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**(Summary)**

**JETRO**

**JAPAN EXTERNAL TRADE ORGANIZATION**

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# **I. Overview of global trade and FDI**

## **A. Trends in global trade and FDI in 2001 and 2002 first half**

### **1. Global trade and FDI both fall**

The global economy in 2001 saw trade in merchandise (both in nominal and real terms) and services and foreign direct investment (FDI) all decline from the previous year, the first time this had happened since 1982. The major factor was the slowdown of the U.S. economy, following a long period of economic expansion that began in 1991. Chief reasons for the U.S. economic slowdown included the reduction of inventories in the information technology (IT) sector because of the global IT slump, sliding share prices, and the terrorist attacks on September 11 (Fig. I-1).

### **2. Global merchandise trade shrinks 4.3%**

a. According to JETRO estimates of exports, global merchandise trade shrank 4.3% to \$6.08 trillion in 2001, the first decline since 1998. Global trade was dragged down largely by the slumping trade of IT products, which accounted for 60.2% of the overall decline, as well as mineral fuels, which contributed 25.5% of the decline (Fig. I-2). Another major impact was the simultaneous decline of imports and exports in East Asia, which had been one of the main contributors to growth in trade in 2000. Note: "East Asia" hereinafter refers to the Asian NIEs [Hong Kong Special Administrative Region (Hong Kong), Republic of Korea (R.O.K.), Singapore and Taiwan], ASEAN4 [Indonesia, Malaysia, Philippines and Thailand] and China. Trade in the region had exceeded one trillion dollars for the first time in 2000, but in 2001 exports fell 7.2% to US\$1.09 trillion and imports declined 7.1% to US\$1.01 trillion. In terms of the declines in global trade, East Asian exports accounted for 31.2%, or minus 1.3 points, and imports accounted for 27.3%, or minus 1.2 points (Fig. I-3).

b. Global merchandise trade declined in real terms by 0.8%. This marked only the third decline since the 1960s, the other two occasions being the first and second oil crises of 1975 and 1982.

### **3. Global trade in services declines 1.3%**

As a result of the global economic downturn and the September terrorist attacks on the U.S., trade in services also declined. According to World Trade Organization (WTO) statistics, services (measured in terms of cross-border private-sector exports of services, excluding government-related business) fell 1.3% to US\$1.44 trillion. The travel industry, which registered a decline of 2.9% to US\$457.5 billion, had an especially strong impact in accounting for 72.6% of the services trade contraction. According to the World Tourism Organization, the decline was due in large part to a 0.6% drop in overseas travelers because of the terrorist attacks (Fig. I-4).

### **4. Global FDI falls 52.7%**

Global FDI, measured in terms of net inflows on a balance of payments (BOP) basis, registered annual growth rates of 40%–50% between 1998 and 1999. After exceeding the trillion-dollar mark for the first time in 1999, FDI grew a further 35.6% in 2000 to US\$1.47 trillion. JETRO estimates based on FDI inflows reported in the BOP statistics of 86 countries indicate that in 2001, however, FDI more than halved, falling 52.7% to US\$694.8 billion (Fig. I-5). This was the largest of six downturns in global FDI since the 1970s, when statistics first became available, the other years being 1976, 1982, 1983, 1985 and 1991. The sharp drop was principally due to the sudden decline in cross-border

mergers and acquisitions (M&As) in the IT sector, which had surged in the late 1990s, and a 53.2% decline in the total value of M&A deals worth at least one billion dollars, which previously had inflated the values of cross-border M&As between North America and Europe and within the EU.

