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## **LONG TERM STIMULUS**

In the process of reopening the Japanese economy as the COVID-19 pandemic is brought under control, targeted measures designed to provide economic stimulus in the longer term will be necessary. This paper summarizes recommendations of the American Chamber of Commerce in Japan (ACCJ) to the Government of Japan (GOJ) as to how such measures will be most effective. These recommendations cover general economic stimuli, as well as certain industry targeted measures. More detailed recommendations related to the development of Japan's digital economy, for healthcare and retirement, and for the promotion of Tokyo as a financial hub are being prepared as separate and more detailed proposals.

### **Measures to stimulate "hard hit" industries**

#### Tourism and hospitality

It has been widely documented that the tourism and hospitality industry is among one of the hardest hit industries by COVID-19. This problem is exacerbated by the positive impact that tourism has had in recent years on regional economies, which are suffering disproportionately in comparison with urban areas such as Tokyo that have a more diverse industrial base. As international travelers remain unable to reach Japan, and with domestic travel only sluggishly returning, in order to safeguard jobs and maintain infrastructure required to capitalize on inbound tourism once it resumes, the ACCJ suggests the following measures.

- **Extend the labor subsidy for the tourism and hospitality industry until at least 2021.**
- **Subsidize the renovation of abandoned buildings in regional areas into accommodation.** Japan has a high percentage of "returnee" tourists, i.e., tourists who have been to Japan before. Returnee tourists are looking for experiences beyond those of the most well-known locations, such as Tokyo and Kyoto. In addition, as the development of remote working increases, and may remain prevalent even post-COVID-19, regional areas may become more attractive to

people currently living in large urban areas like Tokyo and Osaka for work-related reasons. Developing accommodation and facilities in regional areas, in conjunction with support for preservation of local trades and culture, may not only meet the demand by returnee tourists, but also provide the necessary infrastructure required for city residents looking to relocate.

- **Reimburse fees for retraining or upskilling undertaken by small and medium sized businesses (SMEs) in the tourism and hospitality industries.** This reimbursement should also be extended to provide training to those currently unemployed or underemployed, particularly in the regions. As business slows as a result of COVID-19, many large companies are taking the opportunity to retrain or upskill employees, so they are able to redeployed within the business, but in different areas, as required going forward. Particularly in Japan where the labor shortage remains significant, despite the impact of COVID-19, the redeployment of an existing workforce can be much more efficient than trying to hire new staff with the required skills. The cost of retraining or upskilling is significant, however, and may be out of reach for many SMEs; this problem is exacerbated in the tourism and hospitality industries, where a significant percentage of service providers are in the SME category.
- **Supplement the current central government support for regional Destination Marketing Offices with additional funding to assist with marketing.** To further prepare regional areas for a renewed push in attracting tourism, both internationally and domestically, and keep regional Japan on travelers' minds, marketing strategies for regional areas must be improved – particularly in digital marketing – rather than relying on traditional brochure and poster methods.

### Arts and entertainment

- **Establish employment programs to support the arts and entertainment industries, particularly given the large number of performing arts that are unique to Japan.** Some countries have already started such employment programs, as well as targeted funding for the arts; both New Zealand and Australia have established jobseeker programs for the entertainment industry.
- **Implement more aggressive measures to promote Japan as a destination for film production.** According to the "Report of Empirical research on attracting foreign films for on-location shooting to promote the local economy" issued August 25, 2020, the GOJ awarded production incentives to two foreign films in 2019 to shoot films in Japan. The production activities and expenditure of these projects contributed JPY

5 billion in direct economic benefits and JPY 172 billion in total economic benefits, including indirect benefits. It was encouraging that the Japan Government has planned for the second round of the production incentive for 2020. Given the evidence that international audiovisual production supports regional economies and supports not only the entertainment industry but also tourism, a plan to promote Japan for this purpose should be established as a predictable permanent system, not on a single-year pilot project basis, and expanded its project size.

## **Measures to better prepare Japan for the challenges of the future**

### Expansion of technology infrastructure

- **Invest in equipment and internet services for all living in Japan to have equal access to internet service, by subsidizing the acquisition of computers and implementation of high-speed internet service to all residents who want them, including school age students.** The GOJ is already implementing similar plans through current relief offerings whereby SMEs are offered various subsidies by MHLW, METI or local governments to cover the cost of teleworking equipment. By extending this measure to all Japanese residents, this will enable practically what the introduction of remote working enables in theory: the relocation of city residents to the regions on a permanent basis. It will also reinforce the success of other business-enhancing activities, such as: greater employment of women in the workforce; enhanced workforce productivity; and stronger “tele” opportunities in education, medicine and banking. By supporting the drive to become a thoroughly digital nation, the GOJ will continue to enable Japanese companies to be at the forefront of global business development and foster deeper innovation.

### Digitization of central and local government administration

- **Digitize government administrative procedures, such as those relating to taxation, licensing, etc.** The ACCJ believes investments in technology could improve such processes, enabling not only the GOJ but also companies and individuals who must work with the GOJ to operate more efficiently. This would include establishing a system at all levels of government for issuing official government documents electronically with electronic identity verification, that would enable

companies (and individuals) to submit documents electronically to the government.

