

## Data and Profiles - Market Profiles

# Japan: Market Profile

🕒 29 March 2021

📝 Fitch Solutions



Source: CIA World Factbook, Encyclopædia Britannica, IATA, IMF, Pew Research Center, United Nations, World Bank

www.hktdc.com/Research

### 1. Overview

Japan is the world's third largest economy, with its service sector contributing about 70% of the country's GDP. Wholesale and retail trade; real estate services; and professional, scientific and technical activities complement its major service pillars. Japan has well-developed and high-tech manufacturing and services sectors, with strong advantages in key areas such as electronics and heavy engineering. Since 2012, Japan's government has adopted a three-pronged strategy to reinvigorate the economy. Abenomics (the name given to former prime minister Shinzō Abe's economic policies) comprises expansionary monetary policy, flexible fiscal policy and structural reform. Abenomics has evolved over the years into a broader blueprint for pro-growth socio-economic change that aims to lead Japan in tackling its current challenges, especially an ageing society and shrinking population, head-on. As the ultimate goal, Abenomics hopes to create a society where economic development, digitalisation and solutions for social issues are aligned. In December 2019, Abe unveiled USD120 billion in stimulus measures aimed at boosting economic performance in the medium term. Japan experienced a severe economic recession in 2020 due to the Covid-19 pandemic, but growth is expected to rebound in 2021.

Sources: [JapanGov](#), Fitch Solutions

### 2. Major Economic/Political Events and Upcoming Elections

January 2019

Japan-based beer group Asahi agreed to the purchase of the traditional London brewer Fuller, Smith & Turner. The deal was the latest in a series that had turned Tokyo-based Asahi into the seventh largest brewer in the world.

April 2019

Emperor Akihito abdicated in favour of Crown Prince Naruhito.

July 2019

Japan's quadrennial unified regional, municipal and local elections took place on July 21, 2019. The Liberal Democratic Party (LDP) won the election, ensuring Shinzō Abe's position as the country's longest-serving prime minister. However, the LDP failed to secure the two-thirds majority required to revise the country's pacifist constitution and strengthen the military.

September-November 2019

Japan's hosting of the Rugby World Cup, the third largest sporting event in the world, helped it set a new record for foreign tourist visitors to the country – more than the 31 million tourists in 2018. The government targeted 40 million tourist arrivals by the Tokyo Olympics in 2020.

October 2019

The sales tax increased from 8% to 10%. This triggered public backlash as previous hikes were followed by economic downturns.

December 2019

Then prime minister Shinzō Abe unveiled USD120 billion in stimulus measures aimed at helping alleviate the impact of a recent tax hike as well as natural disasters and survive a potential economic slowdown after a spending boom for the 2020 Tokyo Olympics.

March 2020

The 2020 Summer Olympics, scheduled for July, were postponed to 2021 due to the Covid-19 pandemic.

May 2020

Japan lifted the state of emergency for all prefectures. The state of emergency was imposed in April to combat new infections of Covid-19.

Japan approved one of the largest Covid-19 stimulus packages globally, valued at approximately USD2.2 trillion (equivalent to 40% of GDP). The package included financing for companies, rent subsidies and healthcare assistance. The stimulus package was announced as part of two separate budgets.

Japan officially entered its first recession since 2015 after two successive quarters of economic growth.

August 2020

Shinzō Abe resigned as prime minister due to health reasons. He was scheduled to step down in September 2021 when his third consecutive three-year term as president of the ruling party would end.

October 2020

New Prime Minister Yoshihide Suga announced Japan's policy goal to cut greenhouse gases to zero by 2050 and become a carbon-neutral society.

November 2020

Memory solutions company, KIOXIA, was planning to start construction on a new chip factory in Japan. The fabrication facility, to be built in two phases, would be built at KIOXIA's Yokkaichi Plant in Mie Prefecture. The USD9.5 billion Fab7 facility would produce 3D Flash memory BiCS FLASH chips. Land development was under way for the new plant. Construction on the first phase was expected to begin around Q221, with completion slated for Q222.

December 2020

Prime Minister Suga announced a USD708 billion stimulus package to help the economy recover from the Covid-induced recession.

February 2021

Japan extended its coronavirus state of emergency until March 7, 2021.

October 2021

Elections are due to be held.

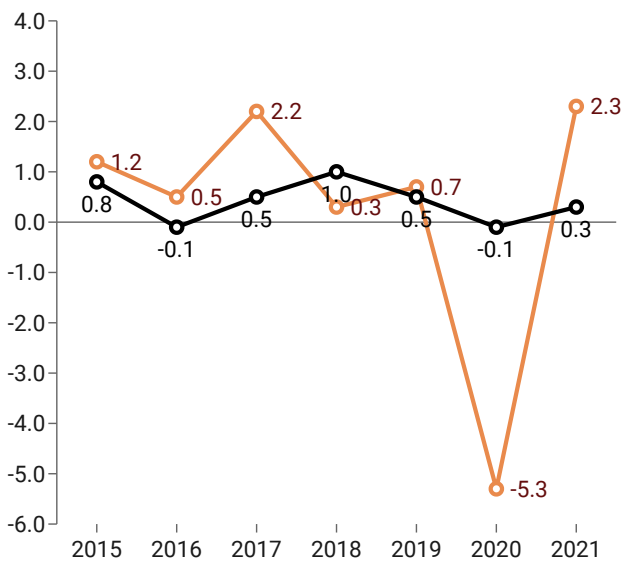
Sources: [BBC Country Profile – Timeline](#), [The Guardian](#), [The Japan Times](#), [IMF](#), Fitch Solutions

### 3. Major Economic Indicators

## Real GDP and Inflation

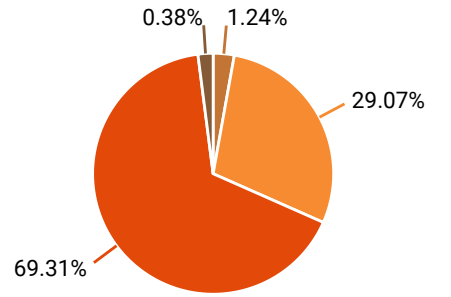
## GDP by Sector (2018)

% share



○ Real GDP ● Inflation

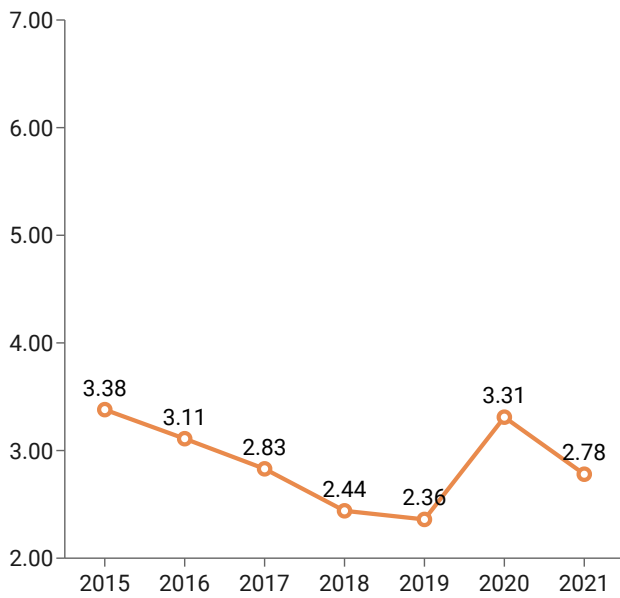
2020 (estimate); 2021 (forecast)  
Source: IMF  
Date last reviewed: January 11, 2021



■ Agriculture ■ Industry ■ Services ■ Other

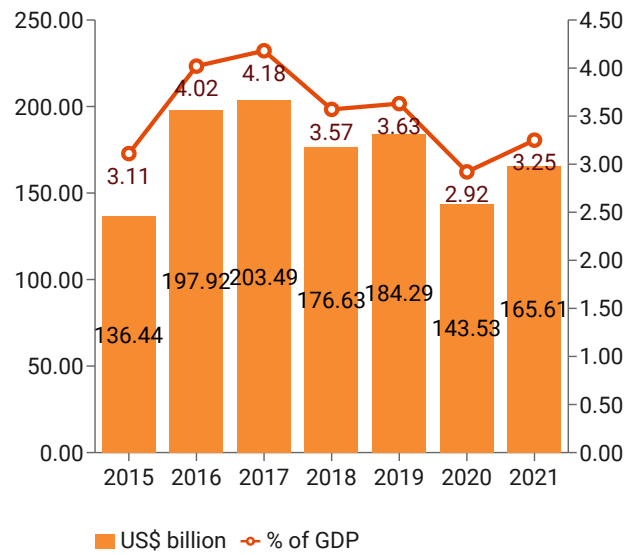
Note: 2019 data not available  
Source: World Bank  
Date last reviewed: December 17, 2020

### Unemployment Rate



2020 (estimate); 2021 (forecast)  
Source: IMF  
Date last reviewed: January 11, 2021

