Invest Japan Report

New Trends for Direct Investment in Japan

The Great East Japan Earthquake placed a heavy toll on the Japanese economy. Various policies and measures will be needed for the economy to recover, and also encouraging foreign corporations to invest in Japan is one important approach. This report will broadly examine some of the trends among foreign firms in Japan prior to the earthquake, which could provide some hints for how to best proceed during this period of reconstruction. This report compiles trends for direct investment in Japan between January 2010 and February 2011 from this viewpoint.

A major trend during this period has been the increased investment by foreign firms in green industries that compliment the strengths of Japanese industries, such as in the area of lithium ion batteries. The support from a government subsidy program has encouraged their establishment of bases in Japan.

There has also been investment that takes the form of global alliances with capital tie-ups between companies in the same industry, to survive tough international competition. Traditionally, Japanese corporations have found such partners mainly among American and European firms, but recently there has been a growing number of partnerships with Asian firms. In particular, there has been increased investment from Chinese firms that recognize the value of the technologies, brands and expertise held by Japanese firms and is aiming to obtain these business resources.

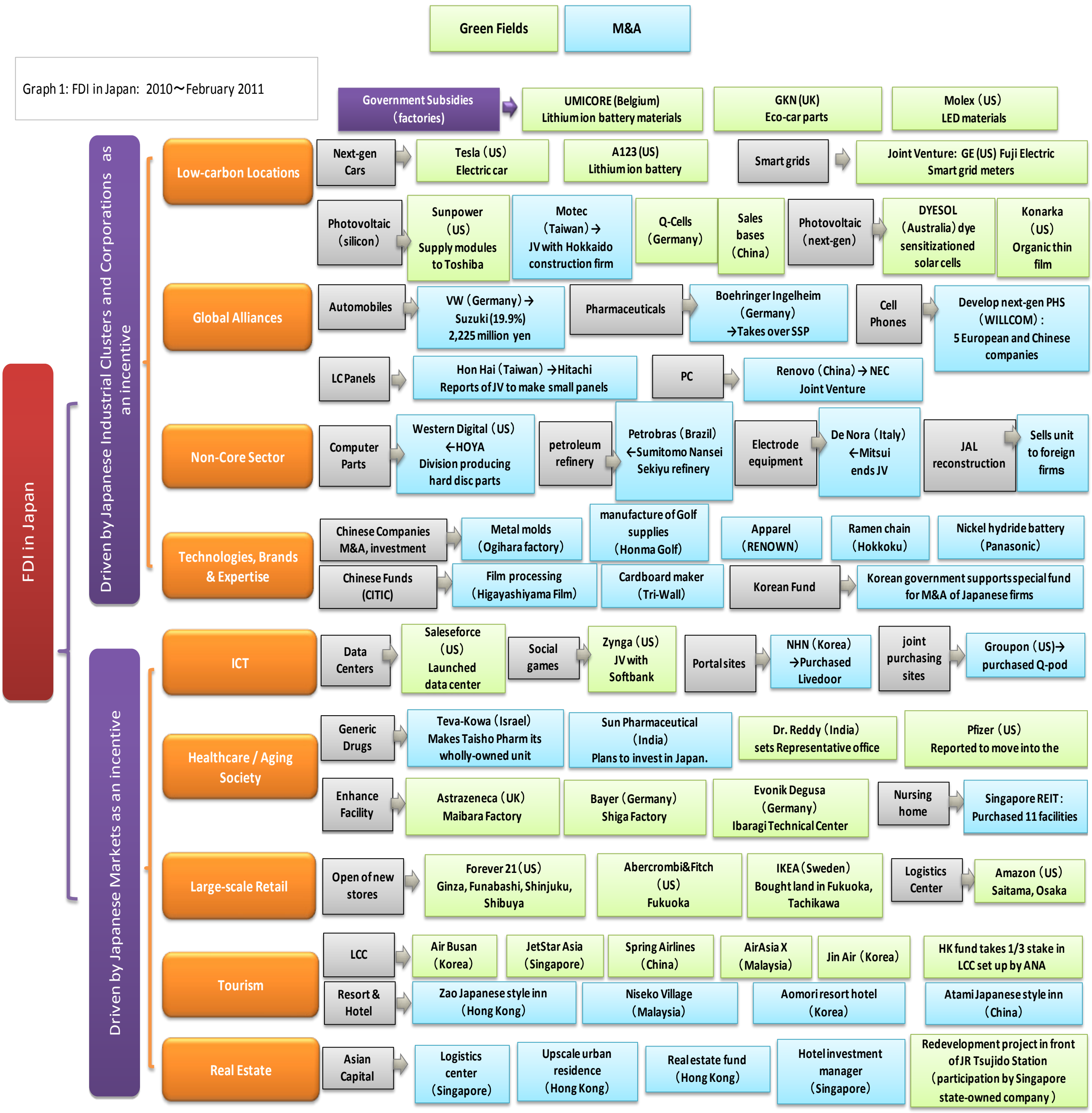
This can be seen in the aggressive investment, targeting the Japanese markets of expanding elderly population with generic drugs and nursing homes. There has been the expansion of large-scale retail outlets based on "fast fashion" and other new business models. Increased inflows of tourists to Japan have been accompanied by increased investment (new discount airlines, resort facilities). There have also been partnerships with Japanese trading companies in the area of real estate investment (development of distribution and trading facilities).

From here on, let's take a look at the movement of direct investment by foreign companies in Japan, by categorizing some concrete examples:

New Trends for Direct Investment in Japan

Nine Keywords for Discerning Direct Investment Patterns

The key incentives for direct investment in Japan can be divided into two main groups, (1) Japan's industrial clusters and corporations, and (2) the Japanese market. More detailed classification of these two groups can help to reveal the strong appeal to direct investment in Japan for foreign firms. Pattern (1) can be further classified by the keywords "low carbon technology location", "global alliance", "disposal of non-core divisions" and "technology, brand & expertise". Likewise, pattern (2) can be further classified using the keywords "information communication technologies (ICT)", "medical treatment & aging society", "large-scale retail", "tourism" and "real estate"(Graph 1). The following section provides some representative examples for each keyword during the period between January 2010 and February 2011.



Source: Prepared by JETRO based on press releases and media reports.

Incentive of Japan's "Industrial Clusters and Corporations"

Keyword 1: Low Carbon Technology Location

Main Point 1: Site location for setting up green industry for factories has been determined, based on government subsidies.

Main Point 2: US electronic vehicle (EV) makers, lithium ion battery firms have entered the Japanese Market.

Main Point 3: In the field of solar batteries, not only crystalline silicon solar cells, but next-generation organic thin-film and dye-sensitized solar cells have entered the Japanese Market.