5. Japan's income account surplus almost equals trade surplus  
Japan's current account in 2001 stood out from previous years in that a US\$69.2 billion surplus in the income account almost equaled the nation's US\$70.3 billion trade surplus (Fig. I-6). In the first six months of 2002 (including preliminary estimates for April to June), the trade surplus was US\$45.0 billion and the income account surplus was US\$35.1 billion.
6. Japan's first concurrent annual declines in trade and FDI  
Japan's merchandise trade, service trade and FDI all fell from the previous year, the first time for this to happen since these statistics became available (Fig. I-7, I-8, I-9).
  - a. Japanese export volume shrank 10.2% in 2001, the sharpest contraction since 1960, while import volume fell 1.4%. Export value fell 15.7% to US\$405.2 billion, the biggest percentage drop since World War II, and import value fell 7.9% to US\$351.1 billion. Manufactured imports fell for the first time since 1998, down 7.4% to US\$215.7 billion (Fig. I-10). Double-digit declines were seen in manufactured imports from the U.S., down 13.3%, and Asian NIEs, down 17.9%. Manufactured imports from China, however, rose 6.7% to US\$48.8 billion, which topped U.S. imports of US\$46.1 billion to make China the biggest supplier of manufactured products to Japan.
  - b. Japanese trade in services fell both in terms of credits, down 7.3% to US\$63.9 billion, and debits, down 7.6% to US\$107.5 billion (BOP figures not reflecting the revision of Japan's statistical treatment of financial derivatives).
  - c. Japanese FDI outflow continued to decline in fiscal 2001 (April 1, 2001 to March 31, 2002), falling 34.9% to US\$31.66 billion on a notifications basis, the lowest level seen since fiscal 1986 (Fig. I-11). Outward investment in manufacturing, however, increased 19.4% to US\$13.9 billion. Investment in East Asia edged up by 3.8% to US\$5.93 billion and in the ASEAN4 jumped 15.7% to US\$2.35 billion, the first increase since fiscal 1998, following the region's financial crisis and resulting economic turmoil. Investment in China grew strongly by 44.8% to US\$1.44 billion, although this still trailed investment of US\$2.35 billion in the ASEAN4. Investment in China was also far below its peak of US\$4.47 billion reached in fiscal 1995, making it difficult to argue that Japanese investment in East Asia is being concentrated in China alone.
  - d. FDI inflow entering Japan in fiscal 2001 fell 38.4% to US\$17.45 billion, the first decline since fiscal 1997. Inflow in fiscal 2001 on a BOP basis came to US\$6.19 billion, down 24.7%. Japan's share of global FDI inflow was 0.9%, just nineteenth among all nations.
7. Global trade and FDI in 2002 first half
  - a. In the 2002 first half, production in the U.S. grew as inventories fell, leading to stronger exports to the U.S. and a rebound in the global economic growth. A full-fledged global recovery is not expected, however, due to slow growth in capital investment in the U.S. and fragile domestic demand both in the EU and Japan. In fact, the outlook is growing increasingly cloudy due to concerns about the U.S., including a rising deficit in its current account, depreciation of the dollar, sliding share prices and the possibility of further terrorist attacks.
  - b. Global trade has been recovering since the beginning of 2002 as shrinking inventories worldwide

trigger growth in the trade of intermediate goods, such as electronic parts and iron and steel. The consensus is that the bottom has been reached in the worldwide trade of electronic parts, including semiconductors—a major influence on IT parts trade. In view of the uncertain outlook for the global economy, however, the recovery in global trade should be weak (Fig. I-12).

- c. Global FDI is expected to fall on an annual basis in 2002 due to the shrinking number of large-scale M&As. The value of cross-border M&As in the first six months was down 45.9% year on year to US\$209.1 billion and the number of deals was down 43.5% to 2,253. Both downward trends appear to be gathering pace. In the IT sector, cross-border M&As were down both 80.7% in value and 58.6% in number year on year in the first quarter. In the future, cross-border M&A activity is likely to stagnate somewhat because of the difficulty of raising funds from the stock markets due to the slump in prices worldwide and tighter exercise of “due diligence” (the fair appraisal of assets and acquisition prices) as the crisis of confidence in accounting practices deepens.

## **B. Causes of concurrent drops in global trade and FDI**

The year 2001 saw simultaneous falls in global merchandise trade, services trade and FDI, which was the first time this had happened since 1982. Two factors were prominent: (1) the end of growth in the IT sector, which until then had been the principal engine of growth in both global trade and FDI, and (2) the terrorist attacks on the United States. Another possible factor was the world’s increasing dependence on the U.S. economy in relation both to trade and FDI.

1. End of the IT boom
  - a. IT drove growth both in global trade and FDI in 1999 and 2000. Trade in IT products accounted for 54.1% of the increase in global trade in 1999 and 30.5% in 2000. In 2001, however, the dive in IT trade accounted for 60.2% of the decline in overall global trade (Fig. I-13).
  - b. M&As in the IT sector provided the main impetus for growth in cross-border M&As in the latter half of the 1990s, as well as 72.8% in 2000 when the value of cross-border M&As hit a new high (Fig. I-14). But growth took a sharp downturn in 2001, plummeting 46.6%, of which more than half, 55.5%, was attributable to the IT sector.
2. Impact of September 11, 2001

The short-term effects of the terrorist attacks on the global economy were twofold. Firstly, the attacks hit both business and consumer confidence, and secondly, they affected trade in services because of the effects on industries such as travel (Fig. I-15). The impact was lessened, however, by synchronized interest-rate cuts in the industrialized economies of Europe and North America and the expansion of public expenditure by the United States. In addition, the International Monetary Fund (IMF) revised upwards its global growth estimates for 2001 from 2.4% in December 2001, in the wake of the terrorist attacks, to 2.5% in April 2002.
3. U.S. slowdown

The global economic boom of the late 1990s was led by the U.S. economy. Foreign countries’ export dependence on the U.S., i.e. the proportion of gross domestic product (GDP) accounted for by exports to the U.S., grew because of the buoyant state of the U.S. economy. This trend was especially prominent in the East Asia region, Mexico and Ireland. Between 1982 and 2001, the U.S. current

account deficit grew from US\$11.6 billion to US\$417.4 billion. This deficit was financed by inflows of foreign capital that were attracted by high share prices, which were being supported by strong growth in the U.S. and the IT boom. Global growth was in turn underpinned by the reflux of massive amounts of capital from the U.S. to the rest of the world. Since the beginning of 2002, however, this pattern of U.S.-led global growth has been shaken by the deterioration of the U.S. current account, the accompanying depreciation of the U.S. dollar and the fall in share prices.

