



# JAPAN: CULTIVATING A NEW SOURCE OF EB-5 INVESTORS



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**T**he United States historically has maintained friendly relations with Japan, and it is no doubt that the symbiotic relationship between the two countries is important both economically and socially. Currently there are roughly 426,000 Japanese citizens residing in the United States which is the highest number in the world outside Japan.<sup>1</sup> With a strong presence of Japanese multi-national companies with offices in the United States, it is unsurprising that E-1/E-2 visas are popular. In fact, the number of E category treat visas issued to Japanese citizens is the highest in the world.<sup>2</sup> However, while immigration to the United States is as popular as ever, interest in and use of the EB-5 program remains low. In 2018, Japan ranked as just the 18th largest investor markets with 66 investors. While small, it is

1 <https://www.mofa.go.jp/mofaj/files/000368753.pdf> pg. 28  
2 <https://travel.state.gov/content/dam/visas/Statistics/Annual-Reports/FY2018AnnualReport/FY18AnnualReport%20-%20TableXVII.pdf>

interesting to note that that number increased by 29 from 2017; perhaps a reason for optimism in Japan's emergence as a growing investor market.

Japan is a homogenous country with a very strong economy with a gross domestic product (GDP) that trails only the United States and China according to the International Monetary Fund (IMF). On top of that, the country is very safe; therefore, people who consider migration are still in the minority as there is no political, financial or human rights issues that cause citizens to want to emigrate. However, in recent years, Japanese high net worth individuals (HNWI) have become active in migration for several reasons which will be detailed below. Japanese people tend to choose the neighboring countries as migration destinations, with Singapore, Hong Kong, Australia, and New Zealand being popular options. In the case of options for investor visas, though, very few people choose the U.S. Migration to foreign countries can be very challenging for Japanese people due to big cultural differences and language barriers. Japan has a close relationship with the U.S., but EB-5 is seldom used by Japanese citizens as a path for migration as they tend to utilize other visas categories. This is perhaps due to a lack of knowledge of the existence of EB-5 as a path to U.S. citizenship.

I hope this article will be helpful in understanding Japan and its potential as an EB-5 investor market.

## 1. Concerns of Japanese High Net Worth Individuals

Japan was the second largest economy in the world behind the United States for many years before the rise of China, and it is still holds an important position in international economic activities as the third largest economy in the world. In fact, Japan has the second highest population of HNWI in the world, runner up to only the United States beating out Germany, China and France in the top five.<sup>3</sup>

It is true that Japanese people are not so keen to migrate to other countries as the domestic economy is very strong and safe. However, considering asset protection and planning for their families' future, HNWI have been actively leaving the country in recent years. This recent flight can be attributed to recent Japanese tax reform. Specifically, many wealthy people relocated to Singapore and other countries before the Japanese government introduced an exit tax in 2015.

The following is data from the Japanese Ministry of Finance, which compares the Japanese inheritance tax rate with other countries.<sup>4</sup>

Japan has the highest inheritance tax of any country and the reality is that many wealthy people have migrated because of this fact.

3 <https://worldwealthreport.com/wp-content/uploads/sites/7/2019/07/World-Wealth-Report-2019-1.pdf>  
4 [https://www.mof.go.jp/tax\\_policy/summary/itn\\_comparison/j05.htm](https://www.mof.go.jp/tax_policy/summary/itn_comparison/j05.htm)

*Continued On Page 42*

Continued From Page 41

On the other hand, the United States has the lowest inheritance tax among other advanced countries. In addition, under Japanese law, even if you migrate to another country, the inheritance tax and gift tax are still applicable unless you have been a non-resident of Japan for 10 years. In other words, even if you become a tax resident of another country after you migrate, you are still responsible to pay the Japanese inheritance/gift tax for 10 years.

2. Image of the United States

Even though not many Japanese people consider migrating, the ones that do often desire to migrate to the United States. The presence of Japanese Americans and Japanese communities in large cities makes the U.S. a more comfortable place to land for those looking to migrate. While population and investment statistics are not necessarily a reliable barometer for interest in EB-5, it is interesting to note that Japan is responsible for 11% of the U.S.'s foreign direct investment (the third largest of any nation) and the U.S. is home to over 420,000 Japanese citizens (over 190,000 of whom are permanent registrants). Those numbers make it clear that Japan is not only one of the United States largest trading partners, but it is also home to the largest number of Japanese expatriates in the world.