In 2010, the field of the green-industry was one of the most active fields in terms of entries made by foreign firms. The main characteristic was that most of this direct investment was the green-field type investment (Note 1). The Japanese government devised a location-based subsidiary program to encourage industries with many revolutionary low-carbon technologies to locate their operation within Japan. A portion of the FY09 supplementary budget and FY10 reserve funds were used for this public offering. For the adopted projects, the national government has provided subsidies covering half of the expenses for small firms and a third of the expenses for the medium and large.

Umicore (Belgium), the world's second largest maker of lithium ion battery cathode materials, has utilized these subsidies. Previously, Umicore had produced products in South Korea to be imported into Japan, but with support from the subsidy program, the firm invested roughly 4 billion yen to establish a production base in Kobe. The company is also planning to set up a research & development center there. The president of Umicore Japan said in an interview with public broadcaster NHK, (Note 2) "Ultimately, the subsidy program helped us to make our decision," underscoring the big impact of the location-based subsidy program.

Umicore is not the only foreign firm taking advantage of the location-based subsidy program to expand their production bases in Japan. Drive system car parts maker GKN (UK) is producing eco-car parts in Japan. Likewise, connector specialist Molex (US) is producing LED-related parts and materials in Japan.

Umicore is not the only foreign firm in the lithium ion battery field with its sights on the Japanese market. A123 (US), a developer and producer of advanced lithium ion batteries, has also made a move into Japan. In September 2010, A123 established a Japanese unit to supply Japan with lithium ion batteries. Even before that, in October 2009, A123 agreed to a joint business with IHI (known as Ishikawajima Harima Heavy Industries until 2007 name change). The two firms agreed to jointly develop businesses and cultivate new customers in the field of energy storage.

As for the field of EVs that use lithium ion batteries, Tesla Motors, a US venture business that listed on Nasdaq (US stock market with many start-up firms) in June 2010, established a base in Japan. Since May of that year, Tesla sold EVs in Japan over the Internet and in October, opened a showroom in Aoyama. Panasonic supplies Telsa with lithium ion batteries and has invested $30 million in Tesla. Toyota has also invested $50 million to the company.

There have also been green-field type investments in the smart grid field. In February

2011, General Electric Co. (US) and Japan's Fuji Electric Holdings Co. established a joint venture to design, develop, produce and market smart meters (Capital fund of 350 million yen with Fuji Electric Systems holding 50.01% stake and GE Energy Japan holding a 49.99% stake). The name of the new company is GE Fuji Electric Meter Co.

There are examples of aggressive investment in Japan in the field of solar cells, but there are striking differences between the conventional (crystalline silicon) and next-generation (organic thin-film and dye-sensitized) solar cell fields. In the conventional type field, foreign firms invest with the aim of establishing sales bases in Japan. In 2010, Japanese units were established by Q-Cells (Germany), Trina Solar (China), Upsolar Energy(China) and Motech (Taiwan). Meanwhile, Yingli Green Energy (China), JA Solar (China) and Gintech (Taiwan) have plans to establish or are considering the establishment of units in Japan. Almost all of the major crystalline silicon-type solar cell makers have a presence in Japan (Table 1).

These firms are targeting households in Japan where demand is growing due to the revival of green subsidies. Partnerships are being formed with Japanese home builders and sales companies to cover the downstream sectors. Motech essentially purchased a unit of leading Hokkaido construction firm Itogumi Construction (established a joint ventre in which Motech holds a 94% stake).

On the other hand, the next-generation solar battery firms have been investing with the aim of conducting research & development in Japan. US firm Konarka, a leading maker of polymer-type organic photovoltaic (OPV) cells, established a Japanese unit in April 2010. Before that, in March 2010, it announced a business collaboration and strategic investment with Konica Minolta. After confirming the results of joint development for the purpose of joint production of organic photovoltaic cells, the two companies are planning to establish a joint venture in Japan.

In the field of dye-sensitized solar cells (DSC), leading Australian solar cell company, Dyesol, established a Japanese unit in December 2009 and launched activities in Japan in 2010. In the future, Dyesol aims to conduct research in Japan and create a business in the DSC field.

Table 1: Status of Foreign Solar Cell Firms in the Japanese Market

Global Ranking	Company Name	Japanese Unit	Business Development in Japan
1	First Solar (US)	×	Solar cells with the use of cadmium (CdTe [cadmium telluride] thin film solar cells) is the reason of not having entered the Japanese market.
2	Suntech Power（China）	2006	Purchased MSK in 2006. 2/3 of the purchase was in cash ($110,000,000) and the remaining 1/3 was a share exchange. Name was changed to Suntech Power Japan (June 2009). Sales are through Yamada Denki (August 2009)
3	Sharp（Japan）		
4	Q-Cells（Germany） **Production in Germany and Malaysia*	2010	Established an office in Japan in 2007 ⇒Converted into a Japanese unit in 2010. Provides crystal silicon cells to YOCASOL（HQ: Omuta, Fukuoka Prefecture, produces solar cell modules).
5	Yingli Green Energy Holding（China）	Under consideration	Business tie-up with Inter Action（maker of light source equipment). Inter Action provides sales channel support (August 2009).
6	JA Solar Holdings（China）	2011（scheduled）	Overseas sales ratio: 26.2% (2009). Main markets are Germany and Japan.
7	Kyocera（Japan）		
8	Trina Solar（China）	2010	Solar Silicon Technology (developer, producer and marketer of silicon materials for solar cells) sells home-use solar power generation systems using Trina Solar modules (October 2010).
9	Sun Power（US） **Production in the Philippines*	2009	Toshiba uses Sun Power solar cell modules. Has entered Japan's home-use solar power generation business（March 2010）.
10	Jintech（Taiwan）	Under consideration	Cells procured by Sharp.
11	MoTeC（Taiwan）	2010	Established Itogumi-Motec, a JV with Hokkaido general contractor Itogumi to produce modules (March 2010). Stakes in JV are 94% for MoTeC and 6% for Itogumi.
12	Canadian Solar（Canada）	2009	Sales started by Greentec (major solar cell marketer) (January 2010). Mitsubishi Electric provides power conditioners on an OEM basis.
-	Upsolar（China）	2010	Began sales to general households and local governments (January 2011). Sales to local governments are through KFE Japan (energy conservation support service).

Note: Global ranking is as of 2009 and according to PV News. 「-」 means within the top 25.

Source: Prepared by JETRO based on pres releases and media reports.

Keyword 2: Global Alliance

Main Point 1: In the automobile industry, Volkswagen (VW) has invested in Suzuki Motors and the two companies are forging an alliance in the global market

Main Point 2: In the electronics industry, Chinese PC makers and Taiwanese LC panel makers are forming JVs with Japanese companies

Main Point 3: Japanese companies' search for partners, are shifting to the ones in Asia, than that of the ones in US and Europe.

