

### Section 3

## TALENT ACQUISITION AND INVESTMENT THROUGH THE OSAKA-KANSAI EXPO: INSTITUTIONAL DEVELOPMENT AND REGULATORY EASING

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In order to attract talent and investment from both domestic and overseas to the Kansai region, it is essential to facilitate business through institutional development and regulatory easing, as well as to create a supportive living environment for businesspeople and their families.

In Section 3, we will first review the foreign direct investment in Japan, policies of local governments in the Kansai region, and proposals of the business federation. Next, we examine several successful cases of cities and countries, both domestically and internationally, to explore strategies for developing a business environment, including institutional development and regulatory easing, to attract talent and investment in the future.

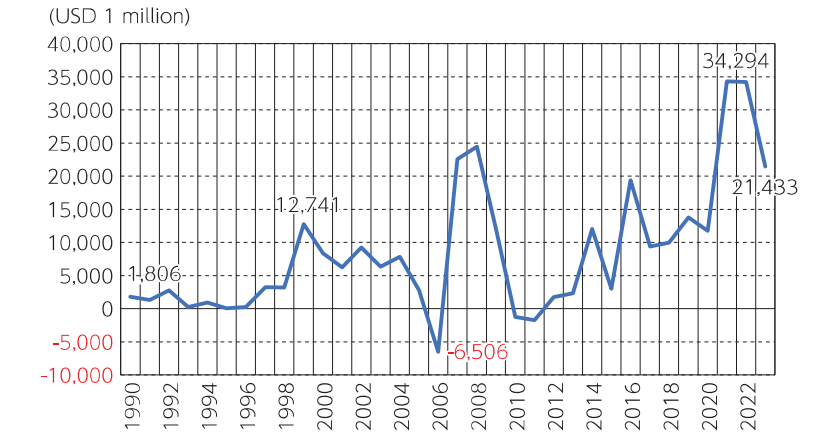
### 1. The Current State and Issues of Japan's Business Environment

#### (1) Foreign Direct Investment in Japan

We will first take a look at the current foreign direct investment in Japan. [Figure 5-3-1](#) illustrates the evolution of foreign direct investment in Japan from 1990 to 2023, based on data from the United Nations Conference on Trade and Development (UNCTAD). As the figure illustrates, there was a substantial increase from \$1.8 billion in 1990 to \$12.7 billion in 1999. Subsequently, the amount gradually declined and reached -\$6.5 billion in 2006. Despite a notable increase in 2007 and 2008, the figure declined again in 2009, largely due to the Lehman Shock. The amount then gradually increased, thanks to initiatives such as the National Strategic Special Zones outlined in the 2013 'Japan Revitalization Strategy,' reaching a record high of \$34.3 billion in 2021. Although the amount decreased to \$21.4 billion in 2023, the overall trend indicates a steady increase in investment.

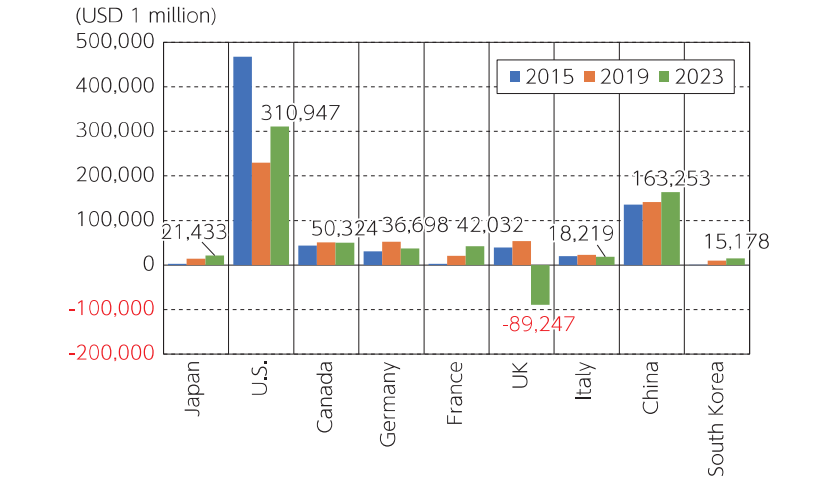
Nevertheless, when compared to other countries, the amount of foreign direct investment in Japan remains relatively modest. [Figure 5-3-2](#) compares the inflows of foreign direct investment in major countries. In 2023, Japan's figure was higher than those of the UK, South Korea, and Italy but was relatively

lower than those of other countries. Although foreign direct investment in Japan has steadily increased, it remains low compared to major countries, raising concerns about Japan’s ability to continuously attract investment. Below, we address the challenges of business environments in Japan and the Kansai region.