### Current Account Balance



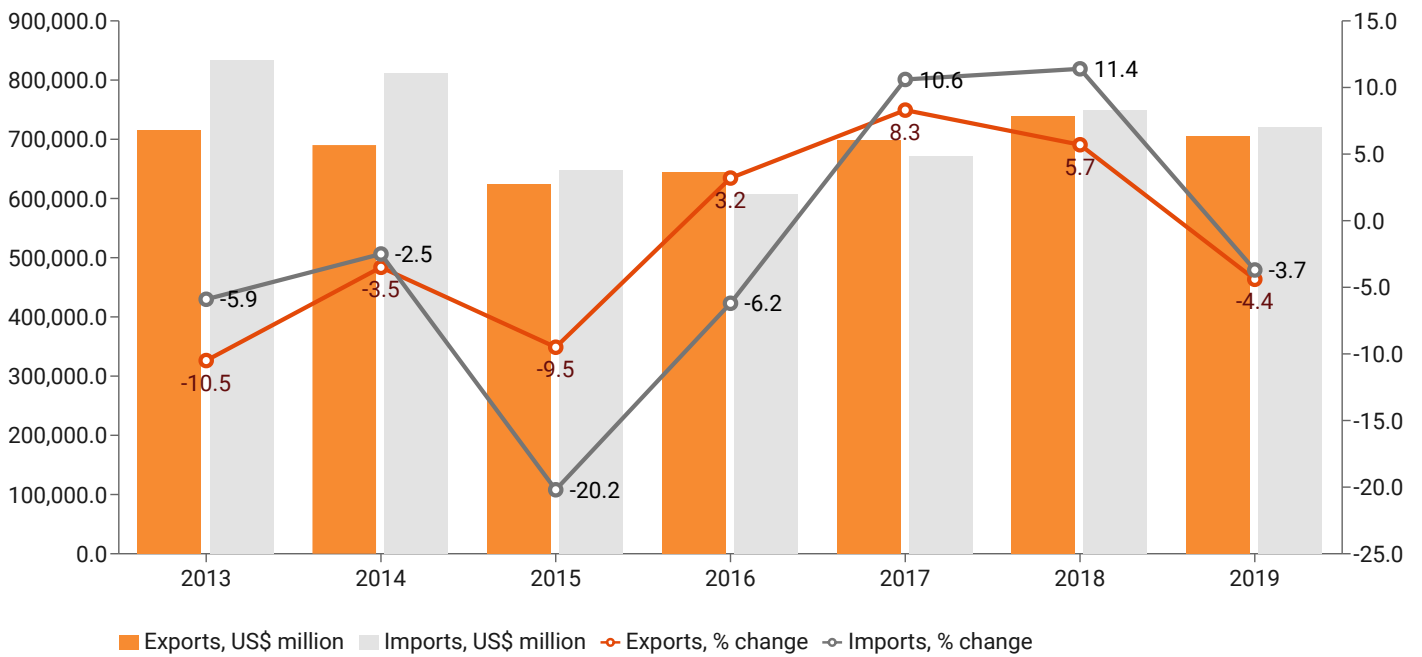
■ US\$ billion ○ % of GDP

2020 (estimate); 2021 (forecast)  
Source: IMF  
Date last reviewed: January 11, 2021

## 4. External Trade

### 4.1 Merchandise Trade

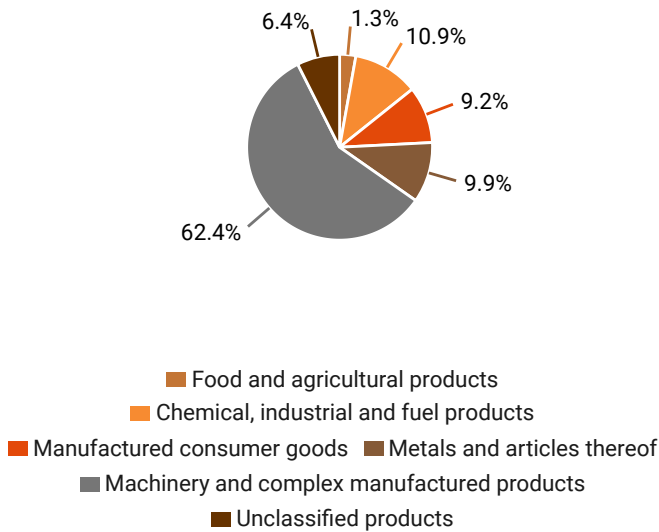
### Merchandise Trade



Source: WTO  
Date last reviewed: January 11, 2021

### Major Export Commodities (2020)

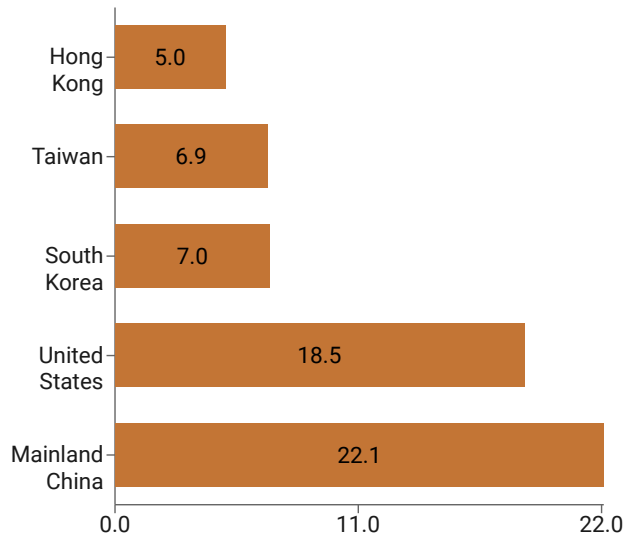
% share



Sources: ITC-Trade Map, Fitch Solutions  
Date last reviewed: March 8, 2021

### Major Export Markets (2020)

% share



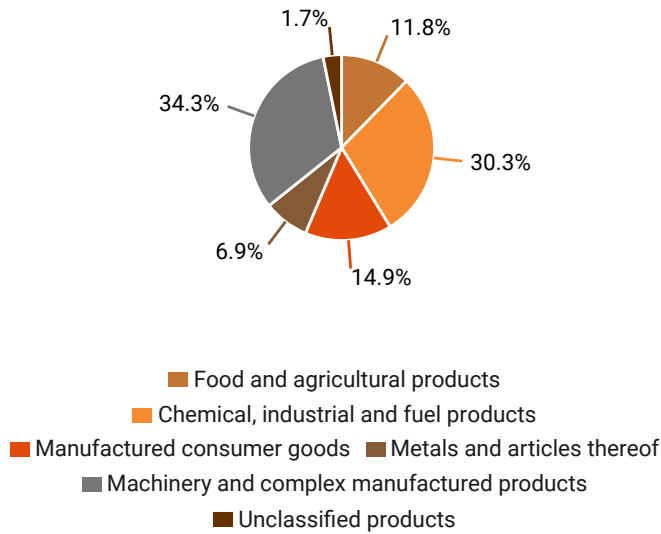
Sources: ITC-Trade Map, Fitch Solutions  
Date last reviewed: March 8, 2021

### Major Import Commodities (2020)

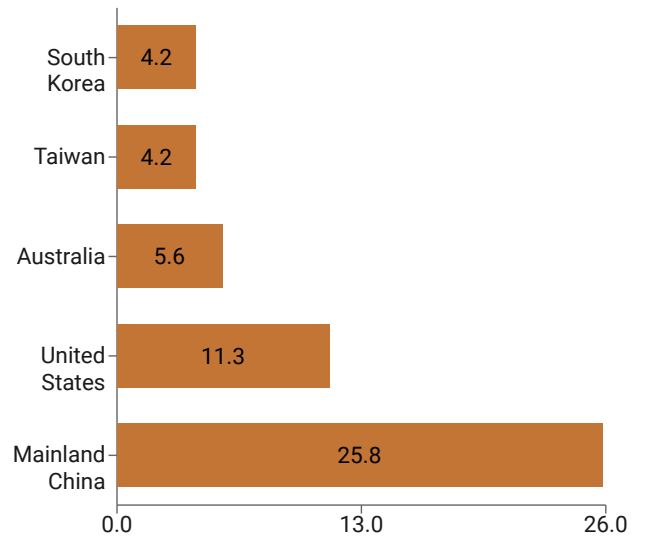
% share

### Major Import Markets (2020)

% share



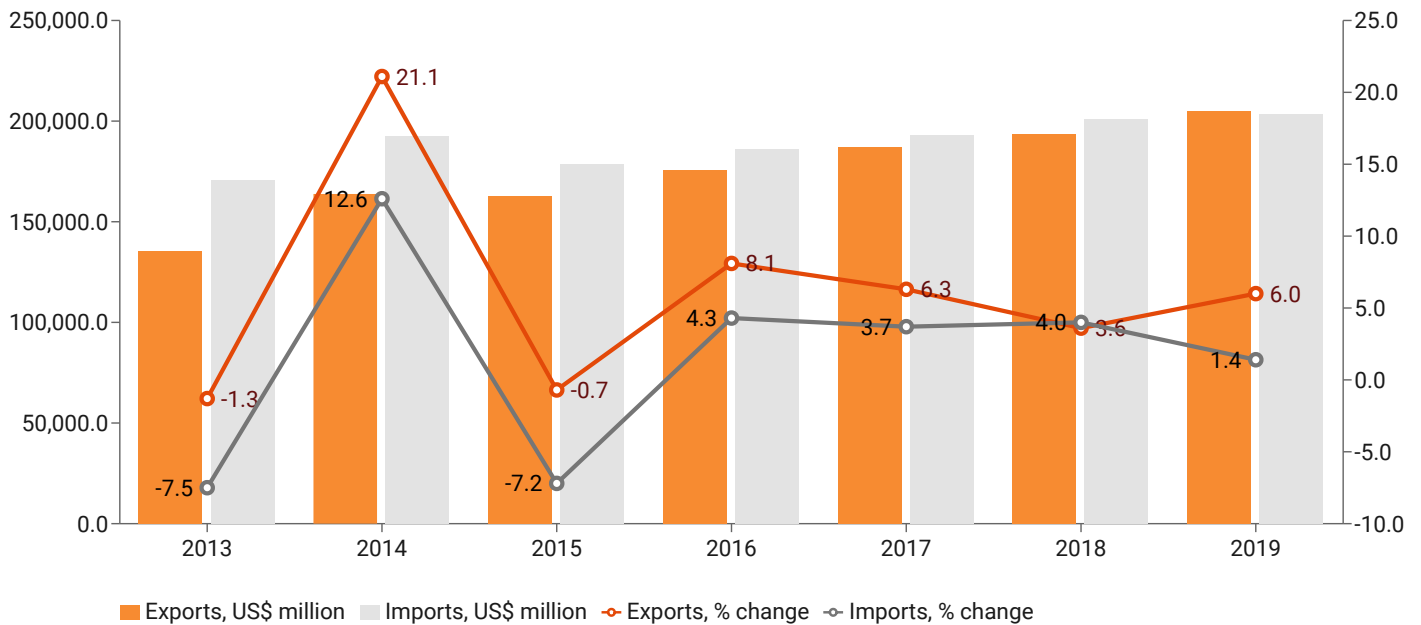
Sources: ITC-Trade Map, Fitch Solutions  
Date last reviewed: March 8, 2021