One of the biggest examples of direct investment in Japan in 2010 was the stake Volkswagen (VW) took in Suzuki Motor Corporation. In January 2010 the German carmaker spent 2,22,500,000,000 yen to take a 19.9% stake in Suzuki. The company then used half of these proceeds to purchase shares in VW (Note 3). The alliance was formed through mutual shareholdings.

The two simultaneous trends in the global car market is "globalization" that meets the demands of emerging economies and "diversification" into environmentally friendly cars and other sectors. Suzuki concluded that "Meeting these demands will be difficult on our own. We need to concentrate on the areas where we are strong, while having a suitable partner for which we can help cover each other's weaker points." Suzuki added, "We are aiming for alliance synergies by responding to emerging markets where future growth is expected, and by developing and supplying small cars with excellent environmental functions (Note 4)."

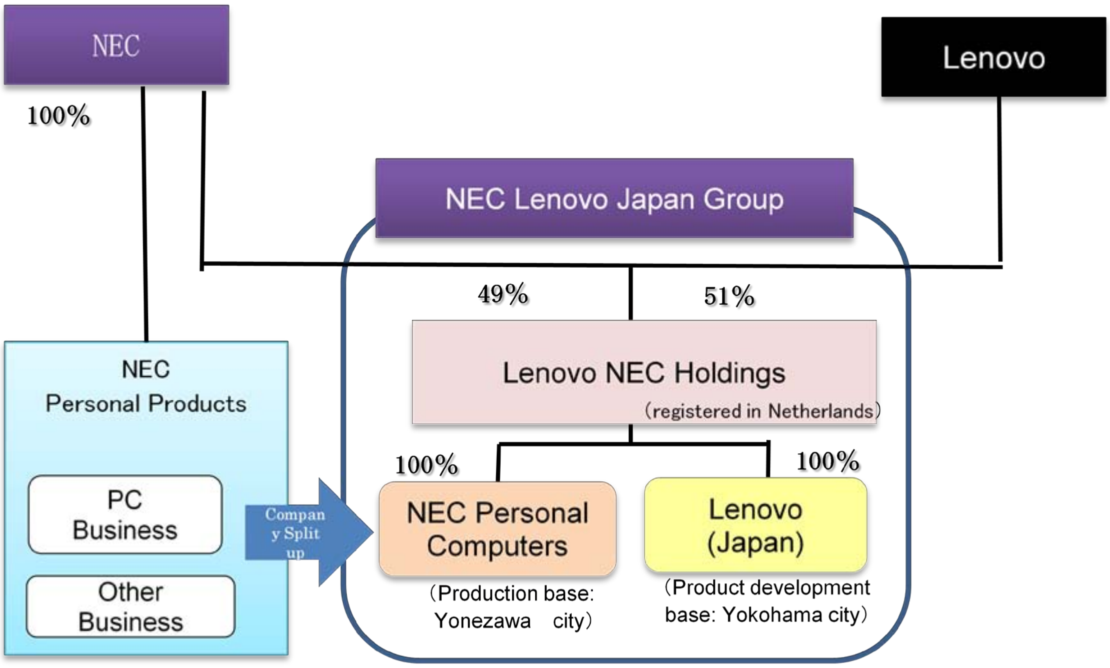
This is an example of two firms in the same industry forming a capital tie-up to survive global competition. This pattern has also been seen in the personal computer market. In January 2011, NEC formed a joint venture with China's Lenovo. The two firms launched the NEC Lenovo Japan Group in July 2011. Lenovo will have a 51% stake and NEC will hold a 49% in this holding company (registered in the Netherlands with a HQ office in Tokyo). Lenovo (Japan) and NEC Personal Computers, a new company formed by separating NEC's PC business from NEC Personal Products, will both become 100% subsidiaries of the new joint venture (Graph 2).

NEC holds the top share of the Japanese market, but global development isan issue. Through this JV, NEC is aiming to (1) bolster products through joint development, (2) use the merits of scale to improve price competitiveness, and (3) expand the overseas market for NEC's business PCs (Note 5).

Joint ventures with Taiwanese firms in the field of small liquid crystal (LC) panels have also been seen. In late 2010 it was announced that Hon Hai Precision Industry, a major Taiwanese electronics manufacturing services firm, invested roughly 100 billion yen in a Hitachi LC subsidiary, with the proceeds used to build a new plant in Chiba Prefecture (Note 6). The tie-up is aimed at surviving global competition in the small LC panel market where demand for use in smart phones and other applications is growing around the world. In fact, the tie-up has allowed the two firms to jump to the top share in the global market for small LC panels.

Also in 2010, German pharmaceutical firm Boehringer Ingelheim completed its take over Japanese over-the-counter drug maker SSP. Thefirm had already held a 60.2% stake in SSP through a Japanese unit, but raised this stake to 93.8% between February and April through its TOB (Note 7).

Graph 2: Overview of NEC・Lenovo Joint Venture



Source: Prepared by JETRO from NEC Lenovo press release (Jan. 27, 2011) and explanatory materials

At that time Boehringer Ingelheim said, "Together with SSP we will be able to further strengthen and expand the market position of the CHC (Consumer Health Care) business in Japan (Note 8)." Even though the Japanese market was the main focus of this takeover, Boehringer Ingelheim will probably apply the technologies developed by SSP to its global network covering 47 countries.

Traditionally when Japanese firms accepted investment from or formed joint ventures with foreign firms in the same industry to weather global competition, they have tended to partner with US and European companies. Examples of such alliances include Isuzu / General Motors (US), Mazda / Ford (US), Nissan / Renault (France), Sony / Ericsson (Sweden), Chugai Pharmaceutical / Roche (Switzerland) and Banyu Pharmaceutical / Merck (US). Among these, the Isuzu / GM capital relationship was dissolved in April 2006, and Ford's stake in Mazda, which once stood at 33.4% (1996) was reduced to 11% by November 2008 and 3.5% by November 2010. A key characteristic of trends in 2010 was that Japanese firms seemed to find more partners in Asia, particularly for the electronics industry.

Keyword 3: Selling Off Non-core Businesses

Main Point 1: HOYA sells its hard disc glass media division to a US firm

Main Point 2: As part of its restructuring, Japan Airlines (JAL) sells its in-flight meal service company to a Singapore firm

Main Point 3: Major trading firms dissolve joint ventures with foreign firms

As Japanese firms focus more on their core businesses, there continues to be cases of non-core operations being spun off and sold to foreign firms. This example is before the target period for this report, but in August 2009 Olympus sold its diagnostics equipment business to Beckman Coulter (US) for 77.5 billion yen. In May 2010 HOYA sold its division producing glass media for hard disc to Western Digital (US) for 22 billion yen. HOYA said that “selling this division was essential for efficient business operations and to harness our strengths for future business expansion" and added "we will focus on our glass substrate business with the world's leading share."