**Figure 5-3-1** Changes in foreign direct investment in Japan

Source: Prepared by the author from UNCTAD (2024)



**Figure 5-3-2** Changes in inward foreign direct investment worldwide

Source: Prepared by the author from UNCTAD (2024)

## (2) The Business Environment in Japan from the Perspective of Foreign Enterprises

According to the “Survey on Business Operations of Foreign-affiliated Companies in Japan,” conducted by the Japan External Trade Organization (JETRO) between September and October of 2021, the most appealing aspect of Japan’s business environment is its “size of the Japanese market,” followed by “growth potential of the Japanese market” and “well-developed infrastructure” (Figure 5-3-3).

The survey also indicates that foreign companies prioritize the prospect of “acquiring new customers” when establishing or strengthening their business bases in Japan. Other important factors include “well-developed infrastructure,” “low business costs,” and the “prospects of securing skilled talent” (Figure 5-3-4). On the other hand, regarding changes in business environment, many firms reported difficulty in “securing human resources” (Figure 5-3-5).

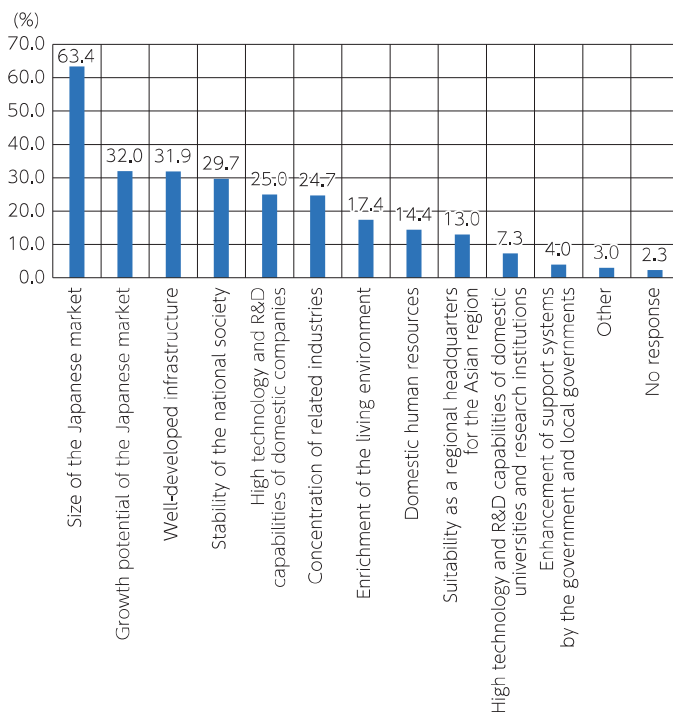


Figure 5-3-3

The appeal of the Japanese business environment

Source: Prepared by the author from JETRO (2022)

