc., which arrange domestic M&As for healthy SMEs with no successor. That has made M&As more acceptable.

So far, however, almost none of these cases have involved foreign buyers. There is also Japan Invest, a program of the Japan External Trade Organization (JETRO), which actively courts foreign companies to set up greenfield operations in Japan; but it makes no effort to recruit foreign companies to buy Japanese ones. Inbound M&A should be added to JETRO's mandate. Japan's giant *sogo shosha* (general trading companies) and megabanks, with their skill sets and extensive networks inside Japan and overseas, are very well suited to act as matchmakers for inbound M&As for these SMEs. It could be a very lucrative business for them.

Studies show that SMEs are more likely to sell to a foreign company if they see that other SMEs have done so successfully. Hence, as foreigners buy and improve SMEs, the process is likely to snowball.

Will better corporate governance become a driver? Many US executives expect that it will. Speaking of return on equity (ROE), one noted: "Ten years ago, when I used the term ROE, many Japanese executives asked me what I was talking about. Not these days." Some analysts point to companies such as Hitachi, Ltd. and Shiseido Japan, Co., Ltd. that sold healthy divisions to foreign private equity (PE) firms to focus on their most lucrative activities. Lebrun noted that, "the stock market has certainly rewarded companies that are taking these steps."

This logic may eventually bear fruit, but it will take years to see how much impact these reforms will have. Hitachi and Shiseido are the kind of globally active corporations that are most likely to improve efficiency for their own strategic reasons, not because of new governance rules. In fact, Hitachi began divesting before the change in the two codes. While "select and focus" has been a big buzz phrase in boardrooms during the past decade, it's hard to find data measuring how much the typical corporate giant has really implemented it, either by narrowing the range of products or shedding affiliates. In any case, the total number of subsidiaries and affiliates in 2017 was more or less the same as in 2007.

In anticipation of a boom in carve-outs, KKR, Bain Capital, LP, CVC Capital Partners, and about 80 other domestic and foreign PE firms are building up their war chests. So far, however, the anticipated upsurge has yet to emerge. Since 2004, there have only been 10–20 domestic divestitures above ¥10 billion ($100 million) to PE firms per year, a figure that has not increased over time.

The typical sale has been priced at about ¥50 billion ($500 million), with the notable exception of 2017, when a group led by Bain Capital paid $18 million for 40 percent of Toshiba's memory unit. There has so far been no trend increase in the total value of deals. The delay, commented consultancy Bain & Company, Inc. in a 2018 report, is due to the fact that there is still "insufficient pressure on corporates to sell quality assets" and that