Foreign firms have played a role in JAL's reconstructuring. In December 2010 JAL sold its entire 53.8% stake in in-flight meal subsidiary TFK Corp. to Singaporean airport services firm SATS, which provides ground services at Singapore's main Changi International Airport and in-flight meal services. SATS was a subsidiary of Singapore Airlines, but following a share selloff in September 2009, a unit of Temasek Holdings (Investment Company backed by Singapore government) became the biggest investor with a 44% stake.

There have also been several cases of major trading companies selling off their portion of joint ventures with foreign firms. In April 2010 Sumitomo Corp. sold its remaining 12.5% stake in Nansei Seikiyu KK refinery to JV partner Petrobras making its fully-owned unit. Sumitomo Corp said, "This is part of the revision to our domestic petroleum product business strategy," adding "Business resources secured through this deal will be shifted to overseas businesses and other new developments for our petroleum product business (Note 10)." Then in November of 2010, Mitsui & Co. sold its 50% stake in Permelec Electrode, managed as a JV producing dimensionally stable electrodes since 1969, to its JV partner De Nora (Italy).

Keyword 4: Technologies, Brands & Expertise

Main Point 1: Sudden increase in the purchase of Japanese firms by Chinese companies. How these firms value the technologies, brands and expertise of the Japanese firms cannot be missed.

Main Point 2: There are also cases of actively accepting Chinese investment with an eye on business expansion in China and Asia.

Main Point 3: Increase of activity involving China government-affiliated investment funds. A Korea government-affiliated organization is establishing a fund to purchase small to medium-size firms.

In 2010 there was a sudden increase in the number of Chinese firms conducting M&A with Japanese firms. According to a survey conducted by M&A consultant Recof Corp., the number of Japanese firms purchased by Chinese companies jumped 42% in 2010 to a record of 37, topping the number purchased by US firms (35) for the first time. The main deals are shown in Table 2. There were many cases in which struggling Japanese firms turned to Chinese investment to support reconstruction, but at the same time it would seem that Chinese firms are valuing the technologies, brands and expertise held by Japanese companies. For example, in the case of Honma Golf, Chinese investors valued the company's technologies and brands. In anticipation of increased consumption by China's wealthy class, Honma Golf maintained its factory in Sakata, (Yamagata Prefecture) and its 700 employees, and has bolstered production of products for the Chinese market.

There has also been the emergence of Chinese capital introduced with the aim of expanding business in China. A Chinese investment firm took a 13% stake in Hokkoku Co., operator of the Dosanko ramen noodle restaurant chain, through a third-party allotment of new shares, making it the largest shareholder. In addition to obtaining business funds, Hokkoku is also aiming to expand business in China. Hokkoku ran a Dosanko ramen shop at the 2010 Shanghai Expo and in June of that year, and opened its first store in China (Shanghai). In September of that year, a JV was established in China with its largest shareholder. Through this JV, Hokkoku is hoping to increase its number of stores in China, mainly through franchise chains.

There are also examples of direct investment in Japan with the aim of developing markets in Asia other than China. In October 2010, JX Nippon Oil and Energy and PetroChina agreed to set up a JV to jointly run the Japanese firm's Osaka refinery. PetroChina, China's largest oil and natural gas producer, took a 49% stake in the new JV. Its refined oil is mainly sold in the Asia Pacific region. The aim is to generate through the benefits offered by the Osaka refinery (high quality, large capacity tanks, etc.)

On February 1st 2011, Panasonic Corp. announced that it was selling its nickel-hydride battery for its business to a Chinese firm. However, Panasonic explained that it was ordered by China's Commerce Ministry to sell this business as a condition of approval for its acquisition of Sanyo Electric Co., otherwise it ran the risk of violating competition laws (Note 11).

Funds continue to play a key role in M&A targeting Japanese firms. China International Trust and Investment Corporation (CITIC), China's largest financial conglomerate, set up an investment fund in 2004, targeting Japanese corporations. This fund has been involved in various MBOs such as those with Shinwa International Holdings (2004), Pokka (2005), Narumi (2006) and Shinwa Seiko (2008) (Table 3). Japanese institutional investors such as Marubeni, Shinsei Bank and Sumitomo Trust & Banking provided 90% of the financing for the first fund set up by CITIC. In this manner, CITIC investment in Japan started as an alliance with Japanese firms, but some changes were seen with the second fund set up in 2010. With the second fund, CITIC purchased Jasdaq-listed coated film specialist Higashiyama Film. After gaining experience through alliances with Japanese firms, it seems that CITIC is broadly procuring funds from around the world and starting to make serious moves involving the purchase of Japanese firms. In August this second fund made its next big move, purchasing corrugated fiberboard maker Tri-Wall. In 2010, funds for the purpose of purchasing Japanese companies were also set up in South Korea. In June it was learned that there were plans to set up funds provided by government-affiliated financial institutions such as the Korea Development Bank

Table 2: Examples of Chinese Firms Buying / Investing In Japanese Companies (January 2010 to February 2011)