Sources: ITC-Trade Map, Fitch Solutions  
Date last reviewed: March 8, 2021

#### 4.2 Trade in Services

### Trade in Services



2019 (estimate)  
Source: WTO  
Date last reviewed: January 11, 2021

#### 5. Trade Policies

- Japan has been a member of the World Trade Organization (WTO) since January 1, 1995, and a member of the General Agreement on Tariffs and Trade since September 10, 1955. Japan's tariff schedule has five columns of applicable rates: general, WTO, Generalized System of Preferences (GSP), least developed countries and temporary. Goods originating from Hong Kong are charged at WTO rates unless a lesser temporary rate exists. Japan's GSP grants lower or duty-free rates to products imported from developing countries; however, Hong Kong fully graduated from Japan's GSP in February 2000.
- Most goods can be freely imported without import licences, except certain items covered by the import restriction system (for example, chemical products and weapons). Most of Hong Kong's exports to Japan, such as garments, toys, jewellery, houseware, watches, clocks and the majority of electronic items, are not subject to import restrictions.

- Japan has a total of 18 economic partnership agreements (EPAs) in force or signed with the following countries and regions: Singapore, Mexico, Malaysia, Chile, Thailand, Indonesia, Brunei, the ASEANs, the Philippines, Switzerland, Vietnam, India, Peru, Australia and Mongolia. The Trans-Pacific Partnership and the EPA with the European Union (EU) have also both come into force. Agreements are being negotiated with Colombia and Turkey, as well as the RCEP and a trilateral FTA between Japan, Mainland China and South Korea. Negotiations with Canada, the Gulf Cooperation Council and South Korea have been suspended.
- The overall orientation of Japan's trade policies has remained broadly constant. Japan has several systems in place to expedite the release and clearance of goods, including an authorised economic operator (AEO) programme. It has mutual recognition arrangements on AEO programmes with some of its trading partners.
- Tariffs in Japan are generally low, varying from 0.5% to 5.0% and 1.7% to 15.3% for agricultural goods.
- Japan makes relatively little use of trade contingency measures, although the number of anti-dumping measures implemented by the country has increased. On June 18, 2018, Japan requested a consultation with South Korea about the latter's imposition of duties on stainless steel bars, and on November 6, 2018, Japan initiated an investigation into South Korea over trade in commercial vessels.
- In 2017, Japan introduced the implementation of stand-alone legislation on geographical indications for food, beverages, and agricultural and marine products; the strengthening of the protection of trade secrets; and various amendments to the Patent Act, the Trademarks Act, the Design Act and the Act on International Applications under the Patent Cooperation Treaty.
- The Ministry of Economy, Trade and Industry (METI) is responsible for administering the import quota system. Certain fish products are subject to import quotas, which are based on domestic supply and demand.
- Access to the medical profession in Japan is regulated through qualification and language requirements. A few bilateral agreements allow easier access conditions, but the language and the detailed documentary requirements of the application processes (which are entirely in Japanese) present significant barriers to entry. Nurse and care worker examinations are accessible to foreigners, and this regime is covered in some regional trade agreements. The Ministry of Health, Labour and Welfare is considering relaxing bilateral agreements of mutual accreditation of doctors' licences, but only within six national strategic special zones.
- The services sector, a key component in Japan's economy, is broadly open to competition, except in selected areas, such as certain broadcasting and medical services. In the past few years Japan has made several amendments to the Banking Act. These amendments have partially relaxed requirements regarding agency services and intermediary services for foreign banks and introduced a series of new and stricter rules regarding licencing standards, information obligations, maintenance of assets in Japan and supervisory powers in case of bankruptcy or reorganisation proceedings, essentially for prudential reasons.
- In January 2020 Japan, the EU and the United States issued a joint proposal, providing a blueprint for the reform of WTO rules on subsidies. The proposal failed to advance in 2020 and will see only incremental progress at best from 2021 onward.

Sources: [WTO – Trade Policy Review](#), [Ministry of Foreign Affairs of Japan](#), [Japan's Ministry of Economy, Trade and Industry](#), Acumen magazine – British Chamber of Commerce in Japan, [US Department of State – Investment Climate Statements](#), [US Department of Commerce ITA](#), Fitch Solutions

## 6. Trade Agreements

### 6.1 Trade Updates

- On November 15, 2020, Asia-Pacific countries including Japan, Mainland China and the 10 members of ASEAN signed the Regional Comprehensive Economic Partnership (RCEP) deal covering nearly a third of the global economy. The agreement is aimed at cutting tariffs and establishing common rules in areas such as e-commerce and intellectual property.
- Japan ratified an EPA with the United Kingdom (UK) in December 2020.

### 6.2 Multinational Trade Agreements

#### Active

1. Japan-India EPA: This comprehensive EPA between Japan and India was signed on February 16, 2011, and came into force on August 1, 2011.
2. ASEAN-Japan Comprehensive EPA (AJCEPA): ASEAN is a regional intergovernmental organisation comprising 10 South East Asian countries: Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam. ASEAN promotes intergovernmental cooperation and facilitates economic, political, security, military, educational and socio-cultural integration among its members and other Asian countries, as well as globally. The AJCEPA was signed on March 26, 2008, and came into effect on December 1, 2008. It enhances trade in goods between the two areas. ASEAN provides a huge market for a range of goods, with tariff-free trade, thus benefitting a number of important sectors, including manufacturing, agriculture and chemicals production.

3. The Japan-Thailand EPA (JTEPA): JTEPA is a FTA between Thailand and Japan. The deal is expected to eliminate tariffs on more than 9% of bilateral trade. It was signed on April 3, 2007, in Tokyo and came into force on November 1, 2007.
4. Japan-Australia EPA (JAEPA): This EPA was concluded in November 2014 and took effect on January 15, 2015. A number of concessions were secured for Australian agricultural exporters, while Australian tariffs on electronics, white goods and cars were lowered. Australia is Japan's third largest import supplying market, accounting for 6.3% of Japan's total imports in 2019 and purchasing 2.1% of Japan's exports.
5. Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP): This agreement – comprising Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam – is in effect. These countries represent 13.4% of global GDP, making this the third largest trade agreement after the North American Free Trade Agreement and the EU. By October 2018, six countries (Australia, Canada, Japan, Mexico, New Zealand and Singapore) had ratified the CPTPP, which meant that it automatically came into force on December 30, 2018. The agreement aims to cut tariffs, improve access to markets, and set common ground on labour and environmental standards and intellectual property protections.
6. EU-Japan EPA (EUJEP): In July 2018, the EU and Japan signed a trade deal that promises to eliminate 99% of tariffs that cost businesses in the EU and Japan nearly EUR1 billion annually. The result of four years of negotiation, the EUJEP was finalised in late 2017 and came into force on February 1, 2019. According to the European Commission, EUJEP will create a trade zone covering 600 million people and nearly one-third of global GDP. The total trade volume of goods and services between the EU and Japan is EUR86.0 billion, and the EUJEP is expected to increase total exports by EUR13.0 billion by 2035 and boost sectors such as agri-food, textiles and leather products. The key parts of the agreement will cut duties on a range of agricultural products and seeks to open up services markets, particularly financial services, e-commerce, telecommunications and transport. Negotiations with Japan continue on investment protection standards and investment protection dispute resolution. As of February 1, 2019, a large part of another agreement – a strategic partnership agreement between the EU and Japan – applies on a provisional basis.
7. UK-Japan Comprehensive EPA (CEPA): Japan's government ratified the UK-Japan CEPA in December 2020. The agreement came into effect on January 1, 2021, and abolishes tariffs on industrial goods imports and exports. Tariffs on Japan's exports of passenger vehicles to the UK will be gradually decreased until they become eliminated in 2026, while tariffs on other goods are immediately abolished. The CEPA is particularly beneficial for Japanese automotive companies.

#### Ratification Pending

RCEP: On November 15, 2020, the agreement was signed by 15 countries. The partnership is a regional economic agreement between the 10 ASEAN member states and their five FTA partners: Australia, Mainland China, Japan, New Zealand and South Korea. India pulled out of the agreement on November 4, 2019 but is allowed to re-join the pact at a later stage. RCEP will create Asia's biggest free trade zone encompassing about 3 billion people that contributes around a third of the world's GDP. The RCEP is envisioned to be a modern, comprehensive, high-quality and mutually beneficial economic partnership agreement that aims to advance economic cooperation and broaden and deepen integration in the region, building on existing economic links. The RCEP would lower tariffs and other barriers to the trade of goods among the 15 countries that are in ASEAN or have existing trade deals with ASEAN. The agreement will also establish common rules in areas such as e-commerce and intellectual property. The deal still has to be ratified by all signatories, and is expected to come into force by 2022.