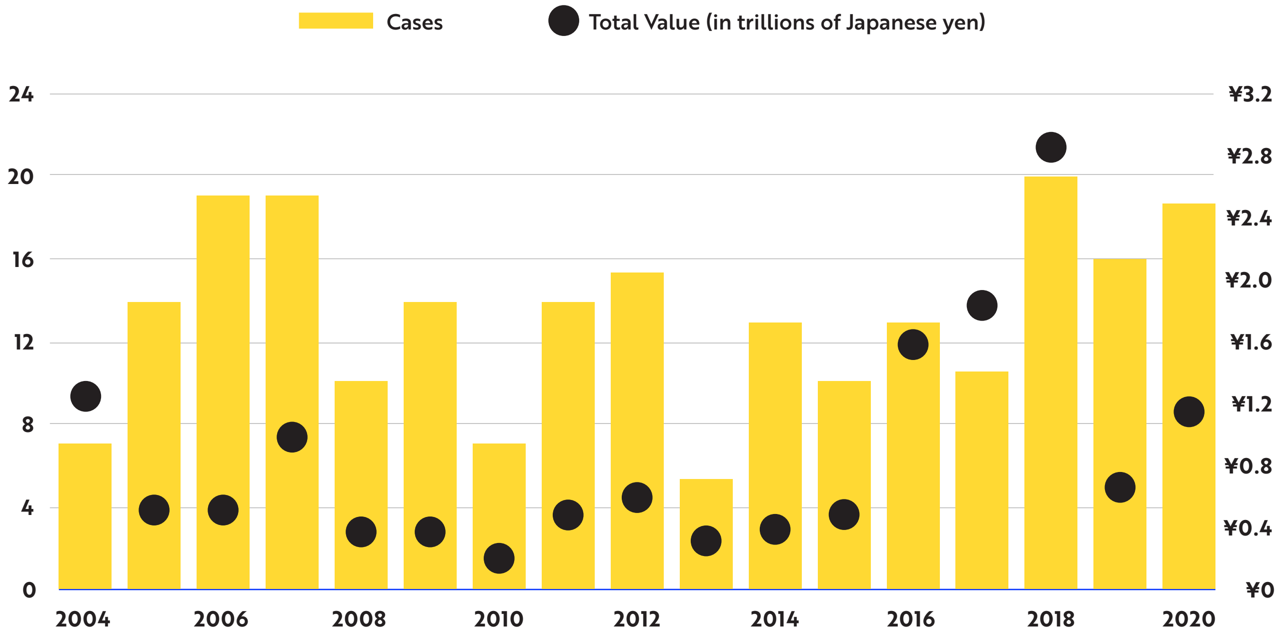
FDI Confidence Rankings

	2021		2020
United States	1	—	1
Canada	2	—	2
Germany	3	—	3
United Kingdom	4	▲	6
Japan	5	▼	4
France	6	▼	5
Australia	7	—	7
Italy	8	▲	9
Spain	9	▲	11
Switzerland	10	—	10
The Netherlands	11	▲	14
China	12	▼	8
New Zealand	13	—	13
Sweden	14	▲	15
United Arab Emirates	15	▲	19

Source: *2021 Kearney FDI Confidence Index®*

Corporate Divestitures via Sales to Private Equity Firms

Cases and total value (2004–20)



Source: Bain & Company analysis using AVCJ data. 2019–20 author's rough estimate.

"boards and shareholders do not yet push for strategic divestitures," i.e., selling profitable but lackluster units that don't enhance core competencies. Instead, Bain & Company added, corporations are taking easier routes to show better ROE numbers, such as stock buybacks and selling low-quality assets, namely, those that are unprofitable or suffer declining sales and a worsening competitive position.

Regardless of any rules on paper, shareholders' power over management is limited by a simple financial fact: Japan's 5,000 biggest corporations have little need to raise money on the equity markets to fund new investments, since their internally generated cash flow regularly surpasses their investments in new plant and equipment. The overall decline in stable shareholders (i.e., cross-shareholders plus other management allies) should be a force for improving shareholder power. However, as Benes points out, the Financial Services Agency (FSA) has issued rules that make it hard for minority shareholders to act collectively to make suggestions to management, as they can in the United States and the UK.

Beyond that, companies can make financial measures look better without any improvement in real efficiency. For example, if companies use current profits to measure ROE or return on assets (ROA), then the Bank of Japan's continual lowering of interest rates will make the measures look better. However, when ROA is measured in terms of operating profits—profits before interest—it's hard to find much improvement so far.

AS EARLY AS THE MID-2000s, 47 PERCENT OF RESPONDENTS IN SURVEYS SAID THE IMPACT OF FOREIGN COMPANIES ON THE JAPANESE ECONOMY WAS POSITIVE, WHEREAS ONLY EIGHT PERCENT THOUGHT IT WAS NEGATIVE.

At the 5,000 biggest corporations during 1996–2012, ROA averaged just 3.5 percent. It rose only a smidgeon to 3.8 percent from 2013 to 2019. Worse yet, these companies increased their profits primarily by cutting wages rather than improving efficiency. In 2019, operating profit per worker was 70 percent higher than in 1996, even though sales per worker were only three percent higher.

How did companies pull that off? By cutting wages three percent per staffer and thereby shifting a big chunk of value-added from wages to profits. However, for an economy to be healthy, it is necessary for productivity, profits, and wages to grow in tandem. Unless shareholders care how better profit numbers are achieved, it's not clear how increased shareholder power would lead to more productive corporate strategies.

Perhaps changes in corporate governance rules, the succession crisis, and other drivers will eventually add up to a force powerful enough to alter deep-seated mindsets regarding product diversification, vertical keiretsu, and sales to foreign strategic investors. Still, the likelihood is that the magnitude of change required in inward FDI will require a concerted policy effort by the government and business leaders. Otherwise, when 2030 arrives, Japan might still be little better than in 196th place. ■

This article was adapted from Katz's forthcoming book on reviving entrepreneurship in Japan.

TAXATION

It's a New World for JCT

How will changes to Japan's consumption tax rules affect your business?