Year	Buyer (China)	Purchased Company (Japan)	Details
2010	Ningbo Yunsheng (machinery maker)	Nikko Electric Industry (Isuzu-affiliate car parts maker)	Corporate reorganization proceedings completed in August 2005. Will jointly develop parts for eco-cars, which are also expected to become the mainstays in China, while sharing technologies to improve quality.
	BYD Auto (car maker)	Ogihara Corp. (major die maker)	Purchased the Ogihara Plant. Molds produced at this plant for doors, fenders and others are taken to China for use in production lines. Technologies are passed on to Chinese employees in order to raise international competitiveness.
	Liaoning Hi-Tech Energy Group (designs and builds wind, solar and other power generating systems, listed on NASDAQ)	Evatech (producers of amorphous silicon solar cell production equipment and LC / plasma display production equipment)	In November 2008, Evatech filed a petition for the commencement of rehabilitation proceedings with the Kyoto District Court (debts of 5 billion yen). Liaoning Hi-Tech plans to move Evatech's amorphous silicon solar cell production line to China. Evatech's R&D centers (Tokyo, Kyoto) will be continued.
	King Tech (production, sales and maintenance of total storage products) *Founded by YuanYao Wang (2000), Digital China took a stake (2003)	Remixpoint (developer of digital video / image application software, listed on Mothers)	King Tech Group took 25.70% stake (based on voting rights) through a third party placement of shares. Remixpoint using King Tech's Chinese sales network and sales force to bolster sales of its crime investigation support systems and used car verification systems.
	Marlion Holdings (owned by Chinese invester group)	Honma Golf (manufacturer and marketer of golf clubs)	Honma Golf's two parent companies sold more than a 50% stake to Marlion by the end of March 2010. Investment firms Ant Capital Partners and Milestone Turnaround Management sold these shares to Marlion. Honma Golf had filed for bankruptcy in 2005 and restructuring proceedings were completed in 2006. Honma Golf's factory in Sakata, Yamagata Prefecture and its more than 700 employees were maintained and production of products for the Chinese market were bolstered.
	Shandong Ruyi Science & Technology Group (major Chinese cloth and apparel maker)	Renown (producer and marketer of apparel)	Shandong Ruyi spent roughly 4 billion yen to take a 41.18% stake in Renown through a third party share placement. This was a true M&A by a Chinese firm targeting a firm listed on the TSE First Section. Renown is using the funds to open stores in Japan and China, develop brands for both countries, and invest in IT.
	PetroChina (China's leading oil and natural gas producer)	Osaka refinery (Nippon Oil refining subsidiary) *Nippon Oil changed name to JX Nippon Oil and Energy	Nippon Oil spun off its Osaka refinery and PetroChina's Japanese unit took a 49% stake in the new entity. On October 1, 2010 this entity was turned into a JV. The refined oil is sold mainly in the Asian Pacific markets. The aim is to generate synergies between the Osaka refineries advantages (high quality, large-volume tanks, etc.) and PetroChina's excellent marketing skills (exports to Asia).
	Bailian Group Japan (Japanese unit of Bailian Group) Bailian Group; China's largest retailer	TL Holdings (application development and support, listed on Hercules market)	Bailian Group Japan acquires a 13.2% stake via a third party share allotment. TL Holdings has developed the CJ-LINX business. This business is a one-stop service for the IT and business infrastructure needed by small to medium-size Japanese firms moving into the Chinese market. In October 2009, TL Holdings entered into a comprehensive business tie-up with theBailian Group's EC business in China.
	hiSoft Technology (major SI/BPO based in Dalian)	Insurance System Laboratory (system developer) *Subsidiary of LAC Holdings (listed on JASDAQ)	hiSoft Technology purchased all shares in Insurance System Laboratory. Along with restructuring its operations, LAC Holdings is aiming to expand internationally by bolstering its relationship with hiSoft technology.
	Beijing Tide Pharmaceutical (midsize pharmaceutical company)	Mebiopharm (pharmaceutical venture launched from Tokyo University)	Mebiopharm raised 300 million yen through a third party placement of shares involving Beijing Tide Pharmaceutical, giving the Chinese firm a stake of just under 10%. The company is aiming to tap Chinese demand.
	CMIC Enmei (Japanese unit of China Machine Building International Corporation [CMIC])	Hana no Yakata Somei (hot spring inn in Atami)	Hana no Yakata Somei had filed for bankruptcy and its operations were being auctioned off when CMIC Enmei became a suitor.
	Able Success Limited/Best Goal Limited (*both are investment companies financed 100% by Chinese business people. Able representative runs a famous apparel brand sales network (15,000 stores).)	Hokkoku (jade-listed fast-food chain and developer of Dosanko ramen shops).	Through a third-party share allotment, Able Success took a 13% stake to become the leading shareholder and Best Goal acquired a 3% stake. In addition to obtaining business funds, Hokkoku aims to expand business in China. Hokkoku ran a Dosanko ramen shop at the 2010 Shanghai Expo and in June of that year it opened its first store in China (Shanghai). In September a joint venture was formed in China with Able Success and Best Goal. Plans are to use this JV to expand the number of stores in China, mainly through franchises.
2011	Hunan Corun New Energy	Panasonic	On January 31, 2011, Panasonic agreed to transfer its automobile nickel-hydride battery business to Hunan Corun New Energy. The business transfer was a countermeasure to address concerns of China's Ministry of Commerce regarding the creation of a potential monopoly following the consolidation of Sanyo Electric as a Panasonic subsidiary. Panasonic will transfer relevant assets to Shonan Energy, a wholly-owned subsidiary. Thereafter, all shares of Shonan Energy are to be transferred to Hunan Corun New Energy. Assets to be transferred shall include all manufacturing facilities, sales, research & development departments and client resources. Panasonic will also grant licenses to related intellectual property rights.

Source: Prepared by JETRO from media reports and the individual companies' press releases and websites.

Table 3: Examples of China International Trust and Investment Corporation's (CITIC) Acquisition and Investment Targets in Japan

Purchase Date	Target Japanese Company	Fund Name
2004	Shinwa International Holdings（Hong Kong corporation, car audio parts）	First Fund
2005	Pokka（foods）	
2006	Narumi（chinaware）	
2008	Shinwa Seiko（miniature precision parts）	
2010	Higashiyama Film（film processor）	Second Fund
	Tri-Wall（special cardboard）	

Source: Prepared by JETRO from CITIC press release and various media reports.

and Korea Finance Corporation. The Japanese firms being targeted for M&A were those that had invested in R&D but not equipment investment or those that have good product lineups, but not overseas sales channels. In other words, these are cases where the injection of capital can produce good synergies (Note 12). More specific developments have been seen since the start of 2011. In January fund management firm Fund Creation Group (Japan) and NAU IB Capital (Korea) reached a partnership agreement and formed their first "Japan Technology Fund" to invest in Japanese companies. This fund is valued at 30 billion won (approx. 2.2 billion yen) with financing mainly from the Korea Finance Corporation, as well as Korean life insurers and banks.

There have also been new developments among US-based funds. In late February 2011, the Carlyle Group bought bearings parts maker Tsubaki Nakashima, acquiring shares held by Nomura unit Nomura Principal Finance (equivalent to 96.56% voting rights). Tsubaki Nakashima is one of the world's leader makers of precision balls for bearings. The Carlyle Group said it holds in high regard the technologies of firms in Japan, a country known for "making things (Note 13)."

The Japanese "Market" as Key Incentive

Keyword 5: Information Communication Technologies (ICT)

Main Point 1: Establishment of data centers with eye on the rapid growth of cloud computing

Main Point 2: Entry of foreign firms targeting "new market" where social games and coupons bought together

Main Point 3: South Korea's largest portal site operator purchases Livedoor

Cloud computing continues to grow at a rapid pace, and this is true in Japan as well. According to the Ministry of Public Management, Home Affairs, Posts and Telecommunications, the market for cloud computing is expected to explode from 390 billion yen in 2009 to around 2.4 trillion yen by 2015 (Note 14). Furthermore, Japan's ICT infrastructure was rated the best among 24 major countries and regions, taking into consideration such factors of broadband usage fees and speed (Note 15).

In October 2010, Saleforce.com (US) reached an agreement with NTT Communications to set up a data center in Tokyo (plans to be up and running in 2011). Salesforce.com has provided cloud computing systems to close to 90,000 companies worldwide. Salesforce.com said that “by establishing a data center in Japan, which has an excellent ICT infrastructure, we can use an efficient network to quickly provide customers in Japan and Asia with cloud computing services (Note 16)."

In 2010, foreign firms came forward to target the "new markets" of group purchasing and social games, which continue to grow quickly in Japan. Zynga Game Network (US), which holds a commanding share of FaceBook social games, entered the Japanese market by setting up a JV with Softbank in July. At that time Softbank invested 150,000,000 dollars to take a stake in Zynga. Then in August Zynga purchased leading Japanese social gaming company Unoh Inc.