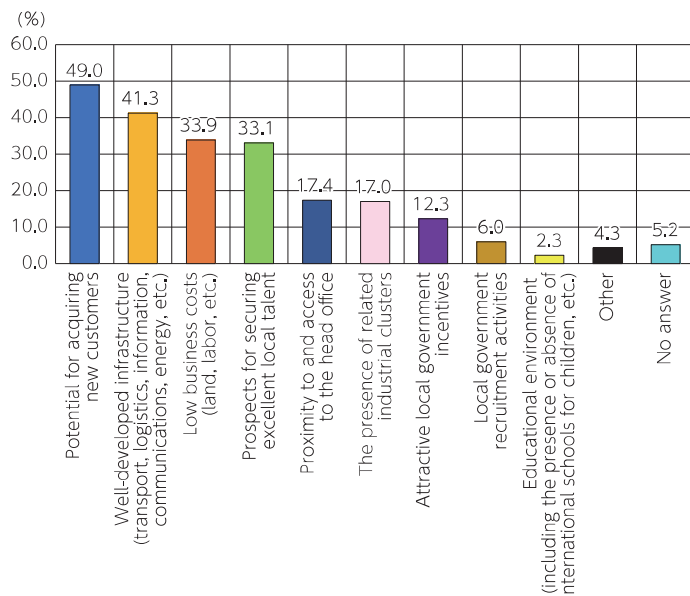


Figure 5-3-4

Key considerations for foreign companies establishing a base abroad

Source: Prepared by the author from JETRO (2022)

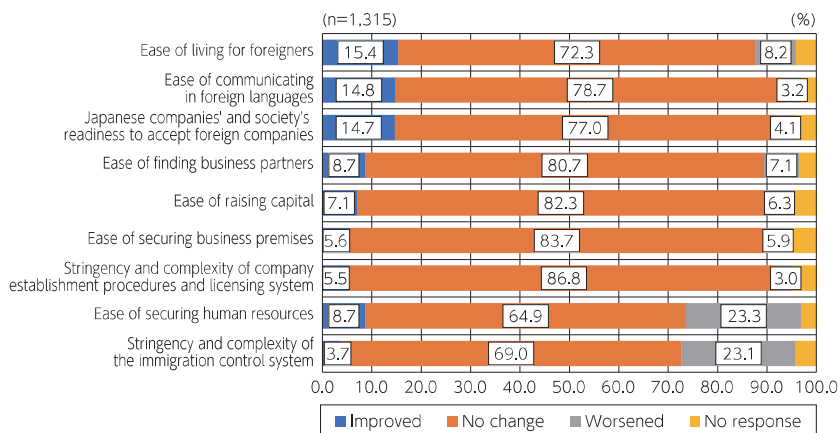


Figure 5-3-5

Changes in the Japanese business environment

Source: Prepared by the author from JETRO (2022)

Furthermore, as part of APIR's independent research project, interviews were conducted in May 2023 with JETRO Osaka Headquarters, Kobe, and Kyoto regarding the "Challenges of Attracting Foreign Companies to Kansai." The findings show that the lack of English proficiency among Japanese limits the pool of talent that can be introduced to foreign companies (Table 5-3-1).

The findings from JETRO's questionnaire survey and interviews corroborated the crucial role of "securing human resources." The subsequent sections will discuss measures to improve the business environment.

**Table 5-3-1** JETRO interview results: Main issues in attracting foreign companies

- There is a shortage of personnel related to IT and consulting in Japan. Proficiency in spoken English is essential.
- Many Japanese people are not good at speaking English, so there are not many people who can be introduced to foreign companies.
- Since the application documents for the government are in Japanese, this can sometimes be a problem for foreign companies setting up a base in Japan.
- We have been sending vocational trainees to Japan, but we are now planning to switch to international students. (Vietnam, etc.)

### (3) Improving Japan's Business Environment

#### [Human resource acquisition]

To address the challenges of securing human resources, talent mismatch and skill shortages due to population decline and an aging society, we examined the case of Fukuoka City, which has a relatively high concentration of human resources.

Table 5-3-2 compares the abundant human resources and the industrial

**Table 5-3-2** Comparison of young human resources in Fukuoka City and major Kansai cities

	Fukuoka City	Kansai
Young population (rate of people aged 15-29)	17.60%	Kyoto City 16.9% Osaka City 16.5% Kobe City 14.1%
<b>Number of junior colleges, technical colleges, universities (graduate schools), and special training schools per 100,000 people</b>	6.79	Kyoto City 11.00 Osaka City 3.57 Kobe City 5.34
Number of international students (2022)	19,260人 (Fukuoka Pref.)	Osaka Pref. 24,361 people Kyoto Pref. 13,807 people Hyogo Pref. 10,729 people
Growth rate of the number of foreign residents (2005→2021)	194.70%	Osaka City 118.7%

Source: Prepared by the author from Information & Strategy Office of the Fukuoka Asian Urban Research Center (2022) and Fukuoka City (2023a).

and urban development strategies in Fukuoka City with those of major cities in the Kansai region. It can be seen that Fukuoka City is a city with a large population of young Japanese and international workers (students). Additionally, Fukuoka City's industrial and urban development strategies focus on commerce, information, and services, which help create employment opportunities and attract young people from the Kyushu region.