#### Under Negotiation

Other EPAs are currently being negotiated with Colombia and Turkey and a trilateral FTA between Japan, Mainland China and South Korea is being negotiated.

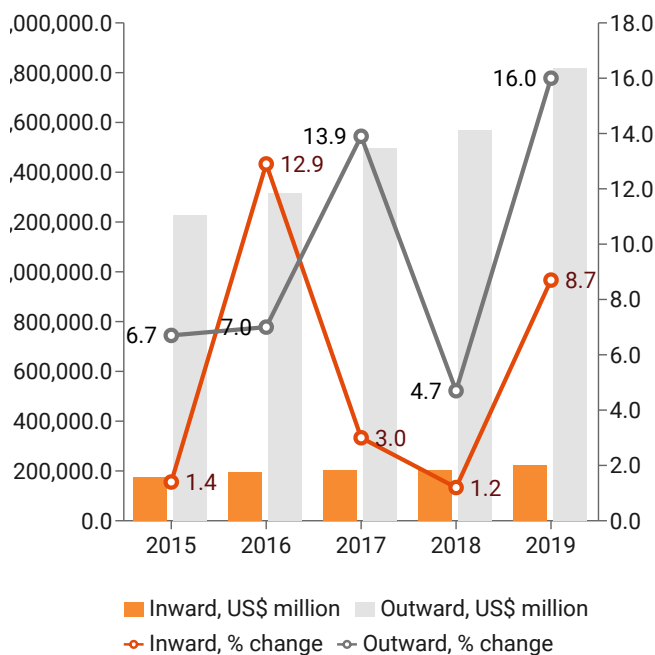
Sources: [WTO Regional Trade Agreements database](#), [Ministry of Foreign Affairs of Japan](#), [The Diplomat](#), Fitch Solutions

## 7. Investment Policy

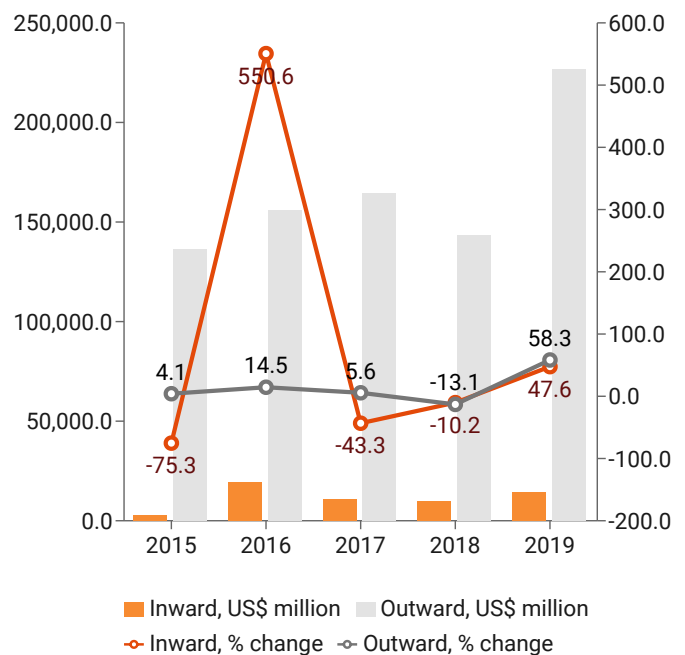
### 7.1 Foreign Direct Investment

## Foreign Direct Investment Stock

## Foreign Direct Investment Flow



Source: UNCTAD  
Date last reviewed: February 5, 2021



Source: UNCTAD  
Date last reviewed: February 5, 2021

## 7.2 Foreign Direct Investment Policy

1. The Japanese government welcomes foreign investment and has set ambitious goals for increasing inbound foreign direct investment (FDI), which hit a record high in 2017. Despite Japan's wealth, high level of development and general acceptance of foreign investment, inbound FDI stocks as a share of GDP are the lowest throughout the Organisation for Economic Co-operation and Development. Future changes in Japan's investment climate are largely contingent on the success of structural reforms to the Japanese economy. Recent changes that aim to strengthen corporate governance and increase female labour force participation have the potential to improve Japan's economic condition; however, further reforms are likely necessary to secure a return to robust economic growth.
2. The Bank of Japan is at the forefront of the country's efforts to boost private consumption through quantitative and qualitative monetary easing with a negative interest rate. On the fiscal front, a number of economic plans have been adopted with a view to improving the country's public finances, including its debt position, and boost the competitiveness of the economy through large-scale investment, among other things. In April 2014, the government established an FDI Promotion Council consisting of government ministers and private sector advisors. On the fiscal policy front, in June 2016 the Japanese government announced that it had postponed the planned consumption tax increase from April 2017 to October 2019. During 2016-2017 a series of supplementary budgets were approved to provide various fiscal supports to the private sector, including grants for research and development schemes, aid for disaster recovery projects, and infrastructure developments.
3. Japan's legal and regulatory climate is highly supportive of investors. Courts are independent, sophisticated and ostensibly provide equal treatment to foreign investors. The country's regulatory system has improved its level of transparency and looks to develop new regulations in line with international norms. Capital markets are deep and broadly available to foreign investors. Japan maintains strong protection for intellectual property rights, with generally robust enforcement. The country is home to world-class corporations, research facilities and technology. Nearly all foreign exchange transactions, including transfers of profits, dividends, royalties, repatriation of capital and repayment of principal, are freely permitted. In June 2018, a law took effect that introduced a regulatory 'sandbox measure', whereby early-stage innovative business models or technology can be evaluated on merit and tested on a case-by-case basis within their 'sandbox' without being subject to existing regulations.
4. The Japanese government promotes inward FDI and has established formal programmes to attract it. Soon after Shinzō Abe took office as prime minister, the government announced its intention to double Japan's inward FDI stock to JPY35 trillion by 2020 and reiterated that commitment in its revised Japan Revitalisation Strategy issued in August 2016. The Abe administration's interest in attracting FDI is one component of the government's strategy to reform and revitalise the Japanese economy, which continues to face the long-term challenges of low growth, an ageing population and a shrinking workforce.
5. The METI and the Japan External Trade Organization (JETRO) are the lead agencies responsible for assisting foreign firms wishing to invest in Japan. METI and JETRO have created a one-stop shop for foreign investors, providing a single Tokyo location – with language assistance – where those seeking to establish a company in Japan can process the necessary paperwork. JETRO operates six Invest Japan Business Support Centres across Japan (in Fukuoka, Kobe, Nagoya, Osaka, Tokyo and Yokohama) which provide consultation services on types of Japanese incorporation, business registration, human resources, office establishment and visa or residency issues.



6. JETRO maintains a list of various investment incentives available to foreign investors. Japan no longer has free trade zones or free ports. However, 12 national strategic special zones have been established.
7. In March 2015, the Council for Promotion of FDI in Japan adopted the Five Promises for Attracting Foreign Business to Japan, and in January 2016 the Japanese government established the Investment Advisor Assignment System, whereby a state minister acts as an advisor to selected foreign companies with important investments in Japan. The system aims to facilitate consultation between the Japanese government and foreign firms. Of the nine companies selected in April 2016, seven were from the United States, one was from France and one was from the Netherlands.
8. In the post-war period since 1945 the Japanese government has not expropriated any enterprises and the expropriation or nationalisation of foreign investment in Japan is highly unlikely.
9. Japan has concluded bilateral investment treaties with 28 countries: Bangladesh, Cambodia, Mainland China, Colombia, Egypt, Hong Kong, Iran, Iraq, Israel, Kazakhstan, Kenya, South Korea, Kuwait, Laos, Mozambique, Myanmar, Oman, Pakistan, Papua New Guinea, Peru, Russia, Saudi Arabia, Sri Lanka, Turkey, Ukraine, Uruguay, Uzbekistan and Vietnam. Two more – with Armenia and the United Arab Emirates – have been signed but are not yet in force. Japan also has 20 treaties that include investment chapters (with the Association of South East Asian Nations, Australia, Brunei, Chile, Mainland China, the EU, India, Indonesia, the Philippines, South Korea, Malaysia, Mexico, Mongolia, Peru, Singapore, Switzerland, Thailand and Vietnam).
10. Foreign and domestic private enterprises have the right to establish and own business enterprises and engage in all forms of remunerative activity. Japan has gradually eliminated most formal restrictions governing FDI. One remaining restriction limits foreign ownership in Japan's former landline monopoly telephone operator Nippon Telegraph and Telephone to 33%. Japan's Radio Law and separate Broadcasting Law also limit foreign investment in broadcasters to 20%, or 33% for broadcasters categorised as facility supplying. Foreign ownership of Japanese companies invested in terrestrial broadcasters will be counted against these limits. These limits do not apply to communication satellite facility owners, programme suppliers or cable television operators.
11. Japan has no general restrictions on data storage. In September 2015, the Japanese Diet passed an amendment to the Personal Information Protection Act, seeking to enhance the use of personal data for business purposes while protecting privacy. The amendment created new rules for the protection of personal data, including the transfer of personal data over the internet, and established a third-party authority, similar to the EU's privacy commissioner, as regulator. On January 1, 2016, the Personal Information Protection Commission (PIPC) was established. The PIPC issued its guidelines for businesses on the protection of personal data on November 30, 2016. The 2015 amendment to the Personal Information Protection Act has been in full effect since May 30, 2017.
12. The Foreign Exchange and Foreign Trade Act governs investment in sectors deemed to have national security or economic stability implications. If a foreign investor wants to acquire more than 10% of the shares of a listed company in certain designated sectors, it must provide prior notification and obtain approval from the Ministry of Finance and the ministry that regulates the specific industry. Designated sectors include agriculture, aerospace, forestry, petroleum, electric, gas and water utilities, telecommunications, and leather manufacturing.