Groupon (US), a global provider of discount coupons to groups, purchased Japan's Qpod, a similarly-modeled firm, only two months after its establishment.. Groupon did have to overcome a scandal involving flubbed sales of traditional New Years dishes, but Groupon CEO said, "It has been verified (in 2010) that consumers still want to eat good food and have fun, even when economic conditions are tough (Note 17)," suggesting he expects sales in Japan to grow.

NHN, the operator of South Korea's largest portal site Naver, spent 6.3 billion yen in May 2010 to purchase Japanese Internet portal Livedoor. The Livedoor portal site is being maintained, while strengthening its ties with Naver. The Korean firm said it wants to "generate synergies, improve user convenience and market competitiveness while developing both sites (Note 18)."

Keyword 6: Medical Care / Aging Society

Main Point 1: Foreign firms showing interest in Japan's generic drug market, due to government policies promoting generic drugs

Main Point 2: Foreign firms in Japan are looking to expand their production facilities

Main Point 3: Eyeing Japan's aging society, Singapore capital continues to buy nursing homes since 2008

The government decided to set the target of doubling the share of the Japanese prescription drug market held by generic drugs to 30% by 2012

(16.8% in 2004) (based on June 2007 Cabinet decision). In light of this decision, major Indian and Israeli generic drug makers have entered the Japanese market.

In 2007, Indian drug maker Lupin purchased a controlling stake in Japan's Kyowa Pharmaceutical, and Zydus Pharma, another Indian drug maker, acquired Nippon Universals Pharmaceutical. Then in 2008 Teva Pharmaceutical Industries (Israel), the world's largest generic drug maker, established the joint venture Teva-Kowa Pharma with Japan's Kowa Company. Teva holds a 50% stake in the joint venture. In 2010, Dr. Reddy's (India) set up an office in Japan. Then in August of that year Teva-Kyowa bought all outstanding shares in Taisho Pharmaceutical and made the Japanese generic specialist a wholly owned subsidiary. The world's largest drug maker Pfizer (US) has said that it will enter Japan's generic drug market in 2011 (Note 19).

Foreign drug firms that already had production sites in Japan, took steps in 2010 to bolster these facilities. AstraZeneca (UK) installed two new high-speed packaging lines at its Maihara plant used for inspecting and packaging imported medications. Bayer (Germany) expanded production facilities at its Shiga Plant (operations to start in 2011) due to better-than-expected sales of its hyperphosphatemia treatment. Likewise, Evonik Degussa, expanded its research facilities in Ibaraki Prefecture for pharmaceutical coating base materials. Furthermore, pharmaceutical and medical equipment firms from Korea, the US, Denmark and Germany established bases in Japan in 2010 with support from JETRO (Table 4).

Parkway Life Real Estate, Singapore's largest listed real estate investment trust (REIT) since 2008, has purchased 28 nursing homes in Japan over five rounds at a total cost of 22.5 billion yen (Table 5). Operators of this REIT said, "By 2025 more than one-fourth of the Japanese population will be 65 or older, so demand for high quality nursing homes should expand tremendously (Note 20)". Japan is the only country outside of Singapore where this REIT invests. Ownership of Japanese nursing homes is being recognized as a good asset management option.

Table 4: Examples of New Investments in Pharmaceutical / Medical Equipment Fields in 2010 (with JETRO support)

Month･Year	Company Name (country)	Business Development in Japan
March 2010	HuBDIC-Global (Korea)	Their non-contact sensor-type thermometer technologies are highly regarded in Korea. Made entry in Hyogo Prefecture and is aiming to develop quality products through partnerships with Japanese medical facilities and companies.
April 2010	American Medical Systems （US）	This Nasdaq-listed firm provides world-class medical equipment and treatments for fecal incontinence, prostate disease and other disorders in the pelvis region. Has established a Japanese unit in Tokyo to launch business in Japan.
June 2010	Leo Pharma（Denmark）	Founded in 1908, this leading Denmark drug maker has been developing cures for skin diseases and thromboembolic diseases. Established Japanese unit in Tokyo to gather information on starting business here, import/export pharmaceuticals and conduct R&D.
September 2010	BIT Analytical Instruments （Germany）	Part of the Messer (leading producer/marketer of industrial-use gas) group. Plans, develops and conducts consigned production of medical analytical equipment. Sees Japan as an important market as the scale is large and there are many companies with advanced technologies.

Source: Prepared by JETRO

Table 5: Retirement Homes Purchased by Parkway Life REIT

Purchase Date	Price （Unit: million yen）	No. of Facilities	No. of Rooms	Location
May 2008	1,440	1	74	Kanagawa Prefecture（Yokohama）
	1,177	1	94	Osaka Prefecture（Ibaraki）
Sep 2008	7,845	7	524	Tokyo (Nerima), Kanagawa Prefecture (Kamakura), Chiba Prefecture (Chiba City), Saitama Prefecture (Saitama City, Koshigaya), Hyogo Prefecture (Kobe, Akashi）
Nov 2009	5,000	8	537	Osaka Prefecture (Kadoma, Takaishi, Sakai, Kishiwada, Hirakata, Takatsuki)、Okayama Prefecture (Kurashiki) Fukuoka Prefecture (Fukuoka City)
Jun 2010	3,900	6	504	Fukuoka Prefecture (Fukuoka City, Kita-Kyushu, Nogata）, Akita Prefecture（Senboku）
Jul 2010	3,100	5	274	Kanagawa Prefecture（Kawasaki）, Saitama Prefecture（Saitama City）, Osaka Prefecture（Osaka City, Hirakata, Katano）
Total	22,462	28	2,007	

Source: Prepared by JETRO from Parkway Life REIT press releases.

Keyword 7: Large-scale Retail

Main Point 1: Growing number of "fast fashion" stores selling trendy items at low prices

Main Point 2: Continued expansion of furniture / membership-system volume retailers

Main Point 3: Internet-based retailer Amazon expanding distribution bases

In 2010, the number of foreign fashion retailers and furniture / membership system volume stores continued to grow. In the fashion field, there was a noticeable increase in "fast fashion" stores selling trendy clothing items at cheap prices. Sweden's H&M opened its first store in Ginza in 2008. It then opened a store in Harajuku that year, followed by stores in Shin-Misato (Saitama Prefecture), Shibuya and Shinjuku in 2009, and in Osaka's Shinsai-bashi (March 2010), Tokyo’s Musashimurayama (April 2010) and in Chiba’s Funabashi (October 2010). In 2011 there are plans to open three more stores in Tokyo’s Futakotamagawa, Hyogo’s Nishinomiya-city and Fukuoka’s Fukuoka-city. Forever21 (US) opened its first shop in Harajuku in April 2009, and on 2010, opened stores in Ginza (April), Funabashi and Shinjuku (May) and Shibuya (December). There are also plans to open an outlet in the Tenjin section of Fukuoka in April 2012. Upscale casual fashion brand Abercrombie & Fitch (US) opened its first Japan store in Ginza in December 2009, followed by the opening of its second store in the Tenjin section of Fukuoka in November 2011.