After the war, Fukuoka City's plan to become an industrial city, outlined in the 'First Comprehensive City Plan/Master Plan,' proved difficult due to issues with the industrial water supply. As a result, the city shifted its focus in the 1960s, aiming to develop as a commercial, information, and service-oriented city. In 2014, Fukuoka City was selected as one of the National Strategic Special Zones under the 'Global Startup and Job Creation Special Zone' initiative, marking a turning point in the city's focus on the startup sector and the fostering of IT and creative industries. As a result, young people move to Fukuoka City not only to further their education but also for employment opportunities.

"Attracting workers and workers being attracted" is important in addressing the issue of "securing human resources." Initiatives by Fukuoka City (inviting creative industry and supporting startups) can serve as a model for engaging potential young workers. Furthermore, as the Japanese population continues to decline, the demand for international workers is expected to increase. JETRO's survey (Figure 5-3-4) indicates that foreign-affiliated companies also value educational environment (international schools), highlighting the need to improve the living environment. Moreover, several countries are transitioning from sending trainees to sending international students (Table 5-3-1), emphasizing the need to strengthen employment support for international students.

Additionally, it is necessary to discover and match workers that fit the needs of businesses. For example, when foreign-affiliated companies search for highly skilled personnel for their management team, services to meet such demand need to be strengthened.

The interview with JETRO also highlights the need to put more effort into reskilling to secure professionals for the understaffed IT and consulting sectors, as well as English-speaking personnel.

The above challenges and recommended course of action are summarized in Table 5-3-3.

### [Institutional development and regulatory easing]

In order to attract talent and investment to the Kansai region, it is necessary to speed-up the commercialization of demonstration projects at the Osaka-Kansai Expo. Local governments, business federations, and Expo Associations in the

Kansai region have made a request to the Cabinet Secretariat for institutional development and regulatory easing in areas outlined in the “Osaka-Kansai Expo 2025 Action Plan Ver. 3” (December 2022). The plan is highly desired to be proactively implemented (Table 5-3-4).

**Table 5-3-3** Issues in securing human resources and directions for improvement

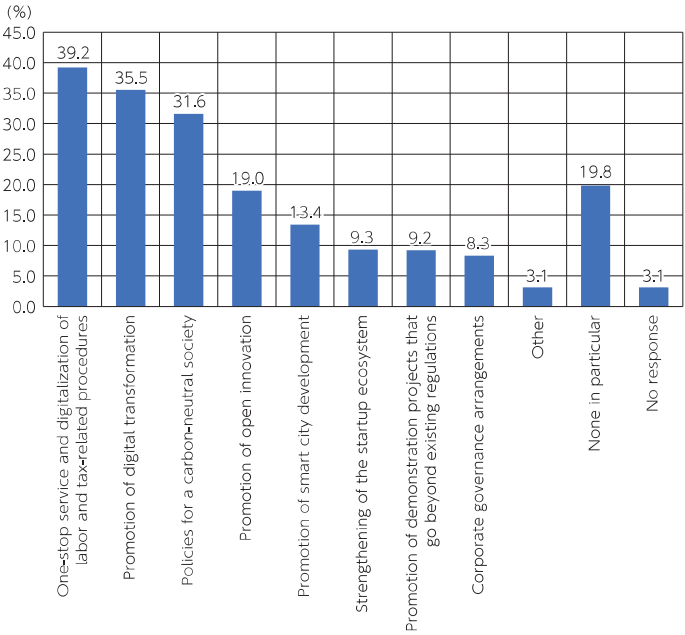
Issues	Improvement methods	
Attracting human resources	Domestic	<ul style="list-style-type: none"> <li>• Implementation of measures to retain young people. E.g.) Creation of a creative industry.</li> <li>• Increase the number of young people taking on challenges. E.g.) Strengthening support for startups.</li> </ul>
	International	<ul style="list-style-type: none"> <li>• Improving the living environment. E.g.) Increasing the number of international schools.</li> <li>• Promoting support for international students' employment. E.g.) Promoting the recruitment of highly skilled foreign human resources through the 'Kansai Consortium for the Advancement of Foreign Human Resources'</li> </ul>
Matching with corporate needs	Highly skilled	<ul style="list-style-type: none"> <li>• Strengthening of services for finding and matching highly skilled human resources (management level) sought by companies. E.g.) Responding to the needs of foreign-affiliated companies.</li> </ul>
Skill-Up	Specialized / Global human resources	<ul style="list-style-type: none"> <li>• Practical education in collaboration with industry and academia at university. E.g.) IT, consulting, etc.</li> <li>• Strengthening the English skills of Japanese people. E.g.) Responding to the needs of foreign-affiliated companies"</li> </ul>