The interest in residing in the U.S. is often

driven by business considerations for many Japanese migrants. It is perhaps not surprising then that more than half of all Japanese citizens residing in the U.S. do so on a temporary basis. Again, strong business relations between the two countries and a large Japanese population already in the United States is not necessarily a recipe for EB-5 success, but it shows the interest in the United States is there, which is a great start.

3. Hawaii – A Special Place for the Japanese

Perhaps nowhere is the unique relationship between the United States and Japan on better display than Hawaii. According to the Hawaii Tourism Authority, the number of Japanese visitors in 2017 was 1.58 million, which was the most of any country not including the U.S.<sup>5</sup> For the most part, the purpose of their visit is sightseeing, though, many come to buy real estate. In 2016 and 2017, Japan ranked in the top 2 of foreign real estate buyers, but both years bought more properties at higher price points than any other country.<sup>6</sup> For this reason, the real estate market for Japanese people in Hawaii is always booming.

It is perhaps not surprising that Hawaii is popular with Japanese tourists and investors as there is a strong Japanese population on the

5 <https://www.hawaiitourismauthority.org/media/2766/2017-annual-visitor-research-report.pdf>  
6 <https://hawaiiluxuryresortproperties.com/top-u-s-and-foreign-buyers-of-hawaii-island-and-statewide-property-statistics-2016/> and <https://www.hawaii-publicradio.org/post/japan-s-new-hawaii-investments#stream/0>

islands, often mitigating some of the factors deterring migration (language being first and foremost). There is also an abundance of Japanese cuisine and shopping akin to that of Japan and many HNWI Japanese tend to visit and stay in Hawaii longer and seek to purchase holiday houses on the islands as a home away from home. .

Based on the above reasons, many Japanese HNWI are investing in Hawaii and living as E-2 visa holders, and most prospective investors are keen to acquire an E-2 visa. But why is E-2 so much more popular than EB-5 (other than the obvious visa allocation difference between the two visa categories)? This is because most people operate businesses in Japan and wish to maintain a dual lifestyle between the two countries and the E-2 visa gives them that flexibility. However, there are many people who wish to stay in Hawaii long-term, including retirees, and EB-5 has the potential to give these individuals the retirement and long-term lifestyle they desire.

With that said, the information available about EB-5 to potential Japanese EB-5 investors in Hawaii and beyond, particularly transitioning a visa from E-2 to EB-5, is very limited and further education for Japanese business stakeholders should be a key focus of seeking to grow this market of EB-5 investors.

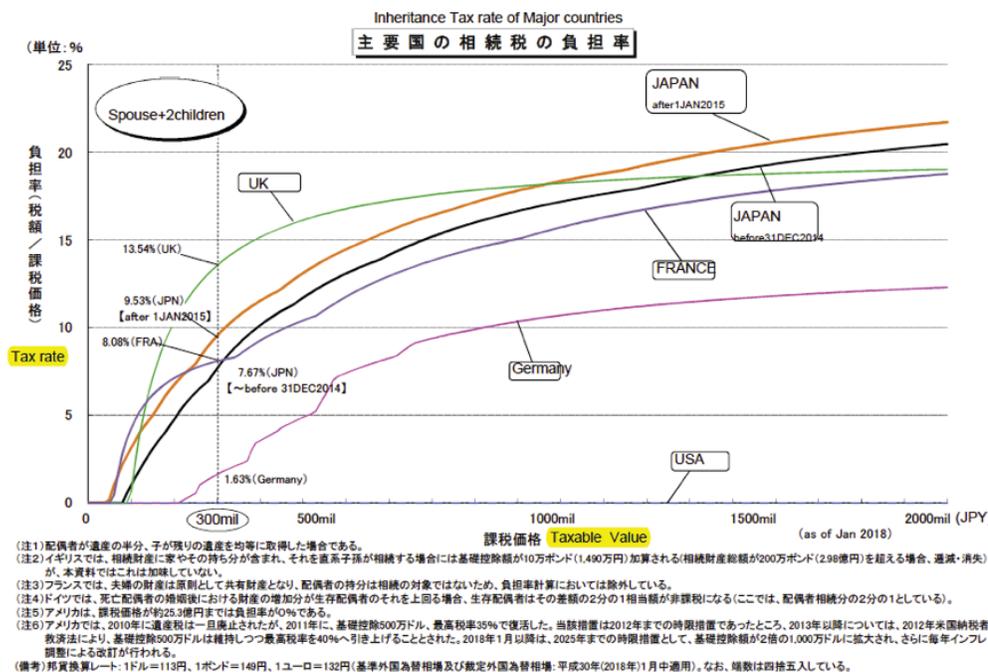
4. Quality Education and a Future for Their Children

