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Policy Report

Economic diplomacy
of Japan to promote
investments

MEKHRINISO ABDURASULOVA

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The Japanese economy is a highly developed market economy, often defined as an example of East Asian economic model. It ranks third in the world in nominal GDP and fourth in purchasing power parity (PPP). Japan's economy soared in the second quarter of 2023, posting growth at an annualized 6 percent rate, one of the best figures that Japan has seen since the mid-1990s and good enough to make it the top performer among major global economies. The Japanese government actively welcomes foreign investment and has set ambitious goals for increasing inbound foreign direct investment (FDI).

Studying Japan's rich experience in attracting investment is important for Uzbekistan, which is defining attracting FDI and providing pro-active economic diplomacy as the most important priority.

This paper studies the achievements, causes, challenges of Japanese economic diplomacy and how it can be considered by the government of Uzbekistan.

Building strong relationships with key stakeholders is one of the prerequisite for successful economic diplomacy. This requires strong relationships with a wide range of stakeholders, including government officials, business leaders and civil society groups.

Japan's economic diplomacy efforts divides into 3 priorities:

1. Initiatives that contribute to the revitalization of the Japanese economy

Promoting high-level economic partnership;

Support for overseas expansion of Japanese companies;

Countermeasures against reputational damage.

2. Building an attractive country's image as a partner

Ensuring stable and relatively inexpensive supply of energy and mineral resources via *strengthening partnership with resource-rich countries*;

Ensuring food security;

Internationalization of the Japanese market and human resources;

Promotion of FDI;

3. Participation in international rule-making

Responding to global issues, etc. (*G7Ø G20Ø APEC*);

Maintaining and strengthening the multilateral trading system (*ØWTO*);

Cross-sectoral policy consultation. (2)

The role of the Japanese Ministry of Foreign Affairs in investment diplomacy.

In September 2015, the Ministry of Foreign Affairs merged the Overseas Infrastructure Development Office, the Investment Office, and the Japan Business Support Office into the Economic Affairs Bureau to facilitate the overseas expansion of Japanese companies.

To increase investors in the country, the Japanese Foreign Ministry took the following measures:

The "Japanese Business Support Desk" has been established at all overseas diplomatic missions. The head of the embassy and all foreign missions work together to make the embassy "the most open and consultative embassy in the world". The number of cases supported in FY 2014 was approximately 41,000, an increase of approximately 15% over the previous year (the total number of cases supported in FY 2013 was approximately 36,000). (3) "Japanese business support officers" are currently posted at 276 diplomatic missions overseas. They are responsible for giving advice on how to do business in accordance with local business practices.

The Ministry of Foreign Affairs has been working closely with diplomatic missions overseas, which serve as the liaison for Japanese companies in each country. In order to strengthen the legal support system for Japanese companies abroad, Japanese diplomatic missions hire Japanese lawyers to conduct research and provide information on local laws and legal systems, as well as to advise Japanese companies on legal issues.

Lawyers working in Japan's foreign representative office perform the following tasks:

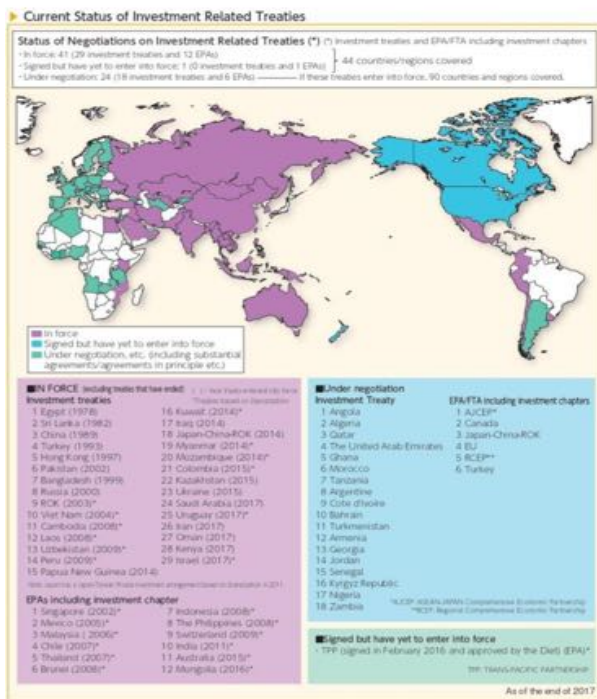
I Conducts research on the actual state of local law firms, laws and legal systems, their activities and provides information on its results.

I Collecting, analyzing and advising on personal legal and business issues related to Japanese companies (including understanding the issues facing Japanese companies and communicating them to local attorneys and Japanese companies and acting as a bridge between local lawyers)

I Consulting services (analysis and organization of cases, etc.) in negotiations with local authorities of diplomatic missions abroad, etc.

I Holding legal seminars for foreign investors, etc.

It will be very useful to apply this experience in Uzbekistan, since at the moment, the development of international trade and investments negatively impacted by the lack of Uzbek specialists in economic legislation who would help foreign and local investors.



investments by stipulating the protection of investors and their investment, enhancement of transparency in laws and regulations, expansion of investment opportunities, procedures for investment dispute settlement, etc.

In order to promote the improvement of the investment environment overseas and attract foreign investment to the Japanese market, Japan has actively engaged in concluding the investment treaties.

As the table shows, Uzbekistan, one of the 29 countries highlighted in purple with an existing signed agreement, also has investment transactions with Japan.