Source: Prepared by the author

**Table 5-3-4** Requests to Kansai local governments, economic organizations and Expo Associations for system development and regulatory easing in the Osaka-Kansai Expo Action Plan

Action Plan Ver. 3 Fields	Requests regarding system development and deregulation
①Life Sciences, Healthcare	<ul style="list-style-type: none"> <li>• Development of rules and standardization to promote the utilization of healthcare data</li> </ul>
②Smart Mobility	<ul style="list-style-type: none"> <li>• Deregulation to facilitate the construction of takeoff and landing sites for Advanced Air Mobility and the establishment of flight routes</li> <li>• Development of systems related to Advanced Air Mobility, such as the construction of takeoff and landing sites, safety standards for aircraft, flight altitudes, and requirements for pilot certification.</li> <li>• Early establishment of specific qualification requirements for monitoring staff, as well as operational standards for remote control of automated driving</li> </ul>
③Carbon Neutral	<ul style="list-style-type: none"> <li>• Deregulation of the High Pressure Gas Safety Act and Fire Service Act, which are premised on a hydrogen society</li> </ul>
④Smart City	<ul style="list-style-type: none"> <li>• Deregulation of building digital ID infrastructure and data linkage</li> <li>• Financial support and institutional development for the technical development and demonstration of the spatial information platform "Common Ground".</li> <li>• Clarification of the handling of copyrights for 3D scan data</li> </ul>

Source: Prepared by the author from Osaka Prefecture, Osaka City, Union of Kansai Governments, Kansai Economic Federation, Osaka Chamber of Commerce and Industry, Kansai Association of Corporate Executives, Japan Association for the 2025 World Exposition (2023).



**Figure 5-3-6** Measures foreign-affiliated companies expect the government to implement

Source: Prepared by the author from JETRO (2022)

A survey conducted by JETRO of foreign-affiliated companies showed that the two most anticipated government actions are “one-stop service and digitalization of labor and tax-related procedures” and the “promotion of digital transformation” (DX) (Figure 5-3-6). Respondents also noted that the Japanese language requirements for government applications present a challenge for foreign companies seeking to establish a presence in Japan (Table 5-3-1).

Thus, the complexity and burden of administrative procedures are challenges that need to be addressed. Local governments in the Kansai region need to proactively accelerate DX to attract foreign investment.

#### (4) Domestic and International Examples

This subsection will explore how Fukuoka City and Singapore have successfully attracted businesses and then discuss what is needed to promote business attraction to the Kansai region.

First, we will describe the current status of business attraction in the Kansai region. According to the Kansai Bureau of Economy, Trade and Industry, the majority of foreign companies operating in the Kansai region are from the U.S.