In general, the HNWI tend to spend money for their children's education in most countries, which is the same as in Japan. Tokyo is the most sophisticated city in Japan and many people have a global mentality - they are familiar with foreign countries and have a commitment to providing a high quality education for their children. However, there are a limited number of high quality schools in the area so parents sometimes choose to send their kids to international schools to study abroad in order to obtain the best education possible.

Many Japanese families choose Singapore as a first destination because there are over 30 international schools and parents can guarantee a high quality education there. For these options in the U.S., most families understand that an F1 visa ("student visa") is required to send their children to school in the U.S.; however, they are not aware of the

Continued On Page 43

FIGURE 1: Inheritance Tax Rate by Major Countries



## JAPAN: CULTIVATING A NEW SOURCE OF EB-5 INVESTORS

*Continued From Page 42*

difficulty of obtaining an H1B after their F1 expires, which would allow them to stay in the U.S. to work after school. Because they are not thinking long-term (post-university), EB-5 stakeholders looking to acquire Japanese investors would be wise to promote to potential investors, or parents of potential investors, the effective option that EB-5 would give them or their children to work, live and thrive in the U.S. long-term.

### 5. How We Can Develop and EB-5 Market in Japan

Characteristically, Japan has a very strong economy and is a safe country to live in. For this, many Japanese citizens see no reason to leave, unlike in many other popular investor markets for EB-5. Additionally, they have a conservative investment mentality (i.e. more than 50% of assets are held by cash)<sup>7</sup>, so that they are widely unfamiliar with investment migration.

Japanese people have almost no issue with

<sup>7</sup> <https://www.boj.or.jp/en/statistics/sj/sjhiq.pdf>

applying for a visitor visa in any country, so that very few people think about usage of visas as part of long-term life planning. Realistically, Japanese HNWI are very far from the typical image of migration, even if they travel abroad frequently. Therefore, it is very important to provide Japanese HNWI the idea and education of long-term life planning through EB-5.

Currently, the biggest challenge in the Japanese market is to raise the education and awareness of EB-5. As you can see, there are very few EB-5 visas utilized by Japanese investors so the success stories of Japanese investors getting their U.S. green cards are low. Investors need to better understand the full life cycle of an EB-5 visa – from investment to conditional green card to green card and hopefully return of investment - along with the general investment process.

Compared to other country's investment visa programs, the U.S. program is much more complex and not as easy to understand for a foreign investor, particularly in undeveloped markets. In fact, there are very

few immigration agents in Japan who assist with overseas investment visa programs including EB-5 and very few people know about existence of investment migration industry internationally. There are also very few regional centers present in the Japanese market. It may take time to raise awareness in Japan, but it may be well worth the work.

That is where organizations like IIUSA come in. As the only not-for-profit membership association for the EB-5 industry, it is well positioned to provide valuable education and business development opportunities both for regional centers looking to explore the market and investment migration consultants look to provide their investors with sound industry data. While there is not yet an event in Japan on IIUSA's calendar, I certainly hope to see the association there sometime soon to raise awareness of EB-5, educate stakeholders and provide its members with access to a potentially strong source of EB-5 investment.

Based on the above information, we hope to grow the Japan market together with IIUSA and its members. ■

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