

Title:

Potentials and Impediments for Foreign Direct Investment in Japan

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ABSTRACT:

Promotion of inward foreign direct investment (FDI) into Japan has been an important policy in the Abenomics growth strategy. This paper examines how successful the policy has been. We first estimate a gravity model of bilateral FDIs using data for FDI stocks for 27 OECD countries by origins and destinations. We take the predictions from the model as the reasonable counterfactuals and compare those to the actual inward FDI stock for Japan under the Abe administration. Although the actual inward FDI stock has been growing and is likely to achieve the goal of 35 trillion yen by 2020, the growth has been much lower than the counterfactual suggested by the estimated model. The result casts a serious doubt on the effectiveness of the Abenomics policies to encourage inward FDI. We also examine the gap between actual and predicted inward FDI stocks for several origin countries and assess where Japan has large potential to increase inward FDI.