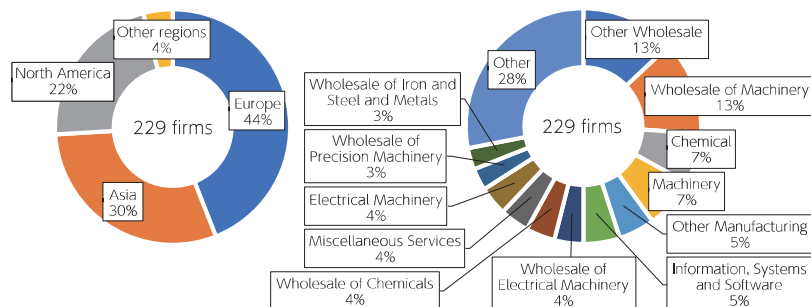


Figure 5-3-7

Foreign-affiliated companies that have expanded into the Kansai region

Source: Prepared by the author from Kansai Bureau of Economy, Trade and Industry (2022).

and Europe, while Asian companies account for 30%, which is higher than the national average (20.3%). Looking at foreign-affiliated companies by industry, the Kansai region is dominated by manufacturing (machinery, chemicals, pharmaceuticals, precision instruments, etc.), which accounts for 32%, higher than the national average (20.5%) (Figure 5-3-7).

In order to facilitate foreign investment in the Kansai region, JETRO has established an Investment and Business Support Center (IBSC) in each prefecture. IBSC offers a range of support services, including the sharing of information and individual consultations, to foreign companies considering expanding into the region.

Similarly, the Kansai Economic Federation, JETRO Osaka, the Kansai Chamber of Commerce and Industry (Osaka Chamber of Commerce and Industry), and the Kansai Bureau of Economy, Trade and Industry have collaborated to organize the INVEST Kansai Conference and are working to provide comprehensive support for foreign investment in the Kansai region.

Local governments, IBPC Osaka, the Kyoto Overseas Business Center, and the Hyogo-Kobe Investment Support Center are also offering comprehensive services to foreign companies looking to expand, creating a well-establishment support system.

Local governments and economic organizations in the Kansai region are proposing policies (e.g. loans, subsidies, tax reductions) to attract foreign companies to the region (Table 5-3-5).

The following section will present two successful examples of business attraction, one domestic and the other international.

Table 5-3-5

Policies of Kansai local governments and economic organizations regarding corporate expansion

	Measures	Policy Proposal
Local government	<ul style="list-style-type: none"> <li>• Financing for promoting the establishment of new businesses. (low-interest loans)</li> <li>• Subsidies for foreign companies expanding into Japan. (subsidies for capital investment, rent, corporate registration fees, etc.)</li> <li>• Subsidies for strengthening local bases. (subsidies for relocating head office functions from outside the prefecture, etc.)</li> <li>• Tax reduction measures for real estate acquisition tax and corporate business tax.</li> <li>• Tax reduction measures for fixed asset tax and business office tax.</li> </ul>	<ul style="list-style-type: none"> <li>• Expansion of areas covered by the local base strengthening tax system, and relaxation of requirements.</li> <li>• Extension of the deadline and expansion of the scope of the regional future investment promotion tax system.</li> <li>• Abolition of the requirements for the investment management visa. (employment of at least two full-time employees, investment of at least 5 million yen)</li> <li>• Expansion of the scope of the angel tax system.</li> <li>• Reduction of the license tax at the time of company registration.</li> <li>• Expansion of public capital investment in venture capital.</li> </ul>
Economic organization	—	<ul style="list-style-type: none"> <li>• Reduction in the effective tax rate for corporations.</li> <li>• Abolition of the business office tax.</li> <li>• Relaxation of the requirements for the angel investor tax system and expansion of the tax deduction period.</li> <li>• Expansion of the tax system to promote open innovation.</li> <li>• Simplification of the stock option procedure and extension of the exercise period.</li> <li>• Reduction in social insurance premiums for the first five years of business.</li> <li>• Expansion of the tax system to promote investment in small and medium-sized enterprises.</li> </ul>

Source: Prepared by the author from the websites of local governments and economic organizations in Kansai.

### [1] Fukuoka City

Fukuoka City has been known for its focus on providing support to startups. The city has established support facilities, eased the residency requirements to support foreign startups, and implemented a subsidy system and preferential tax system to facilitate business expansion.