Sources: [WTO – Trade Policy Review](#), [ITA](#), UNCTAD, US Department of Commerce, Japanese Government, [Invest Japan](#), [Japan External Trade Organization](#)

### 7.3 Free Trade Zones and Investment Incentives

Free Trade Zone/Incentive Programme	Main Incentives Available
<p>The National Strategic Special Zones Advisory Council chaired by the prime minister has established a total of 12 national strategic special zones (NSSZs) to implement selected deregulation measures intended to attract new investment and boost regional growth. The NSSZs are in Aichi, Kansai Area, Fukuoka/Kitakyusyu, Hiroshima/Imbari, Niigata, Okinawa, Semboku, Sendai, Tokyo Area and Yabu</p>	<ul style="list-style-type: none"> <li>- Under the NSSZ framework, designated regions request regulatory exceptions from the central government in support of specific strategic goals defined in each zone's master plan, which focuses on a potential growth area, such as labour, education, technology, agriculture and healthcare.</li> <li>- Any exceptions approved by the central government can be implemented by other NSSZs in addition to the requesting zone. Foreign-owned businesses receive equal treatment in the NSSZs.</li> <li>- Some measures aim specifically to ease customs and immigration restrictions for foreign investors, such as the start-up visa adopted by the Fukuoka NSSZ.</li> </ul>

Special Zone for Reconstruction	<ul style="list-style-type: none"> <li>- The Japanese government has sought to encourage investment in the Tohoku (north east) region which was devastated by the earthquake, tsunami and nuclear triple disaster of March 11, 2011.</li> <li>- Areas affected by the disaster have been included in a special zone for reconstruction that features eased regulatory burdens, tax incentives and financial support to encourage heightened participation in the region's economic recovery.</li> </ul>
The government has established two types of comprehensive special zones (CSZs): for international competitiveness (CSZIC) and for local revitalisation (CSZLR). There are seven CSZICs and 36 CSZLRs	<ul style="list-style-type: none"> <li>- The Japanese government believes that the first type of CSZ can form industry clusters to serve as economic growth engines and that the second can enhance regional competitiveness by maximising the use of regional resources.</li> <li>- The incentives include regulatory exceptions, corporate tax reductions, and fiscal and financial support.</li> </ul>

Sources: National sources, [Japan External Trade Organization](#), Fitch Solutions

## 8. Taxation – 2021

- Consumption Tax: 10%
- Corporate Income Tax: 23.2%

Source: [National Tax Agency](#).

### 8.1 Important Updates to Taxation Information

- On March 27, 2020, the 2020 Tax Reform Act was approved by the Diet, and, on March 31, 2020, the 2020 Tax Reform Act, the Enforcement Orders, and Regulations were promulgated, which are effective for corporate tax years beginning on or after April 1, 2020, in principle.
- On September 26, 2018, the Japanese government deposited its instrument of acceptance for the multilateral instrument (MLI) with the Organisation for Economic Co-operation and Development (OECD), approved by the Diet on May 18, 2018. As a result, the MLI came into force on January 1, 2019 and will have a fundamental impact on existing double tax treaties (DTTs) concluded by Japan (including jurisdictions such as Hong Kong). The MLI is applied alongside existing tax treaties, replacing or modifying provisions of the tax treaties. The precise date of DTTs affected will vary depending on whether or not treaty partners have ratified the OECD.
- On October 1, 2019, the consumption sales tax was increased to 10% from 8%. The consumption tax was initially scheduled to rise on April 1, 2017, but was delayed. To lessen the burden on lower-income tax brackets, concessions have been introduced for selected goods.

### 8.2 Business Taxes

Type of Tax	Tax Rate and Base
Corporate Income Tax	23.2% (applies to ordinary corporations with share capital exceeding JPY100 million)
Capital Gains Tax	23.2% (capital gains are treated as ordinary income)
National Local Corporate Tax (imposed on Standard Corporate Tax liability)	10.3%

Withholding Tax (WHT)	<p>Dividend income: Resident: 20% Non-resident: 15%</p> <p>Interest: Resident: 20% Non-resident: 20%</p> <p>Royalties: Resident: 20% Non-resident: 20%</p> <p>Rates for non-residents may be reduced if a double taxation agreement exists. For example, Hong Kong's treaty makes these rates 10%, 10% and 5%.</p>
VAT (Consumption Tax)	Known as consumption tax. Since October 1, 2019 the rate has increased to 10%. Exports and certain services to non-residents are taxed at a zero rate. A reduced rate of 0% or 8% applies to some goods.
Standard Enterprise Tax (and Local Corporate Special Tax)	Enterprise tax, which is deductible, is imposed on a corporation's income allocated to each prefecture. This allocation is generally made on the basis of the number of employees and offices in each location. Local corporate special tax, a rate multiplied by the income portion of enterprise tax, will be abolished from tax years beginning on or after October 1, 2019 and replaced by enterprise tax (including a size-based tax regime). The enterprise tax is 3.4% on the first JPY4 million per annum, 5.1% on the next JPY4 million per annum and 6.7% on over JPY8 million per annum. Local corporate special tax is 43.2% of the current enterprise tax. For utilities and insurance companies the enterprise tax is 0.9%.
Size-based Enterprise Tax (and Local Corporate Special Tax)	The size-based enterprise tax (Gaikai Hyojun Kazei) is applied to a company with paid-in capital of more than JPY100 million as of the end of the year. From October 1, 2019, when the local corporate special tax will be abolished, the applicable rates for size-based enterprise tax will be 1.9% on the first JPY4 million per annum, 2.7% on the next JPY4 million per annum and 3.6% on over JPY8 million per annum.
Inhabitant's Tax	Inhabitant's tax is imposed on a corporation's income allocated to each prefecture and city (municipal borough). The allocation is generally made on the basis of the number of employees, in the same way as enterprise tax. The standard tax rate is determined by each local government and is in the range 3.2-4.2% for prefectural tax, 9.7-12.1% for municipal tax and 4.4% for local corporate tax. For fiscal years beginning on or after October 1, 2019 the rates will be 1.0-2.0% for prefectural tax, 6.0-8.4% for municipal tax and 10.3% for local corporate tax.
Fixed Assets Tax	The annual fixed assets tax is levied by the local tax authorities on real property and depreciable fixed assets used for business purposes. Real property is taxed at 1.7% (standard rate including city planning tax) of the value appraised by the local tax authorities. The depreciable fixed assets tax is assessed at 1.4% of cost after statutory depreciation.
Social security contributions	The cost of workers' accident compensation insurance is borne entirely by the employer. Employment, welfare (health and nursing care) and pension insurances are paid for by both employer and employee. The employer's contribution consists of these premiums on a monthly salary: employment (0.30%), health (4.95%) and welfare (9.15%).

Source: [National Tax Agency](#)

Date last reviewed: February 5, 2021

## 9. Foreign Worker Requirements

### 9.1 Foreign Worker Permits

Foreign nationals accepting employment in Japan must obtain a work permit at a Japanese embassy or consulate. To obtain a work permit foreign nationals must first apply for a certificate of eligibility (CoE) from the Japanese Immigration Authority. The CoE is issued by the Ministry of Justice in Japan. The CoE certifies that the holder has met the criteria established for a certain status of residence in Japan. It is possible for expatriates to be self-employed in Japan; however, it is very difficult and the expatriate must also obtain a CoE.

A points-based system was introduced in May 2012 to offer preferential immigration treatment to highly skilled foreign professionals. Foreign nationals with a valid passport and residence card may leave and return to Japan without holding a re-entry permit if the period of absence from Japan is less than one year. The period of stay for those with residential status is for a maximum of five years. The Japanese government has made additional changes to labour and immigration law to facilitate the entry of more skilled foreign workers in selected sectors. The activities of the highly skilled foreign professionals are classified into three categories: advanced academic research activities, advanced specialised or

technical activities and advanced business management activities. Points are awarded for each item, such as academic background (for example, a bachelor's degree is worth 10 points and a master's degree is worth 20 points), professional career and annual salary. If the points total 70, preferential immigration treatment will be granted.

On November 2, 2018, the Japanese cabinet approved legislation to create two visa categories that would admit more foreign workers. Prime Minister Shinzō Abe told the Diet that the measures are strictly to address the serious labour shortage in 14 identified sectors and that the number of workers will be restricted, but it is unclear whether that relates to numbers or permissible areas of work. Under the envisioned legislation, a Type 1 five-year visa category will be created for non-professional foreign workers who have adequate knowledge and experience in a specific field. They will not be allowed to bring their family members to Japan. A Type 2 visa will be for those with high-level work, and the government will not set a limit on how many times this status can be renewed, effectively allowing holders of such visas to stay in Japan permanently. They will also be able to bring their family members to Japan. Those who have qualified for the first type of resident status will be able to switch to the second category.