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Beginning in October 2023, major changes to the laws governing Japan's consumption tax system will likely impact a wide variety of businesses. Consumers need not worry—there is no rate hike included in these changes—but companies doing business in or with Japan will have more to consider.

Japanese consumption tax (JCT) is Japan's version of a value-added tax (VAT) or sales tax. The current rate of 10 percent (up from eight percent as of October 2019) is generally applied to goods and services provided in Japan. There are some major differences between JCT and other VAT systems around the world, however, particularly concerning a company's ability to claim input JCT credits on purchases or expenses.

In a nutshell, the current system:

- Allows purchasers to claim an input JCT credit even if the credit relates to goods or services from companies not registered for JCT purposes
- Permits companies, not registered for JCT purposes, technically not to be required to pay the output JCT they collect to the tax authorities
- Has no strict invoicing requirements, and businesses can rely on their accounting records in some circumstances

In 2023, all the above will change. Companies will have to register, pay any output JCT collected to the tax authorities, and issue a qualified invoice (with certain required items stated correctly) in order for their customers to claim input JCT credits on their purchases.

Real-world Impact

What does this mean for companies doing business in Japan?

First, it is important to note that these changes will impact not only businesses with a physical presence in Japan but also those providing certain digital services to Japanese customers. (In some cases, digital

Actions to Take before Day 1

- Determination of invoice format
- Modification of invoicing system
- Review of special cases

- Including examination of EDI/cloud transactions and manual operations

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services may be taxable for JCT purposes in Japan, even if the provider is located overseas.)

While at a high level many of the changes may be operational in nature, there are some more nuanced impacts that should be considered. As a first step, companies should begin to think about whether they are going to apply for the new registration.

While the application itself is not overly complex, the decision to register may be a difficult one for those businesses that are not otherwise obliged to remit the output JCT they collect to the tax authorities.

If businesses choose not to register, they will need to consider the resulting impact on their relationship with customers, who will lose the ability to claim an input JCT credit.

Next, companies may need to reexamine certain administrative processes to ensure that they can accommodate the changes. The new rules will bring additional bookkeeping and record-keeping requirements, so companies should make sure their enterprise resource planning systems are set up to handle them. The needs may include alignment of accounting systems with invoicing systems, alteration of electronic data interchange systems, and more. This may also be a good time for companies to consider whether their systems and processes are compliant with Japanese e-storage rules if accounting records are being maintained in soft, rather than hard, copy.

More Things to Consider

Apart from the need for registration and to make changes to the content of a qualified invoice, complying with the new invoicing system is likely to be easier for sellers than purchasers. More changes will be required on the purchase/expense side, as receiving and maintaining appropriate invoices will be mandatory to claim input JCT credits.

Under the new system, companies will need to reconsider the adequacy of their internal procedures—including those for employee expense reimbursements—as the system will require invoices to be maintained in cases where there was no such requirement previously.

In addition, businesses will also have to check the invoices actually received from vendors, registered or non-registered, to confirm all necessary content is included, e.g., the vendor's registration number. This review process may already be a regular procedure in other VAT jurisdictions, but it is not currently so in Japan.

Further, the legal changes may impact the preparation of JCT returns, as the new system will require some decision-making around how the final JCT liability will be calculated.

IF BUSINESSES CHOOSE NOT TO REGISTER, THEY WILL NEED TO CONSIDER THE RESULTING IMPACT ON THEIR RELATIONSHIP WITH CUSTOMERS.

While the qualified invoice system itself will go live in October 2023, the tax authorities began accepting applications for registration by vendors on October 1 of this year. As the tax authorities will also begin to publish information about registered companies on a dedicated website, the expectation is that many will opt for this early registration. For companies that wish to be compliant with the new system by October 2023, the application should be submitted by the end of March 2023 at the latest.

The new rules will have a pervasive influence over operations and systems. Given that businesses are likely to need professional support to prepare for all the changes, and with the application window for vendor registration having opened on October 1, now would be a good time to begin preparation. ■

