

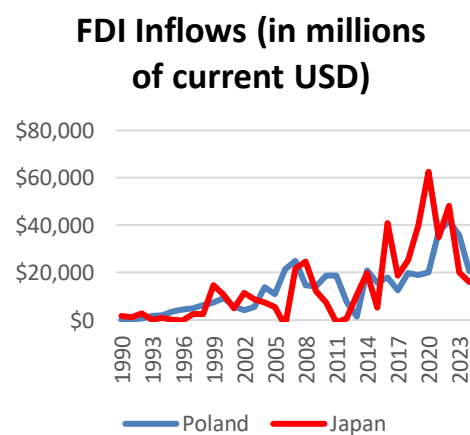
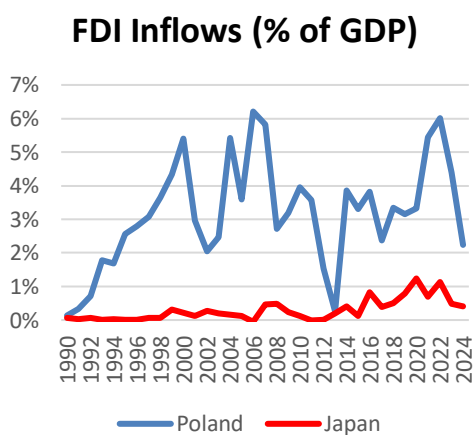
# Japan's Closed Doors: Why the World's Fourth Largest Economy Fails to Attract the Foreign Investments It Needs?

by Oskar Kapela

## Introduction

Over the past three decades, foreign direct investment (FDI) has emerged as one of the most significant forces influencing global economic development. For host countries with the institutional capacity to absorb it, inward FDI delivers capital, technology, managerial expertise, and employment opportunities that would otherwise take decades to accumulate through domestic means. The empirical literature broadly supports the view that across developed, developing, and transition economies, sustained FDI inflows are associated with improved productivity, infrastructure development, knowledge transfer, and long-run GDP growth.

However, the global distribution of FDI is far from uniform. While the majority of inward investment flows are directed toward countries classified as developing economies, a significant share of global FDI stocks remains concentrated in advanced economies. The United States stands as the world's largest holder of inward FDI stocks as of 2024, followed by China. Within this global ranking, Poland occupies a notable position for an economy of its size, placing 23rd, while Japan ranks 35th. When it comes to yearly FDI inflows, Poland also compares favourably, with yearly FDI inflows amounting to approximately 2.2% of its GDP. Japan, by contrast, despite being the world's 4th largest economy, attracts yearly FDI inflows of only approximately 0.4% of its GDP, a figure that lags behind not only other major economies, but a number of significantly smaller ones.



This phenomenon is particularly striking given that Japan is the world's fourth-largest economy, a technologically sophisticated exporter of capital, and home to some of the most competitive multinational corporations. It seems as it should be among the most attractive destinations for foreign investment in the world, however, that is not the case.

This article examines the factors that have constrained inward FDI flows to Japan while simultaneously evaluating the determinants that have contributed to Poland's attractive environment for foreign investors. It argues that Japan's underperformance is not primarily a function of legislative restriction, but rather reflects cultural barriers that hinder the country's attractiveness as an FDI recipient.

### **Poland: FDI as a Driver of Post-Transition Growth**

In 1990, Poland's GDP per capita stood at approximately \$1,731, nearly one-tenth of the GDP per capita recorded in Western European economies. The liberalisation programme introduced by Finance Minister Leszek Balcerowicz in the early 1990s, after nearly five lost decades of Soviet rule, included price deregulation, trade liberalisation, mass privatisation, and financial sector reform. This was the first spark that contributed to the later success of the Polish economy. In May of 2004 Poland's accession to the European Union then constituted a second major turning point, granting access to the Single Market and significantly reducing the perceived political and regulatory risk for foreign investors. These two transformations, taken together, laid the foundation for what economists have since described as the Polish Miracle, during which Poland experienced the strongest GDP per capita growth recorded in Europe since 1990.

In the following years after the accession to the European Union, several structural characteristics have made Poland an attractive destination for foreign investors, a number of which stand in direct contrast to the current conditions in Japan. Poland's geographic position at the heart of Europe, with well-developed road and rail connections linking Western and Eastern European markets, has enabled the country to serve as a natural logistics hub integrated into continental supply chains. EU membership provides access to a market of over 450 million consumers under a unified regulatory framework, reducing the administrative complexity. What is more, Poland's labour market offers a combination that is rare among European economies: a workforce that is both relatively affordable, with average hourly labour costs of approximately 17.3 EUR in 2024, compared to 43.4 EUR in Germany, and highly educated, with the 46% of 25-to-34-year-olds holding tertiary qualifications, exceeding the EU's own 2030 target as early as 2023.