## 9.2 Localisation Requirements

Permanent residence may be granted by the minister of justice only if a foreign national fulfils all of the following conditions, which are generally difficult to meet: the applicant has adequate moral standing, the applicant has sufficient assets or skills to be able to make an independent living and the applicant's permanent residence is in accordance with the interests of Japan. Regarding the third condition, the applicant is generally required to have reside in Japan for 10 years or longer, with a few limited exceptions. In April 2017, new exceptions to the 10-year rule were enacted. According to the guidelines concerning permanent residence, if the applicant's points calculated in accordance with the points-based system for highly skilled foreign professionals total 70 or more, applicants only have to reside in Japan for three years. If the applicant's points are 80 or more, residing in Japan for one year suffices. The points relate to various criteria, such as academic background, professional career, annual salary and research achievement.

## 9.3 Visa/Travel Restrictions

Japan has entered into reciprocal visa exemption agreements with various jurisdictions, including regional peers. Before entering Japan, foreign nationals must obtain a visa corresponding to the purpose of their visit from a Japanese embassy or consulate abroad. Foreign nationals from countries that have entered into reciprocal visa exemption agreements are not required to obtain visas if they intend to stay in Japan for a specified time period for the purpose of limited activities.

Sources: [Immigration Bureau of Japan](#), Fitch Solutions

## 10. Risks

### 10.1 Sovereign Credit Ratings

	Rating (Outlook)	Rating Date
Moody's	A1 (Stable)	24/10/2019
Standard & Poor's	A+ (Stable)	09/06/2020
Fitch Ratings	A (Negative)	08/02/2021

Sources: Moody's, S&P Global, Fitch Ratings

### 10.2 Competitiveness and Efficiency Indicators

	World Ranking		
	2018	2019	2020
Ease of Doing Business Index	34/190	39/190	29/190
Ease of Paying Taxes Index	68/190	97/190	51/190
Logistics Performance Index	5/160	N/A	N/A
Corruption Perception Index	18/180	20/180	19/180
IMD World Competitiveness	25/63	30/63	34/63

Sources: World Bank, IMD, Transparency International

### 10.3 Fitch Solutions Risk Indices

	World Ranking

	2019	2020	2021
<b>Economic Risk Index Rank</b>	<b>34/201</b>	<b>39/201</b>	<b>38/201</b>
Short-Term Economic Risk Score	64.8	60.8	65.2
Long-Term Economic Risk Score	70.1	66.9	67.5
<b>Political Risk Index Rank</b>	<b>15/201</b>	<b>12/201</b>	<b>15/201</b>
Short-Term Political Risk Score	86.0	81.0	81.0
Long-Term Political Risk Score	87.3	87.3	87.3
<b>Operational Risk Index Rank</b>	<b>21/201</b>	<b>22/201</b>	<b>20/201</b>
Operational Risk Score	71.7	71.2	71.7

Source: Fitch Solutions

Date last reviewed: February 5, 2021

#### 10.4 Fitch Solutions Risk Summary

##### ECONOMIC RISK

Japan is among the world's largest economies, with years of current account surpluses resulting in a huge build-up of foreign reserves and other external assets. Japan's economy contracted in 2020 due to domestic and external stress caused by the Covid-19 pandemic – consumption decreased significantly, tourism spending has declined and investment has come under pressure. The rising third wave of Covid-19 infections could see some localised shut downs and put further strain on the economy in 2021. The persistent use of bonds to finance various stimulus packages is pushing the country closer to a fiscal crisis. The government announced the release of a third extra budget for FY2020, with spending of around JPY21.8 trillion, while revenue collection will fall short of initial budget estimates. The Bank of Japan is likely to maintain an ultra-accommodative monetary policy stance in 2021. The economy is set to recover in 2021, provided that the Tokyo Summer Olympics are held in the first half of the year and that a vaccine for Covid-19 is widely available.

##### OPERATIONAL RISK

Although the working-age population in Japan is projected to shrink at a slower pace over the next 10 years (an average of 0.7% per year) relative to the last decade (0.9%), the demographic drag will still come from its ageing population and the impact that this will have on Japan's savings rate. However, policies may be implemented to attract skilled immigrants to the domestic workforce, as well as investment in automation technology, over the coming years. The country's long-standing democratic credentials, lack of social tensions and stable security profile are all positive factors contributing to low operating risks. Business operating costs are increased by excessive regulation and a high degree of state intervention. Given that the ruling Liberal Democratic Party-New Komeito coalition has a majority in both the Upper and Lower Houses, the government could be able to push through economic reforms, such as free trade agreements, which could help revitalise the private sector. The earlier-than-expected resignation of Shinzō Abe as prime minister is unlikely to lead to any dramatic policy shifts in the near term, as his successor will focus on tackling the severe impact of the Covid-19 outbreak ahead of elections due to be held by October 2021.