There has also been increased activity among foreign volume retailers. Furniture volume retailer IKEA (Sweden) has adopted a management policy in which stores are owned as company property. IKEA now has five stores in Japan after opening its first store in Funabashi in April 2006. There were no new store openings in 2010, but land was purchased for future store sites. Specifically, IKEA in June acquired land in a city planning business zone of Kasuya-gun, Shingu-machi, Fukuoka (in front of the Shingu-Chuo Station on the JR Kyushu Kagoshima main line) and in December it successfully bided on vacant land from the Tachikawa Base in Tokyo.

In 2010, German membership-based wholesale chain, Metro opened stores in Takasaki (Gunma), Ichikawa (Chiba) and Tatsumi (Koto Ward, Tokyo). Metro now has nine stores in Japan starting from the 2002 opening of its first store in Chiba. Warehouse-type member system retail chain Costco (US) did not open any new stores in 2010, but in 2011, it plans to open stores in Maebashi (Gunma), Yawata (Kyoto) and at a lot that used to house the Nissan Zama Plant (Kanagawa). The Costco homepage stresses how the company contributes to local economies and local retail, noting that "each warehouse store employees on average between 200 and 450 people" and "Costco with its low wholesale prices is a powerful ally for regional and individual businesses."

Since 2005, Internet-based retailer Amazon has been setting up distribution centers in Japan (Table 6). Such centers have been set up in Ichikawa, Chiba (2005), Yachiyo, Chiba (2007) and Sakai, Osaka (2009). In 2010, Amazon set up distribution centers in Kawagoe, Saitama (July) and Daito, Osaka (November). There are also to open centers in 2011 in Tokoname, Aichi Prefecture and Iwanuma Miyagi Prefecture.

The Internet retail market is growing, but at the same time becoming more competitive. Amazon likely believes that shortening delivery times through a solid distribution network is the key to winning this competition.

Table 6: Expansion of Amazon's Base in Japan

Date Established	Name（Location）	Total Floor Area（㎡）
Nov 2000	Established Japan unit	
Jan 2001	Opened customer service center (call center) in Sapporo City, Hokkaido	
Expansion of Distribution Facilities		
Nov 2005	Amazon Ichikawa FC（Chiba Prefecture, Ichikawa）	62,300
Oct 2007	Amazon Yachiyo FC（Chiba Prefecture, Yachiyo）	34,145
Aug 2009	Amazon Sakai FC（Osaka Prefecture, Sakai）	67,923
Jul 2010	Amazon Kawagoe FC（Saitama Prefecture, Kawagoe）	38,927
Nov 2010	Amazon Daito FC（Osaka Prefecture, Daito）	25,209
Start in 2011	Amazon Tokoname FC（Aichi Prefecture, Tokoname）	Unannounced
（Jan. 14, 2011 announcement）	Amazon Iwanuma FC（Miyagi Prefecture, Iwanuma）	Unannounced

Note: FC (Fulfillment Center) = Distribution center

Source: Prepared by JETRO from Amazon press releases, newspaper articles and other media reports

Keyword 8: Tourism

Main Point 1: Accelerated entry of Asian low-cost carriers (LCC) into the Japanese market

Main Point 2: Hong Kong fund purchases long-established inn near Mount Zao, Malaysia fund purchases large resort (Niseko, Hokkaido)

Main Point 3: Chinese, Korean funds have also purchased hot spring inns (Atami) and resort facilities (Aomori)

The number of foreign tourists visiting Japan in 2010 reached 8,610,000, an increase of 1,820,000 from the previous year. Most tourists came from Korea (2,440,000), China (1,410,000) and Taiwan (1,270,000). There has been increased investment in Japan among foreign firms that expect the number of foreign tourists will continue increasing.

This is particularly true of low-cost carriers (LCC). In 2009 there were only three LCC's in Japan: Jetstar (Australia), Cebu Pacific Air (Philippines) and Jeju Air (Korea). However, in 2010, this number suddenly increased by four. Air Busan (Korea) opened routes between Busan and Kansai Airport and between Busan and Fukuoka in March thorugh April. In July, Jetstar Asia (Singapore) opened a route between Singapore and Kansai Airport (via Taipei) and Spring Airline (China) started service between Shanghai and Ibaragi. In December Air AsiaX, the long-distance division of Air Asia (Malaysia), East Asia's largest LCC, opened a route between Kula Lumpur and Haneda.

The influx of new LCCs is expected to contribute to the development of local economies. On March 28th 2010, the mayor Hiroshi Yoshida said in the commemorative ceremony for Air Busan in Fukuoka, that "We hope to build with Busan an economic zone that goes beyond international borders. We expect an increase in business demand for this transportation range that supports day trips." When Spring Air decided to open a route with Komatsu Airport in March 2011, Kagawa Prefectural Governor Keizo Hamada said the move would contribute to greater exchanges between Japan and China and added, "We see this as a major first step in the rebirth of Komatsu Airport (Note 21)."

On February 1st 2011, All Nippon Airways reached an agreement with shareholders to set up a new LCC. Hong Kong Fund First eastern Aviation Holdings will provide one-third of the funding for the new LCC. Start-up capital will be 30,050,000 yen, which will be increased to as much as 15 billion yen before the launch of service in the second half of 2011.

There has been an emergence of investment targeting wealthy travelers from Asia. In March 2010, Malaysia's YTL conglomerate purchased the Niseko Village ski resort. The purchase price was 6 billion yen, which included the Hilton Niseko Village (506 rooms), the Green Leaf Hotel (200 rooms), two golf courses and a ski slope. In the summer of 2011 there are plans to build a condominium with a garden on this site. The concept is to target wealthy Asians who value "quality" over "price".

The Hong Kong-based Mingly Corporation, which has established upscale spa resorts in Thailand and Singapore, purchased the rights to manage the failed "Kutsurogi no Yado Chikusenso Inn" in Zao, Miyagi Prefecture. Major renovations were carried out and in April 2010 the inn was reopened as “Chikusenso Mt. Zao Onsen Resorts & Spa”. The facilities are targeting wealthy Asian travelers.

There has been investment from Korea and China, the two countries that hold the number 1 and 2 spots in terms of foreign visitors to Japan. In April 2010 CMIC Enmei and Company, the Japanese unit of Chinese trading firm involved in equipment wholesale, along with Chinese investors, purchased the "Hana no Yakata Somei" Inn in the Atami hot spring region. This inn had filed for bankruptcy and its operations were being auctioned off when CMIC Enmei became a suitor. In June 2010, Korean investment firm KICC Group bought the prominent Naqua Shirakami golf and ski resort facilities in Aomori Prefecture from Citi Group's (US) Principal Investment Japan. A deciding factor was the likely increase in tourist from Korea with the Tohoku Shinkansen (bullet train) line being extended to Aomori.