Learn more

Join us for a special event on December 20

with Tsuyoshi Mizoguchi and James Subin of PwC Tax Japan

Hosted by the ACCJ Taxation Committee and the Independent Business Committee

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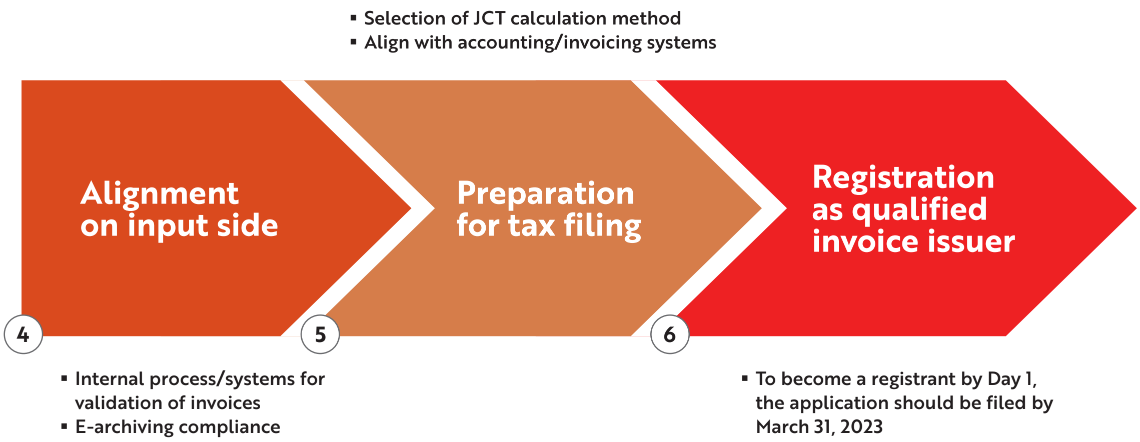

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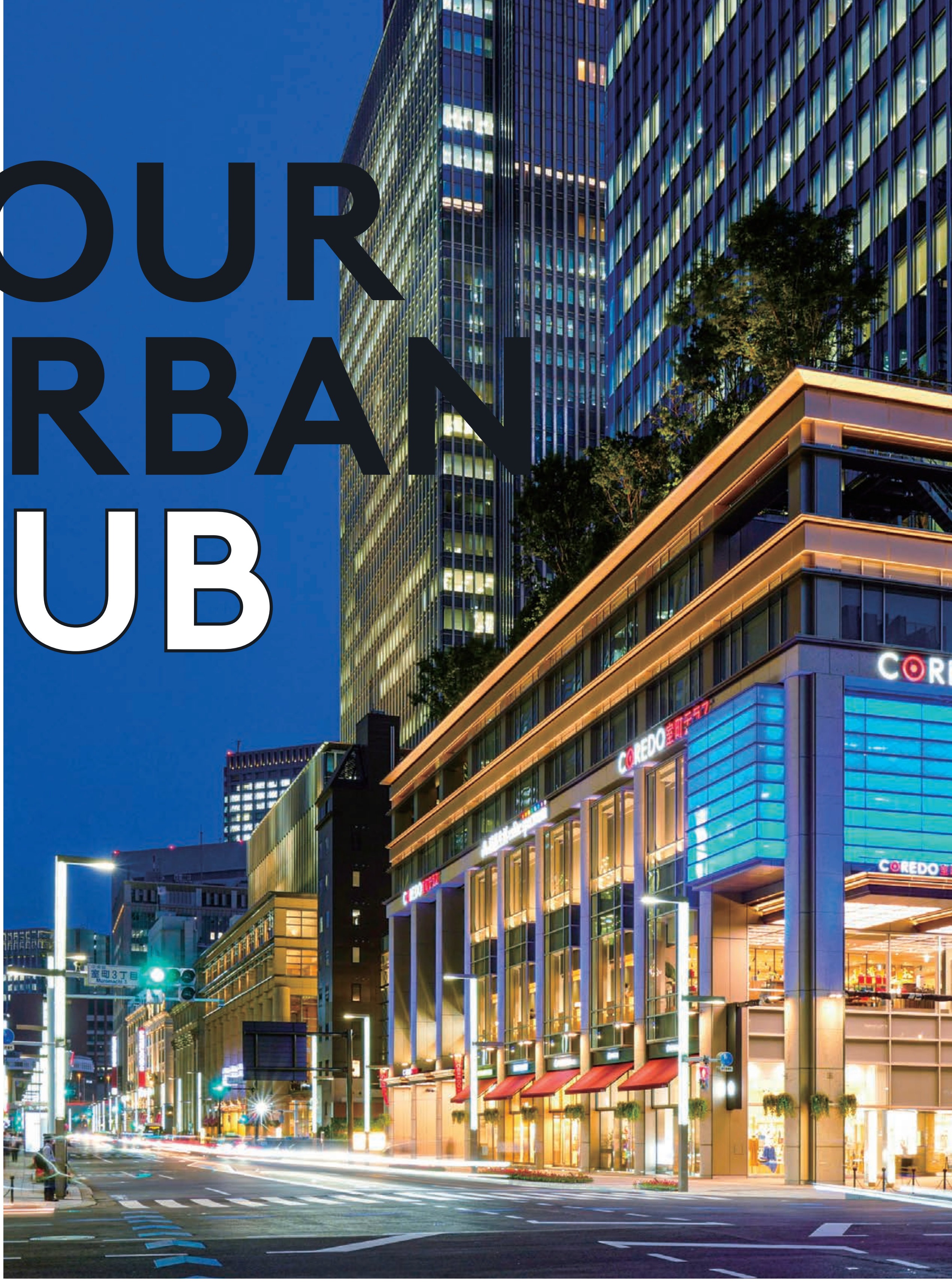