- **Provide preferential tax treatment for such improvements when taken by corporations**, whether in the form of tax credits relating to the investments or a direct write-off at the time the investments are incurred. Commendably, the GOJ has established a series of subsidies and grants for SMEs to promote telework investment. In order to enhance and accelerate the boost to productivity that these subsidies and grants will enable, similar support and preferential tax treatment should be provided, regardless of company scale, for new capital investments and other investments to promote paperless operations and to establish new offices to diversify risk against office closure.
- **Ease obstacles to the storage of official documents in digital format and establish a uniform system for eliminating the use of official seals and wet signatures.** The ACCJ believes that both companies and the GOJ will be more efficient and better prepared to operate in the event of an emergency without current burdensome requirements for paper-based processes. To reach this objective, there is a need to identify the laws and regulations that currently require the creation and delivery of paper documents and find ways for them to also be handled electronically; clarify the legal standing of electronic signatures and establish a new certification system to authorize trustworthy electronic signature services that have the same legal effect as seals and promote their adoption; and create an environment where documents can be created electronically and signed by electronic signature or e-seal. In line with this effort, and the vision of societywide digital transformation, we also encourage efforts to reduce the number of private-to-private transactions that require paper.

### Expansion of the workforce

The ACCJ proposes a number of measures to support businesses during the current economic crisis, but also to increase the number of available workers in Japan in the long term.

- **Provide SMEs with subsidies or tax credits for the employment of new permanent female employees.** This may be similar to the existing salary increase tax credit but focused specifically on female employees. The ACCJ believes that not only would this create job security for a significant percentage of the estimated 9.0 million women in irregular employment in Japan, but it would add to the government's tax base, stimulate needed consumption, and more effectively further diversity-driven ingenuity and business growth.

- **Relax the requirements for foreign workers across all visa categories to ensure Japan's economic vitality going forward.** Statistics published by the GOJ earlier this year indicate that Japan has attracted less than one-tenth of the foreign workers it hoped to attract under the newly introduced "specified skills" visa. Analysts commenting on the Japanese economy are unanimous in their conclusion that the GOJ cannot achieve its economic growth targets without increased immigration to fill the gap in the working population.
- **Provide targeted financial support to the most vulnerable youth populations, including students, in a fair and transparent manner.** The Government of Japan has long promoted a policy of increasing the number of foreign students in Japan. These foreign students are a key source of global talent, supporting the globalization of Japanese universities and expanding the local talent pool. As part of the government's COVID-19 response, national programs set up to support students included an additional requirement for those who are foreign, making only those with grades in the top 30 percent eligible. The same was not required of Japanese students. This policy runs counter to the Government of Japan's efforts to promote the globalization of Japanese universities and increase the number of foreign students studying in Japan, including the top global talent.
- **Increase investment in international academic exchanges and prioritize support for recognized foreign university branch campuses in Japan, exploring tax relief and other financial support measures to ensure the continued operation of these institutions after COVID-19.** The Government of Japan has broadly recognized the importance of international academic exchange to support the globalization of Japan's workforce. The COVID-19 pandemic has had a drastic impact on international academic exchange and threatens the continued operation of foreign university branches in Japan. It is important for Japan to continue to support such initiatives both during and after COVID-19.

### Climate change priorities

The International Energy Agency and the International Monetary Fund have advocated for a combination of policy actions and targeted green investments over the next several years to bring about a sustainable recovery from the COVID-19 induced shutdown that will boost economic growth and create millions of jobs. The ACCJ acknowledges and appreciates the GOJ's past efforts to support renewable energy, and there is much more that could be done to lead global trends towards decarbonizing energy across all sectors of the economy starting with increasing targets for renewable energy as a proportion

of Japan's overall energy mix, and making it easier for corporate consumers to meet their global renewable energy procurement commitments in Japan.

- **Investment in new energy infrastructure—e.g. in increasingly cost-competitive energy storage, reliable integration of variable renewable energy resources, as well as demand response technologies, etc.—should be central to Japan's COVID-19 recovery.** Decarbonization is consistent with Japan's national commitments to COP21 and is one of several "Ds" that the ACCJ urges Japan to act urgently on as a part of COVID-19 recovery efforts—along with further deregulation, digitalization, and decentralization—to drive clean energy innovation. Aggressive moves away from coal and other carbon fuels should be supported, and acceleration of renewable and distributed energy alternatives wholeheartedly endorsed.
- **Actively encourage private sector efforts to develop sustainable products and programs that encourage sustainable practices.** Increasingly, the private sector is responding to environmental concerns as well as consumer demand for sustainable products and services. To further support Japan's commitment to reducing carbon emissions, the GOJ should establish a mechanism to encourage and support these private sector efforts to promote the use of recycled materials and remanufactured products. As part of this process, standards should be set and made clear to the public to alleviate public concerns around the safety of such products.

## **Fiscal measures**

### Investment incentives

- **Provide a temporary ability (e.g. 2 years) for corporate taxpayers to immediately expense certain investments for corporate tax purposes would incentivize companies to spend more and stimulate economic growth.** In particular, investments in areas which help business to create a post-COVID environment should be eligible for an immediate deduction, including those targeted towards improving air ventilation systems in working spaces, and renovations allowing more outdoor space or increased distance between patrons, for example, in tandem with paper-based processes. However, in order to create more widespread growth in the economy, the temporary availability of an immediate deduction up to JPY 100M per year for investments in depreciable business assets, regardless of type, would further encourage companies to invest in their business in Japan.

## Net operating losses (NOLs)

- **Extend the NOL carryforward period, temporary relief from the current NOL usage restrictions, and expanded availability of the NOL carryback system.** By lengthening the current 10-year NOL carryforward period to be more in line with Japan's major trading partners, companies may improve their cash flow forecasts and remain incentivized to invest in Japan. Further, many non-SMEs may currently only offset up to 50% of taxable income with NOLs due to usage restrictions, however a temporary removal of this limit for two years to allow full utilization of NOLs would provide companies with additional cash to reinvest in their business in Japan. Similarly, temporarily expanding the availability of NOL carrybacks to two years, and allowing all companies regardless of size the ability to carry back losses, would also provide taxpayers with access to additional cash.