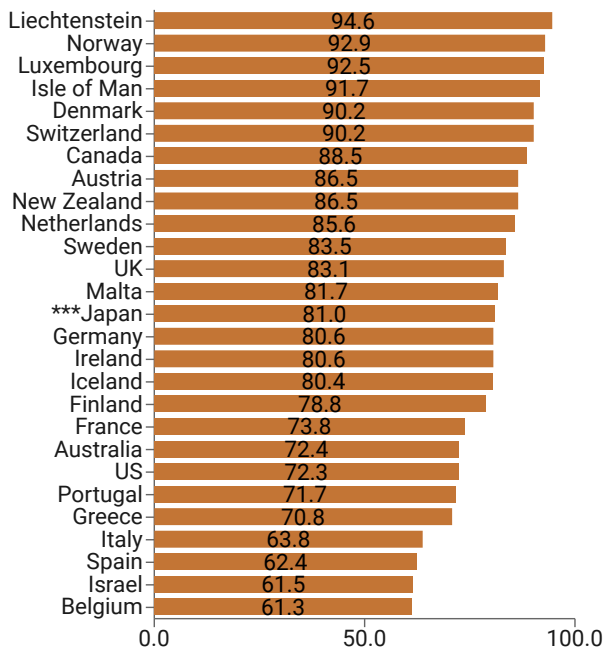
Source: Fitch Solutions

Date last reviewed: February 5, 2021

#### 10.5 Fitch Solutions Political and Economic Risk Indices

### Short Term Political Risk Index

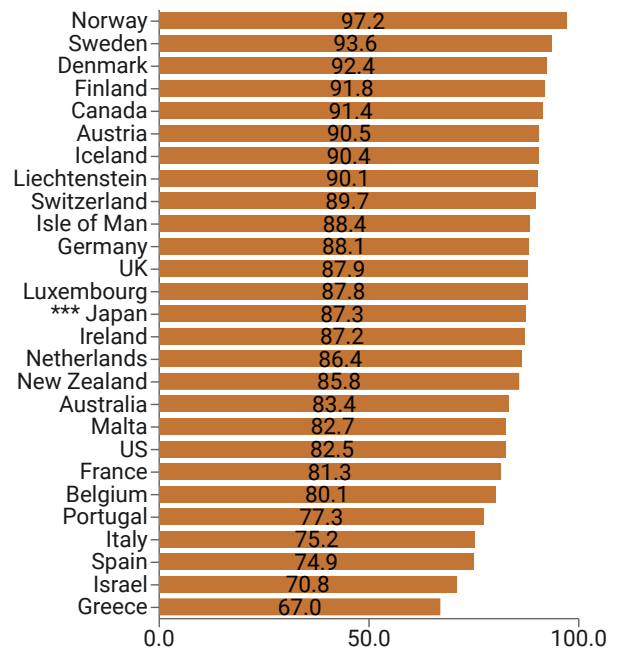
### Long Term Political Risk Index



100 = Lowest risk; 0 = Highest risk

Source: Fitch Solutions Political and Economic Risk Indices

Date last reviewed: February 5, 2021

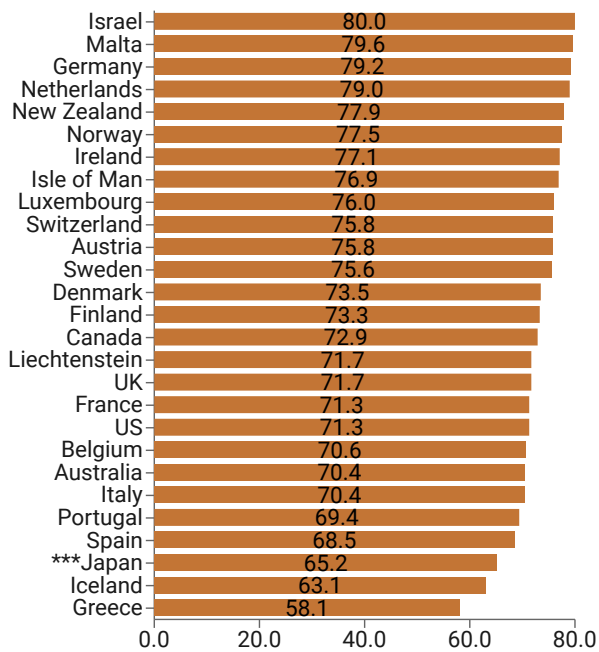


100 = Lowest risk; 0 = Highest risk

Source: Fitch Solutions Political and Economic Risk Indices

Date last reviewed: February 5, 2021

### Short Term Economic Risk Index

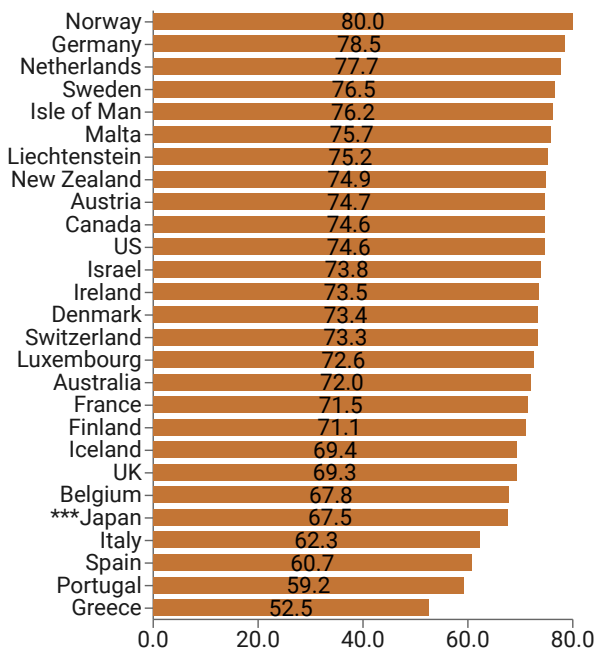


100 = Lowest risk; 0 = Highest risk

Source: Fitch Solutions Political and Economic Risk Indices

Date last reviewed: February 5, 2021

### Long Term Economic Risk Index



100 = Lowest risk; 0 = Highest risk

Source: Fitch Solutions Political and Economic Risk Indices

Date last reviewed: February 5, 2021

### 10.6 Fitch Solutions Operational Risk Index

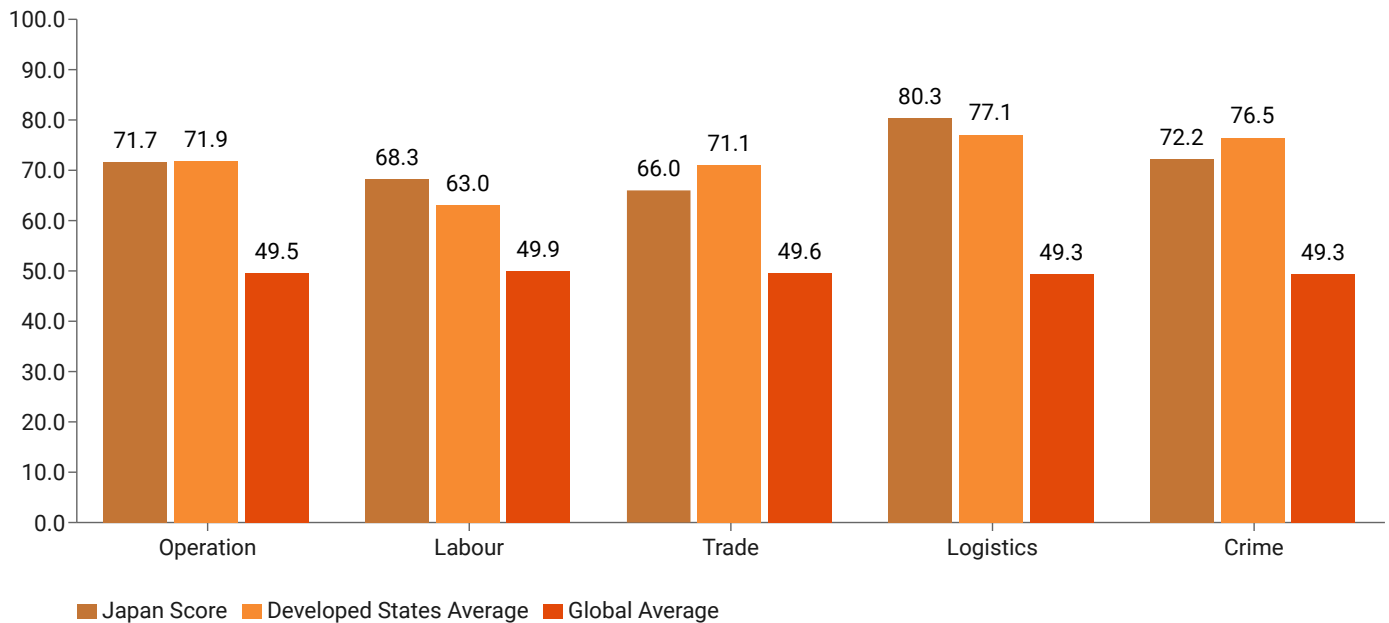
	Operational Risk	Labour Market Risk	Trade and Investment Risk	Logistics Risk	Crime and Security Risk
<b>Japan Score</b>	<b>71.7</b>	<b>68.3</b>	<b>66.0</b>	<b>80.3</b>	<b>72.2</b>
Developed States Average	71.9	63.0	71.1	77.1	76.5

Developed States Position (out of 27)	16	9	23	10	20
Global Average	49.5	49.9	49.6	49.3	49.3
Global Position (Out of 201)	20	13	41	13	30

100 = Lowest risk, 0 = Highest risk

Source: Fitch Solutions Operational Risk Index

## Japan vs Global and Regional Operational Risk Averages



Note: 100 = Lowest Risk, 0 = Highest Risk

Source: Fitch Solutions Operational Risk Index

Date last reviewed: February 5, 2021

Country/Region	Operational Risk	Labour Market Risk Index	Trade and Investment Risk Index	Logistics Risk	Crime and Security Risk Index
Denmark	79.2	71.8	77.5	84.9	82.4
Switzerland	78.6	75.3	77.7	78.4	83.1
Netherlands	77.9	66.4	78.5	86.4	80.4
United States	77.2	79.7	76.1	85.4	67.4
New Zealand	77.2	71.6	74.7	74.6	87.7
Sweden	76.8	67.5	77.7	83.3	78.5
Norway	75.9	63.5	72.3	79.7	88.3
Canada	75.9	73.2	74.0	78.5	78.0
United Kingdom	75.3	71.0	77.9	77.8	74.7
Austria	74.8	61.0	72.7	84.8	80.8
Luxembourg	74.4	55.9	78.2	83.9	79.6

Finland	74.1	54.1	73.2	85.4	83.7
Ireland	73.7	65.9	79.3	70.5	79.0
Australia	72.8	68.4	73.2	71.7	78.1
Spain	72.4	60.5	71.0	79.7	78.4
<b>Japan</b>	<b>71.7</b>	<b>68.3</b>	<b>66.0</b>	<b>80.3</b>	<b>72.2</b>
Belgium	71.4	56.6	76.1	79.9	72.9
Germany	71.2	64.1	68.5	80.5	71.8
France	71.1	60.2	71.1	81.4	71.9
Iceland	70.2	59.3	67.1	67.0	87.4
Portugal	69.7	52.3	67.5	80.1	78.9
Israel	68.2	72.2	68.2	69.9	62.5
Liechtenstein	64.8	48.9	63.2	69.9	77.1
Malta	63.9	55.2	68.9	62.3	69.3
Isle of Man	63.8	53.0	60.3	61.3	80.6
Italy	63.3	53.5	60.0	75.2	64.5
Greece	57.0	52.8	49.4	69.7	55.9
Developed Markets Averages	71.9	63.0	71.1	77.1	76.5
Global Markets Averages	49.5	49.9	49.6	49.3	49.3

100 = Lowest risk; 0 = Highest risk

Source: Fitch Solutions Operational Risk Index

Date last reviewed: February 5, 2021

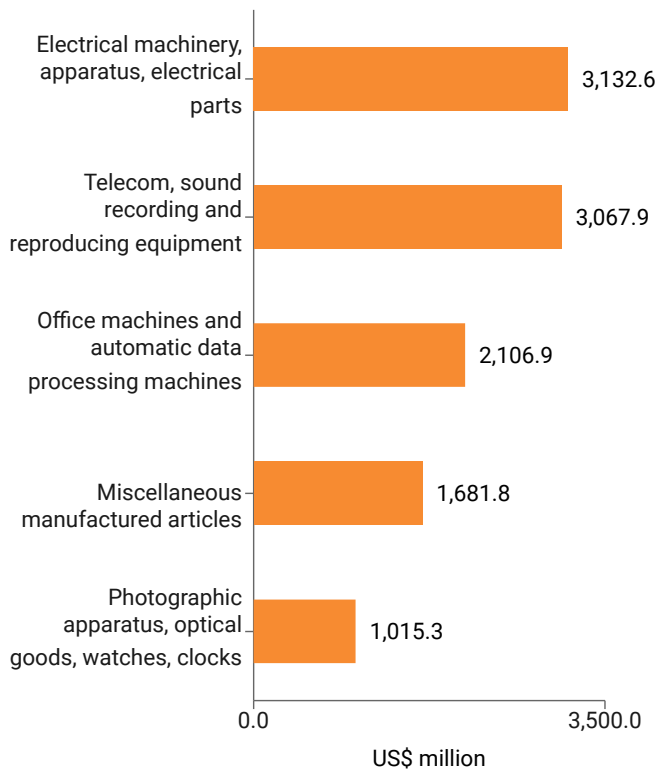
## 11. Hong Kong Connection

### 11.1 Hong Kong's Trade with Japan

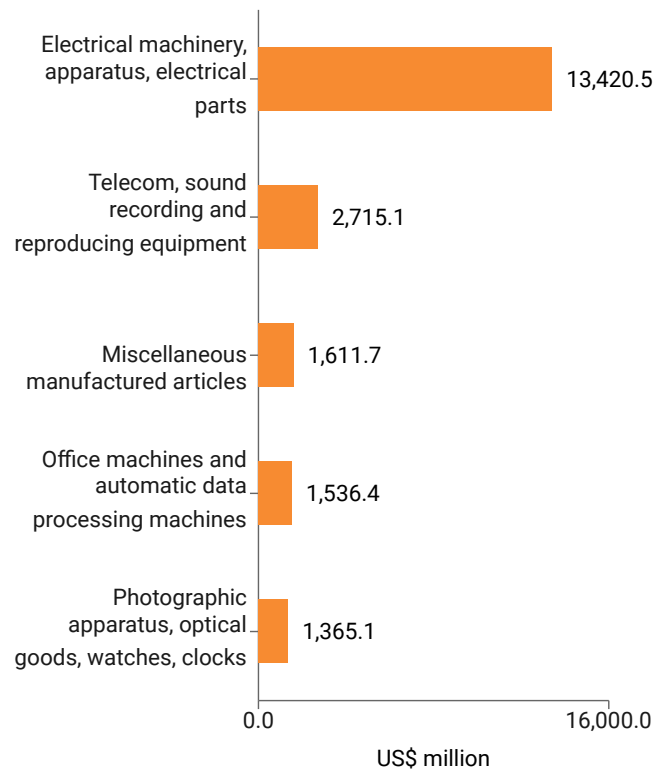
#### Major Export Commodities to Japan (2020)