Consequently, over the course of nine consecutive years from FY2013 to FY2021, annually more than 50 companies have established their bases in Fukuoka City. Many of them are in the “creative industry,” with the trend becoming especially noticeable since FY2017 (Table 5-3-6).

Similarly, in the Kansai region, support for startups is also provided in Osaka, Kyoto, and Kobe. However, many startups are gathering in Fukuoka City, instead of metropolitan areas or Kansai, due not only to the lower competition

Table 5-3-6

Changes in the number of companies locating in Fukuoka City

(Unit: companies)

	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
Number of companies	53	52	62	58	57	57	53	50	64	65
Number of employees (Unit: people)	2,966	1,290	2,213	2,989	1,041	1,334	1,058	665	2,600	2,157
[By industry]										
Creative-related industries	18	18	33	28	40	38	38	30	41	47
Call centers	7	7	8	12	9	7	2	8	8	6
Health, medical care and welfare	0	2	2	2	1	1	1	1	2	2
Environment and energy	7	5	1	0	0	0	0	1	1	0
Logistics-related	9	8	12	1	1	2	3	3	3	5
Other	12	12	6	15	6	9	9	7	9	5
Total	53	52	62	58	57	57	53	50	64	65
[Main function]										
Head office functions, etc.	0	4	3	3	1	7	6	0	7	5
International finance	-	-	-	-	-	-	-	-	6	7
Foreign and foreign-affiliated	17	12	9	18	13	14	15	12	15	12

Note: Number of companies: Companies that Fukuoka City helped in expanding there.

Source: Prepared by the author from Fukuoka City (2023b).

for talented human resources, but also to the wide range of support measures.

## [2] Singapore

Here, we examine Singapore's policies for business attraction. Singapore has been able to attract foreign businesses by making progress in tax incentives and easing of regulations, while also improving its transportation and information infrastructure. Comparing the tax rates between Singapore and Japan reveals significant differences (Table 5-3-7).

In addition to the preferential tax rates, Singapore has established systems and incentives that facilitate startup. For example, except for those related to national security, there are almost no restrictions on "capital restriction," "industry regulations," or "minimum capital requirement," allowing businesses to set up with 100% foreign capital.

Table 5-3-7 Comparison of tax rates in Singapore and Japan

	Singapore	Japan
Corporate tax (effective tax rate)	17%	29.74%
Corporate tax (reduced tax rate)	Up to SGD 200,000: 8.3% (75% tax-free on the first SGD 10,000, 50% tax-free on the next SGD 190,000)	Up to JPY 8 million: 15%
Foreign source income	Tax free if the money is not sent to Singapore.	Residents are subject to taxation
Income tax	0%~24%	5%~45%
Resident tax	Tax-free	10%
Capital gains	Tax-free	20.315%
Inheritance tax	Tax-free	10%~55%
Gift tax	Tax-free	10%~55%

Source: Prepared by the author from materials released by various organizations.

## 2. Summary

We have reviewed examples of cities and countries that have achieved success both domestically and internationally, while considering measures to improve the business environment, such as institutional development and regulatory easing, to attract talent and investment. The content can be summarized as follows.

- (1) Although foreign direct investment in Japan has steadily increased due to the government's institutional development and regulatory easing, its level remains relatively low compared to major countries. In light of the forthcoming Osaka-Kansai Expo in 2025, the challenge will be to devise a sustainable strategy for attracting talent and investment, capitalizing on the opportunities presented by the Expo. To do so, local governments, economic organizations, and the Expo Association in Kansai should proactively work to realize their requests for institutional development and regulatory easing.
- (2) JETRO's survey revealed that foreign companies view the Japanese business environment favorably in terms of the "size of Japanese market" and "potential for acquiring new customers." However, as they also report a worsening in "securing human resources," strengthening services like talent matching, developing talent in fields such as IT and consulting, and enhancing English language skills are considered important.
- (3) When foreign companies establish their bases in Japan, the complexity of administrative procedures and language barriers while preparing documentation pose significant obstacles. It is therefore important for local governments in Kansai to accelerate the digitalization (DX) and one-stop

services for administrative processes.

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