Investment treaties are important pieces of legal infrastructure to promote

According to the website of the Ministry of Foreign Affairs of Japan, one of the ultimate goals of Japanese economic diplomacy is to strengthen and develop the Japanese economy through the development of the world economy. In the late 1980s, the quantitative expansion of trade and investment led to the globalization of the world economy. This was supported institutionally through the General Agreement on Tariffs and Trade (GATT) and subsequent multilateral trade negotiations in forums such as the World Trade Organization (WTO), promoting the reduction and elimination of trade barriers, and the promotion of common trade barriers.

The greatest challenge of Japan's economic diplomacy today is not only to take advantage of the opportunities provided by globalization to revitalize and strengthen the Japanese economy, but also to promote the benefits of globalization to the world economy as a whole. (6)

Another important instrument of Japan's foreign policy is Official Development Assistance (ODA) - technical assistance and gratuitous grants to foreign countries. The integration of ODA in the 2010s into the context of economic diplomacy has only increased the duality of its role in foreign policy. Firstly, as an economic means of raising the profile and expanding the country's presence on the world stage. Secondly, as a means of promoting Japan's economic interests abroad. (3)

The role of the Ministries of Economy, Trade and Industry (METI) in investment diplomacy.

METI has been implementing various measures adopted by the Council for Promotion of FDI in Japan, initiatives making use of diplomatic resources through diplomatic missions overseas, and trade promotion by key government officials. The "Contact Points for Direct Investment towards Japan" established at 126 diplomatic missions overseas in April 2016, have been working in collaboration with the Japan External Trade Organization (JETRO),

carrying out surveys of requests for improvements to Japanese regulations and systems, calling for investments in Japan by making use of networks of contacts at diplomatic missions overseas, holding events for promoting foreign direct investment in Japan, and implementing other proactive initiatives. (9)

The Ministry of Economy, Trade and Industry (METI) established JETRO, a mechanism for implementing the Japanese government's policy of economic and industrial development through innovation, technology and foreign investment. The organization's functions and tasks are developed and managed by METI. JETRO, an organization supporting Japanese exporters, has 76 overseas offices in 50 countries and 48 offices in Japan. (10) From the 1980s to the present day, JETRO has made the promotion of imports into Japan its main mission and has become a key organization in promoting trade and investment with foreign countries. JETRO has been actively participating in the development of industrial cooperation between Japan and other developed and especially developing countries, supporting the development of regional economies and international exchange at various levels. In addition, one of the most urgent tasks of the organization today is to increase the volume of FDI in the Japanese economy in order to reduce the growing level of domestic unemployment. (4)

Japan faces many economic and social challenges in a rapidly changing international environment. Such challenges include an insular and coherent business culture that has traditionally resisted unwanted mergers and acquisitions (M&A), especially when initiated by non-Japanese entities; the absence of several independent directors on the boards of many companies (although the composition of the board varies); exclusive supplier networks and alliances between business groups, which may limit competition from foreign firms and domestic entrants; cultural and language issues; and long-standing labor practices that tend to impede labor mobility. Against this backdrop, it is imperative that Japan advances foreign policy to strengthen its economy.

Conclusion and recommendation

Japan's traditional economic diplomacy tools include international trade liberalization, official development assistance, energy security, and protection of the agricultural sector. New, less proven tools are increasingly being used, such as creating a positive image of the country and promoting infrastructure projects abroad. In addition, the government plans to create a single center for coordinating foreign economic activity with the involvement of large business opportunities.

Economic diplomacy is gradually gaining ground among the priority areas of Uzbekistan's foreign policy. Since 2018, the diplomatic service of Uzbekistan has been endowed with significant economic components, receiving tasks to increase national well-being, comprehensive modernization of the economy, giving it an innovative character, protecting and promoting the interests of domestic business abroad. In this regard, the Japanese experience may be of interest, especially the system of legal support to business in Japanese embassies abroad.

According to the 95th goal of the Decree of the President of the Republic of Uzbekistan "On the development strategy of the new Uzbekistan for 2022-2026," it is noted that Uzbekistan will further develop relations with traditional partners, give priority to expanding the geography of our external relations and strengthening economic diplomacy.

In particular, special emphasis was placed on enhancing and reinvigorating the effectiveness of economic diplomacy in promoting and protecting national interests and expanding cooperation with traditional strategic partners in the Asia-Pacific region, such as China, the Republic of Korea and Japan. (8)

The following practices of the Japanese Ministry of Foreign Affairs can be applied to develop exports abroad and attract FDI to the country:

Firstly, foreign diplomatic missions of Uzbekistan in priority countries should create a “Uzbek Business Support Service», which will promote the interests of Uzbek exporters and look for future potential investors in the country. They will help solve emerging problems of Uzbek exporters abroad, and will also help sell domestic products abroad, using a network of diplomatic missions abroad.

Secondly, hire Uzbek lawyers to conduct research and provide information on local laws and legal systems, as well as to advise Uzbek companies on legal issues that are about to enter the market of this country. And also to advise foreign companies on legal issues to support FDI in Uzbekistan.

Thirdly, a research center should be created under the Ministry of Investment and Foreign Trade of the Republic of Uzbekistan to study the market economy of priority countries. This center will help find the most favorable markets for our national exporters and explore ways to create favorable conditions in the country to attract foreign direct investment. In addition, this center will conduct joint research with foreign trade organizations operating in our country (such as JETRO), with analytical centers, study existing problems and present them to the government.

Finally, It is time for Uzbekistan to think about its soft power strategy. As the experience of Japan has shown, I think that by demonstrating its attractiveness through “soft power”, the number of people interested in Uzbek products abroad and number of investors interesting in Uzbekistan will increase.

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