
THE GLOBAL REGULATORY DEVELOPMENTS JOURNAL

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Japan Blocks Foreign Acquisition on National Security Grounds, Signaling Increased Scrutiny

Dale M. Araki, Eric W. Sedlak, Jeffrey P. Richter, Andrea Ng, and Daisuke Morinaga*

In this article, the authors discuss the decision by Japan to block the acquisition of Makino Milling Machine Co., Ltd., by a South Korea-based private equity firm.

On 30 April 2026, the South Korea-based private equity firm MBK Partners announced it had ended its effort to acquire the Japanese machine tool manufacturer Makino Milling Machine Co., Ltd., after the Japanese government issued a rare recommendation against the transaction based on national security concerns.¹

Founded in 1937, Makino is a leading global manufacturer of high-precision machine tools and machining systems. Its principal business lines include the manufacturing of machining centers, electrical discharge machining systems, mill machines, automation systems, and computer-aided design/computer-aided manufacturing solutions.² One of its main products is the five-axis machining center,³ which can be used to produce missile guidance fins and nose cones, automobile molds and dies, home appliances, semiconductors, rocket components, and medical devices.⁴

Under the proposed transaction, Makino was to become a wholly owned subsidiary under one of MBK's funds, constituting an inward direct investment that triggered the prior notification filing requirements under the Foreign Exchange and Foreign Trade Act (FEFTA), Japan's foreign investment control statute.⁵ Under FEFTA, certain foreign investments, such as those deemed related to national security or involving target companies engaged in a "core business sector,"⁶ trigger a prior notification filing requirement with the Ministry of Finance and the relevant ministries with responsibility for the specific sectors(s).⁷ This is followed by a

30-day review period by the Ministry of Finance. If the Ministry of Finance and any applicable ministry issues a recommendation at the end of the review period, the investor has 10 days to comply with the recommendation. If the investor fails to respond or to comply with the recommendation within such period, a formal order is issued requiring modification or suspension of the transaction.⁸

Following its review of MBK's proposed acquisition of Makino, on 22 April 2026, the Japanese government (in this case, the Ministry of Finance and the Ministry of Economy, Trade, and Industry) issued a recommendation against approving the transaction. According to the Minister of Finance Katayama, MBK's proposed acquisition posed "potential risks to national security," as Makino operates in a "dual-use technology" sector by manufacturing high-precision machine tools and machining systems.⁹ Under FEFTA, "dual-use technology" refers to technology with both civilian and various military applications and purposes.¹⁰ Machine tools falling within certain categories are commonly regarded as strategically sensitive technologies under FEFTA and as an integral part of Japan's defense supply chain and national security system. MBK subsequently announced the fund was pulling out of the transaction.

This is only the second time that the Japanese government has blocked a foreign acquisition, after it previously blocked a UK investment fund from increasing its investment in J-POWER, a Japanese power company holding key infrastructure assets, in 2008.¹¹ Notably, MBK's proposed acquisition of Makino had already obtained approval from the Committee on Foreign Investment in the United States (CFIUS), which was necessitated by Makino operating a manufacturing facility in Ohio.¹²

Japan's Increasing Regulatory Scrutiny of Foreign Investments and Proposed Amendments to FEFTA

The Japanese government's decision to block the acquisition of Makino is the latest example of its efforts to increase scrutiny of foreign investment in Japan.

Under FEFTA, a foreign investor is generally required to submit a prior notification to the Japanese government and obtain approval

if the target company is engaged in business sectors relating to national security, public order or safety, or critical infrastructure, such as defense, aerospace, cybersecurity, telecommunications, energy, semiconductors, dual-use technologies, and other industries deemed sensitive by the Japanese government.¹³ The factors that the government considers are largely set out in administrative guidance and policy materials published by the Ministry of Finance and are not codified in law, granting the government considerable discretion in carrying out its review.

Recent legislation has expanded the scope of FEFTA. In 2019, the share acquisition/ownership threshold for triggering the prior notification requirement was lowered from 10 percent to 1 percent, and new types of activities were added that trigger the prior notification requirement such as the appointment of a foreign investor or its “close associate”¹⁴ as a director or statutory auditor of a Japanese company.¹⁵

Additional legislation is set to further strengthen FEFTA. On 17 March 2026, the Japanese Cabinet approved and submitted to the Diet (the Japanese legislative body) a bill to overhaul and expand the scope of FEFTA by:¹⁶

- Introducing a formal inter-agency screening committee reportedly to be co-chaired by the Ministry of Finance and the National Security Secretariat;¹⁷
- Covering certain indirect acquisitions, including offshore-to-offshore transactions involving Japanese subsidiaries and changes in ultimate ownership or control;
- Codifying “risk mitigation measures” that are currently implemented largely through administrative guidance (such measure to include governance restrictions, information barriers, limitations on access to sensitive technology, and other post-closing compliance obligations);
- Introducing post-closing “call-in” powers to allow Japanese authorities to review and impose remedies on transactions even after completion, including transactions not initially subject to prior notification requirements; and
- Strengthening anti-circumvention measures through a broader interpretation of “deemed foreign investors,” and increased focus on effective control and beneficial ownership.

The bill was passed by the Diet on 29 May 2026. After regulations implementing the FEFTA reforms are promulgated, they will come into force around mid-2027.

Practical Applications for Foreign Investment Into Japan

Japan's opposition to the Makino acquisition and the proposed FEFTA amendments reflect a policy shift toward a more robust security-oriented foreign investment screening process similar to the U.S. CFIUS framework, heightening risks for foreign investment in Japanese companies involved in sensitive manufacturing capabilities and dual-use technologies with potential national security implications.

The expected FEFTA reform would further broaden the scope of transactions requiring FEFTA analysis, and reviews are expected to become increasingly subject to economic security and geopolitical considerations. The Makino decision demonstrates that approval under traditionally more rigorous regimes in other jurisdictions, such as CFIUS in the United States, does not necessarily signal a likely approval under FEFTA.

In general, foreign parties investing in Japan should expect heightened scrutiny, longer review timelines, and increased regulatory uncertainty, as well as greater reliance on mitigation measures such as governance restrictions, information barriers, and ongoing compliance obligations. For private equity investors, FEFTA reform places greater emphasis on scrutiny of indirect acquisitions, transparency in relation to ultimate beneficial ownership, and effective control, thereby increasing scrutiny over consortium structures, layered holding companies, and beneficial ownership arrangements.¹⁸

In this environment, a thorough risk assessment before moving forward with an investment likely to attract attention under FEFTA will become more essential than ever.

In Summary

- Japan has blocked the acquisition of a Japanese company by a South Korea-based private equity fund under the FEFTA based on perceived national security risks.

- This is only the second time ever that Japan has blocked a transaction under FEFTA, which is expected to be amended to bring Japan's review process closer to that employed by the United States under CFIUS.¹⁹
- Japan's actions are the latest sign of its increasing scrutiny of foreign investment, especially transactions involving semiconductors, artificial intelligence, defense, advanced manufacturing, cybersecurity, and critical infrastructure.
- Private equity investors will likely face increased review of consortium structures, indirect investments, and ultimate ownership arrangements.

Notes

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