Two further characteristics deserve particular attention in the context of this comparison. First, Poland has undergone a dramatic expansion in English-language proficiency over the past two decades, and today ranks consistently among the highest non-native English-speaking countries in Europe. For multinational corporations accustomed to operating in English as the language of international business, this significantly reduces the burden of establishing and managing operations. Japan, by contrast, is estimated to have only 10 to 20 percent of its population speaking at least one foreign language.

Additionally, while Poland faces demographic challenges common to much of Central Europe, its population decline is considerably less severe than Japan's. Japan's demographic crisis, characterised by one of the world's lowest fertility rates, has been persistent for ages and directly constrains the labour supply available to foreign investors and, as researchers from Keio University highlight, this represents a structural barrier to inward FDI that cannot be meaningfully addressed in the short term. Poland's comparatively younger population and its position as both a sender and, increasingly, a receiver of labour migration within the EU provide a more stable demographic foundation for long-term investment.

The consequences of Poland's investment environment are visible in the data. As of 2024, one in six jobs in the Polish economy is attributable to foreign-owned enterprises, ranking Poland fourth in Europe by this measure. Research suggests that in a counterfactual scenario without FDI inflows, wages in Poland would be approximately 9% lower than observed levels. These findings highlight the importance of FDI for the Polish economy.

### **Japan: Why Sophistication Is Not Enough**

Japan, similarly to Poland, possesses numerous characteristics that should, in principle, make it an attractive destination for foreign investors. These include the size of its economy, a strong knowledge base, a highly educated workforce, and technological capabilities accumulated over decades of private sector investment. On paper, this combination should translate into a compelling business environment for foreign capital. Yet as outlined in the introduction, the data tell a very different story. In 2020, the ratio of inward FDI stocks to GDP in Japan stood at approximately 5%, ranking it 198th out of 201 countries. Yet even after accounting for the factors mentioned before, and other most commonly cited in the literature, such as high government deficit, regulatory complexity, relatively to the region, high operational costs, this figure remains remarkable. While these barriers are serious, they are not unavoidable in the long run, and appropriate policy responses could, over time, meaningfully address each of them.

However, no policy response can fully offset cultural norms and social attitudes. Japanese society tends to favour what is familiar and well established, and if existing solutions work, there is often limited willingness to replace them with something unknown. According to Hofstede's cultural dimension model, Japan ranks among the most uncertainty-avoidant societies in the world, which in business often means foreign firms introducing new solutions and practices are perceived as risk-bearing outsiders. Business in Japan is highly relationship-driven, and building trust takes time, patience, and a strong understanding of local business norms. Moreover, long-standing networks between domestic firms also shape procurement and partnership decisions, leaving limited room for new foreign entrants regardless of their potential added value. This dynamic is rooted in the cultural concept of 内外 (uchi soto), the sharp distinction between insiders and outsiders that manifests itself in many different aspects of Japanese culture.

Although the importance of adapting business models to local standards is one of the first lessons taught in every business school, many foreign companies entering the Japanese market still underestimate the extent to which Japanese society differs from other markets. Particularly striking examples include eBay and Uber. Despite their global dominance, each of these firms found their operations in Japan either significantly constrained or fundamentally changed. eBay abandoned the domestic Japanese market entirely, unable to displace locally established platforms that Japanese consumers trusted because they were familiar and domestic. Uber, despite years of presence, continues to operate only as a repackaged version that fits the existing taxi system, a market structure that Japanese society, regulators, and other players collectively refused to disrupt.

### **Conclusion**

Despite measures being implemented by the Japanese Government to attract foreign direct investment flows, such as the Action Plan for Attracting Human and Financial Resources from Overseas, aiming at nearly doubling FDI stocks, cultural barriers are something that cannot be offset with additional stimulating legislation. While policy reforms are necessary, they alone are unlikely to be sufficient. Ultimately, a meaningful increase in Japan's attractiveness as an FDI destination may depend less on what the government does, but more on whether Japanese society becomes genuinely open to the

unfamiliarity and accepting foreign participants on the market not as a threat to established ways of doing business, but as a new opportunity.

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**About the author:**

*Oskar Kapela is a Master's student at the Faculty of Economics, Kobe University, specializing in international business, Japanese labour markets, and migration policy. His current research work focuses on the relationship between technology and labour shortages in Japan. He has professional experience in financial market research and is currently affiliated as a volunteer with the Poland-Japan Foundation.*