#### Major Import Commodities from Japan (2020)



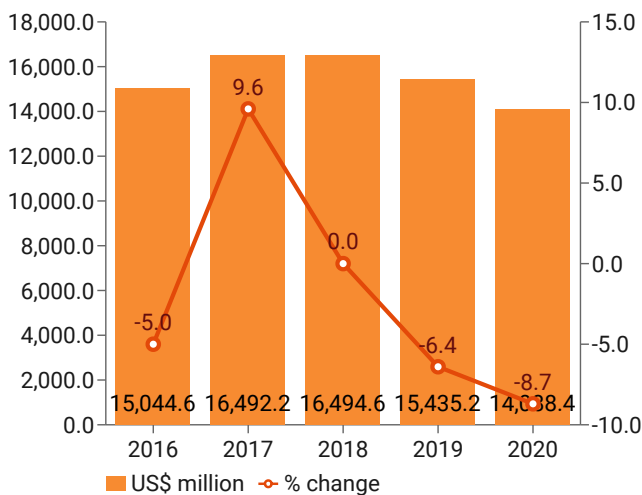


Note: Graph shows the main Hong Kong exports to Japan (by consignment)  
Sources: Hong Kong Census and Statistics Department, Fitch Solutions  
Date last reviewed: March 10, 2021



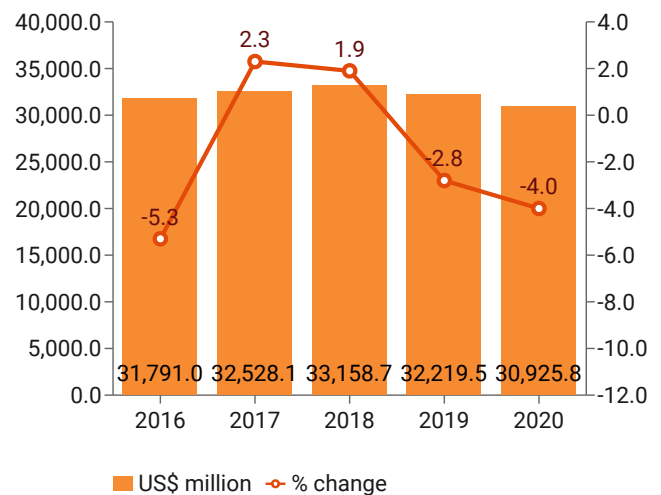
Note: Graph shows the main Hong Kong imports from Japan (by consignment)  
Sources: Hong Kong Census and Statistics Department, Fitch Solutions  
Date last reviewed: February 5, 2021

## Merchandise Exports to Japan



Note: Graph shows Hong Kong exports to Japan (by consignment)  
Sources: Hong Kong Trade Statistics, Census & Statistics Department  
Date last reviewed: March 10, 2021

## Merchandise Imports from Japan



Note: Graph shows Hong Kong imports from Japan (by consignment)  
Sources: Hong Kong Census and Statistics Department, Fitch Solutions  
Date last reviewed: March 10, 2021

### Exchange Rate HK\$/US\$, average

7.76 (2016)  
7.79 (2017)  
7.84 (2018)  
7.84 (2019)  
7.76 (2020)

2019

Growth rate (%)

Number of Japanese residents visiting Hong Kong	1,078,836	-16.2
Number of Asia Pacific residents visiting Hong Kong	52,326,248	-14.3

Source: Hong Kong Tourism Board, Fitch Solutions

	2019	Growth rate (%)
Number of Japanese residing in Hong Kong	18,378	29.6
Number of developed state citizens residing in Hong Kong	83,786	29.6

Note: Growth rate for resident data is from 2015 to 2019. No UN data available for intermediate years.

Source: United Nations Department of Economic and Social Affairs – Population Division, Fitch Solutions

Date last reviewed: February 5, 2021

## 11.2 Commercial Presence in Hong Kong

	2019	Growth rate (%)
Number of Japanese companies in Hong Kong	1,413	1.4
- Regional headquarters	232	-4.9
- Regional offices	431	2.4
- Local offices	750	3.0

Sources: [Business Expectation Statistics Section of the Hong Kong Census and Statistics Department](#)

## 11.3 Treaties and Agreements between Hong Kong and Japan

- Japan has a double taxation agreement with Hong Kong that was signed on December 10, 2014 and came into force in July 6, 2015.
- Japan has bilateral investment treaties with both Hong Kong (came into force on June 18, 1997) and Mainland China (came into force on May 14, 1989).
- Japan and Hong Kong have an investment promotion and protection agreement that came into force on June 18, 1997.

Sources: [UNCTAD](#), [Hong Kong Trade and Industry Department](#), [Inland Revenue Department](#)

## 11.4 Chamber of Commerce or Related Organisations

The Hong Kong Japanese Chamber of Commerce and Industry

Address: Unit 902, 9/F, Tower 535, 535 Jaffe Road, Causeway Bay, Hong Kong

Email: [jpcham@hkjcci.com.hk](mailto:jpcham@hkjcci.com.hk)

Tel: (852) 2577 6129

Fax: (852) 25770525

Source: [The Hong Kong Japanese Chamber of Commerce and Industry](#)

The Japan Hong Kong Society

The Japan Hong Kong Society	Tel	Email	Website
National ( <a href="#">more information</a> )	(81) 3 5210 5901	<a href="mailto:national@jhks.gr.jp">national@jhks.gr.jp</a>	<a href="http://www.jhks.gr.jp">www.jhks.gr.jp</a>
Chukyo ( <a href="#">more information</a> )	(81) 50 3620 2517	<a href="mailto:chukyo.jhks@pearl.ocn.ne.jp">chukyo.jhks@pearl.ocn.ne.jp</a>	
Hiroshima ( <a href="#">more information</a> )	(81) 82 248 1400	<a href="mailto:hiroshima@jhks.gr.jp">hiroshima@jhks.gr.jp</a>	
Hokkaido ( <a href="#">more information</a> )	(81) 11 261 4288	<a href="mailto:hokkaido@jhks.gr.jp">hokkaido@jhks.gr.jp</a>	
Kansai ( <a href="#">more information</a> )	(81) 6 4705 7030	<a href="mailto:kansai@jhks.gr.jp">kansai@jhks.gr.jp</a>	

Kochi ( <a href="#">more information</a> )	(81) 88 855 9570	<a href="mailto:kochi@jhks.gr.jp">kochi@jhks.gr.jp</a> <a href="mailto:Hongkong-kochi@altru.co.jp">Hongkong-kochi@altru.co.jp</a>
Kyushu ( <a href="#">more information</a> )	(81) 92 451 8610	<a href="mailto:kyushu@jhks.gr.jp">kyushu@jhks.gr.jp</a>
Miyagi ( <a href="#">more information</a> )	(81) 22 226 7025	<a href="mailto:miyagi@jhks.gr.jp">miyagi@jhks.gr.jp</a>
Niigata ( <a href="#">more information</a> )	(81) 25 365 0001	<a href="mailto:niigata@jhks.gr.jp">niigata@jhks.gr.jp</a>
Okinawa ( <a href="#">more information</a> )	(81) 98 868 3758	<a href="mailto:okinawa@jhks.gr.jp">okinawa@jhks.gr.jp</a>
Tokyo ( <a href="#">more information</a> )	(81) 3 5210 5870	<a href="mailto:tokyo@jhks.gr.jp">tokyo@jhks.gr.jp</a>
Yamagata ( <a href="#">more information</a> )	(81) 23 665 1310	<a href="mailto:yamagata@jhks.gr.jp">yamagata@jhks.gr.jp</a>

Source: [Federation of Hong Kong Business Associations Worldwide](#)

#### Consulate-General of Japan in Hong Kong

Address: 46-47/F, One Exchange Square, Central, Hong Kong

Email: [infojp@hn.mofa.go.jp](mailto:infojp@hn.mofa.go.jp)

Tel: (852) 2522 1184

Fax: (852) 2868 0156

Source: [Protocol Division Government Secretariat](#)

#### 11.5 Visa Requirements for Hong Kong Residents

HKSAR passport holders enjoy visa-free access to Japan for the purpose of short-term visits of up to 90 days. This exemption does not apply when the visit is for purposes other than a short-term visit, such as working or seeking employment. Where a visa is required, visa fees will be waived.

Source: [JNTO](#)

Date last reviewed: February 5, 2021

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