Keyword 9: Real Estate

Main Point 1: Prominent moves by Asian funds (Singapore, Hong Kong)

Main Point 2: Singapore fund purchases distribution facilities

Main Point 3: Hong Kong fund purchases upscale urban residences and TSE-listed real estate fund

Asian funds, particularly Singapore and Hong Kong funds were active in Japan's real estate market in 2010. There are two state-owned Singapore investment funds. The first is the Government of Singapore Investment Corp. (GIC) established in 1981. The Monetary Authority of Singapore entrust with GIC with investing a portion of the nation's foreign reserves. The second is Temasek Holdings, established in 1974. Temasek is wholly owned by the Singapore Ministry of Finance, but it is not entrusted with foreign reserves like GIC. Instead it uses its own funds and loans for investment funds.

These two state-owned investment funds have become noticeably active in Japan. GIC Real Estate, the real estate arm of GIC, is executing four commercial facility development projects through a joint venture with Sumitomo (signed in May 2007). The investment amount was announced at 150 billion yen at the time of the tie-up with Sumitomo. Development has already been completed for the Mito Keisei department store (2006), commercial facilities in front of the Hanshin Mikage Station (2008) and the Katamachi commercial facilities in Fuchu City (2009). In September 2010, a project was launched to develop the Shonan Tsujido commercial facilities (north side of JR Tsujido Station) and the completion is scheduled for November 2011.

Mapletree Investments, the real estate arm of Temasek has been purchasing distribution centers across Japan since 2007 through a REIT which it manages. Six such facilities were purchased in 2010. As of 2010, Mapletree had purchased 14 facilities at a total cost of 57.9 billion yen (Table 7). Mapletree has also formed alliances with Japanese trading companies. In December 2009, Mapletree agreed with Itochu to form a joint investment fund (50 billion yen target) to own and develop distribution facilities throughout Japan.

A Hong Kong fund has meanwhile been purchasing upscale urban condominiums. HKR International, a real estate conglomerate listed on the Hong Kong stock exchange, in 2010 purchased two urban residences (Akasaka and Roppongi). The purchasing price was only 7.95 billion yen.

A Hong Kong fund has also bought a TSE-listed investment fund. Pacific Alliance Group (PAG), a major Hong Kong private equity firm, launched a TOB for TSE First Section real estate fund manager Secured Capital Japan. As a result of the TOB, Pacific Alliance grabbed a 94.82% stake (based on voting rights) (December 13, 2010 announcement). PAG explained that it aims to expand its investment in the Greater China region as well as other regions throughout China (Note 22). This purchase will help to build a platform for real estate investment in Japan.

Table 7: Distribution Facilities Purchased by Mapletree Logistics Trust

Purchase Date		Location	Facility	Purpose	Rented Floor Space (㎡)	Price (Unit: million yen)
2007	Feb	Saitama Prefecture, Gyoda	Gyoda Center	Delivery center	8,622	1,806
	Apr	Kanagawa Prefecture, Ayase	Ayase Center	Food delivery center	3,903	1,275
		Kanagawa Prefecture, Aiko-gun, Aikawa-machi	Atsugi Center	Delivery center	15,693	3,660
		Kanagawa Prefecture, Zama	Zama Center	Delivery center	40,609	10,337
		Chiba Prefecture, Funabashi	Funabashi Center	Food delivery center	16,944	3,719
		Kyoto Prefecture, Nagaokakyo	Kyoto Center	Food processing and delivery center	22,510	8,809
	Dec	Hokkaido, Sapporo, Shiroishi-ku	Shiroishi Center	3PL	11,181	1,450
2008	Sep	Chiba Prefecture, Kashiwa	Kashiwa Center	3PL	29,164	6,901
2010	Feb	Chiba Prefecture, Kashiwa	Shonan Center	Industrial warehouse	30,489	4,360
	May	Miyagi Prefecture, Sendai	Sendai Center	Food delivery center	4,436	1,490
	Sep	Chiba Prefecture, Noda	Noda Center	Delivery center	35,567	4,800
		Saitama Prefecture, Saitama City, Iwatsuki-ku	Iwatsuki Center	Delivery center	29,982	4,800
		Saitama Prefecture, Iruma	Iruma Center	Delivery center	26,204	3,400
	Oct	Gifu Prefecture, Toki	Toki Logistics Center	Delivery center	16,000	1,050
Total			14 locations		291,304	57,857

Source: Prepared by JETRO based "Portfolio Property Summary" on Mapletree Logistics Trust website and press releases from the company.

Note 1: Direct investment can be classified into green-field investment and M&A. Green-field investment is to establish a legal corporation in a target country of investment (investment accompanying factory or store establishment). M&A, in a narrow sense,refers to investment accompanied by the transfer of management rights, such as buy-up and merger.. In a broad sense, it also includes capital or business tie-ups not accompanied by the transfer of management rights.

Note 2: "New Employment Produced by Growing Industries" ("NHK News Watch 9" broadcast on January 5, 2011)

Note 3: As of the end of March 2010, Suzuki had two million common shares of VW.

Note 4: Suzuki IR information (December 9, 2009)

Note 5: NEC Lenovo press release and explanatory materials (January 27, 2011)

Note 6: Nihon Keizai Shimbun (December 27, 2010)

Note 7: Boehringer Ingelheim made TOB through an investment company established in January 2010. Their Japanese corporation (60.2% of shares owned by Boehringer Ingelheim) also made TOB. By deducting the shares of the Japanese corporation, Boehringer Ingelheim is estimated to have spent 27.1 billion yen on TOB.

Note 8: SSP press release (February 10, 2010)

Note 9: HOYA press release (April 28, 2010)

Note 10: Sumitomo Corporation press release (April 2, 2010)

Note 11: Panasonic press release (February 1, 2011)

Note 12: The Chousen IIbo - Japanese Edition (June 16, 2010)

Note 13: The Carlyle Group press release (March 1, 2011)

Note 14: MIC "Smart Cloud Society Report" (May 2010)

Note 15: MIC "Report on International Comparison and Evaluation of Japanese ICT Infrastructure" 2009）

Note 16: Sales_Force.com press release (October 5, 2010)

Note 17: Nikkei Sangyo Shimbun (January 21, 2011）

Note 18: NHN Japan press release (April 12, 2010)

Note 19: Nihon Keizai Shimbun (November 19, 2009)

Note 20: Parkway Life REIT press release (May 27, 2008)

Note 21: Kagawa Prefecture press release (December 30, 2010) comment by Kagawa Prefectural Governor, Keizo Hamada

Note 22: Secured Capital Japan press release (November 4, 2010)

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