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By Hoang Thi Lien

CPA and 4IR

What accountants need to know to thrive during the Fourth Industrial Revolution

The term Fourth Industrial Revolution (4IR) was first used in English in 2016 by Klaus Schwab, the founder of the World Economic Forum, inspired by the German "Industrie 4.0," coined in 2011 at Hannover Messe by Professor Wolfgang Wahlster, director and CEO of the German Research Center for Artificial Intelligence (AI). In his book of the same name, Schwab describes how the 4IR is being ushered in by shifts and trends. These include AI, Big Data, the Internet of Things, blockchain, and machine learning—all of which allow us to automate and gain greater insight from many traditional processes.

The 4IR is bringing great opportunities and challenges to many business sectors, including accounting and auditing. This requires employees to be more knowledgeable about their area of expertise and proficient in languages, as well as to develop soft skills. Here are some key things that certified public accountants (CPAs) need to know to thrive in the years to come.

To become a future-proof professional, we need to be flexible and embrace innovation.

How is 4IR changing accounting and auditing?

Instead of manually dealing with traditional bookkeeping and auditing tasks, CPAs are learning to use new software and technologies. The benefits are numerous and could improve relationships with clients by:

- Reducing repetitive tasks, leaving more time for other work and interaction with clients
- Allowing files to be accessed, edited, and controlled from anywhere via cloud-based systems
- Providing greater ease, speed, and accuracy when managing client data
- Greatly enhancing security and compliance
- Equipping CPAs to answer client questions, provide feedback, or give advice instantly
- Bringing greater transparency to a client's financial insights

How might the professions change?

Accountants may leave bookkeeping and stewardship to become strategic business partners. As automation increases, CPAs will need the ability to analyze, interpret, and use the output generated by these technologies to make strategic and operational decisions.

Auditors won't be left behind in the 4IR. Instead, technology will not only assist in improving the quality of audit performance and data analysis, but also in giving clients better value-added feedback and superior recommendations.

How can CPAs adapt to the change?

1. Keep learning

Rapid changes in accounting and auditing practices, as well as in technology, require that individuals continuously learn. As a result, they can achieve their career goals, contribute to the organization, and provide value to clients.

As an international auditing firm, Grant Thornton is taking the lead in utilizing new technology to enhance audit quality and efficiency. Grant Thornton also annually provides training programs to help employees update their knowledge of tax regulations, financial reporting standards, auditing best practices, relevant laws and regulations, and technology.

In my opinion, the 4IR will bring more opportunities for accountants and auditors with international qualifications. Certificates such as those from the Association of Chartered Certified Accountants, CPA Australia, and the American Institute of Certified Public Accountants allow accountants and auditors to maximize their abilities and improve the competitiveness of human resources in the field of accounting and auditing.

2. Think radically

As professionals, we need to be open to profound changes. Research shows that humans and computers working together produce better results than computers alone. Moreover, we need to think about how we are going to take advantage of technology to maximize traits such as skepticism, leadership, teamwork, personal relations, and creativity that are beneficial to auditing and accounting careers.

3. Be adaptable

To remain relevant in an ever-evolving digital world, we must embrace these changes. Therefore, adaptability and agility are considered the most important soft skills for accountants and auditors. These skills play a vital role in ensuring that accountants and auditors can adapt to a changing working environment and to the challenges emerging from evolving business models.

To become a future-proof professional, we need to be flexible and embrace innovation. ■

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