Fig. I-1 Annual changes in global economic trends

	GDP				Global trade				FDI			Global M&A	Commodity prices			Exchange rates			
	Real			Nominal	Merchandise		Services	World (%)	FDI between U.S. and Europe		World (%)	Primary products (%)	Crude oil		US\$ real effective exchange rate		¥/US\$ exchange rates		
	World (%)	U.S. (%)	Japan (%)	EU (%)	World (%)	Nominal (%)	Real (%)		Nominal (%)	(%)			share of world (%)	(%)	(%)	Average price (US\$/barrel)	(%)	(73.3=100)	(%)
1980	2.8	-0.2	9.8	1.4	12.6	19.4	2.5	-	26.7	11.7	41.7	14.7	6.0	21.4	36.7	1.9	89.9	-3.5	226.7
1981	2.2	2.4	3.0	0.6	1.5	0.2	0.2	2.8	26.6	-11.3	29.2	1,359.7	-9.7	-3.8	35.3	11.7	100.4	2.7	220.5
1982	1.1	-2.0	3.1	0.7	-1.5	-7.6	-3.1	-2.6	-17.3	-31.2	24.3	-77.2	-9.9	-8.0	32.4	8.5	109.0	-12.9	249.1
1983	3.4	4.3	2.3	1.8	2.7	-2.4	2.7	-2.9	-13.0	10.6	30.9	16.2	7.2	-8.6	29.6	1.4	110.5	4.6	237.5
1984	4.9	7.3	3.7	2.4	3.3	6.1	8.1	3.3	19.8	36.5	35.2	170.8	0.1	-3.7	28.5	6.5	117.7	-0.0	237.5
1985	3.7	3.8	4.4	2.6	3.2	1.3	2.5	4.3	-5.2	2.4	38.0	97.5	-13.1	-4.1	27.4	3.4	121.7	-0.4	238.5
1986	3.7	3.4	3.0	2.8	18.0	9.0	4.4	17.1	56.3	43.1	34.8	64.9	-1.5	-48.2	14.2	-18.5	99.2	29.4	168.5
1987	4.1	3.4	4.5	2.9	14.8	18.1	5.4	18.5	60.3	89.5	41.2	76.7	9.3	28.4	18.2	-10.6	88.7	14.2	144.6
1988	4.7	4.2	6.3	4.1	11.9	14.3	7.9	13.5	16.1	-30.9	24.5	48.3	24.2	-18.8	14.8	-5.8	83.5	11.4	128.2
1989	3.7	3.5	5.3	3.5	4.9	8.8	6.8	9.4	19.1	65.6	34.0	24.9	-1.6	21.2	17.9	5.0	87.7	-7.7	138.0
1990	2.7	1.8	5.5	3.1	10.7	13.7	4.9	19.1	3.2	-52.7	15.6	5.4	-6.4	28.4	23.0	-3.4	84.7	-4.9	144.8
1991	1.5	-0.5	3.1	1.9	5.4	2.7	3.8	5.5	-23.1	-1.4	20.0	-44.5	-5.7	-15.7	19.4	-2.0	82.9	7.0	134.7
1992	2.1	3.1	0.9	1.2	0.5	6.4	4.6	11.9	8.3	-11.4	16.4	-2.4	0.1	-1.7	19.0	-1.4	81.8	6.0	126.7
1993	2.3	2.7	0.3	-0.4	2.4	0.2	4.2	1.9	31.7	203.6	37.8	3.9	1.8	-11.8	16.8	3.2	84.4	12.2	111.2
1994	3.7	4.0	1.1	2.8	7.4	13.7	10.0	10.3	11.0	-25.8	25.2	46.6	13.3	-5.0	15.9	-0.5	84.0	8.1	102.2
1995	3.6	2.7	1.5	2.4	10.9	19.6	9.2	14.6	32.9	46.2	27.8	52.6	8.4	7.9	17.2	-4.5	80.2	8.0	94.1
1996	4.0	3.6	3.6	1.7	2.5	4.3	5.4	7.1	14.3	4.0	25.3	20.9	-1.3	18.4	20.4	6.4	85.3	-15.6	108.8
1997	4.2	4.4	1.8	2.6	-0.5	3.5	10.8	3.9	23.5	29.8	26.6	33.3	-3.0	-5.4	19.3	8.6	92.6	-11.2	121.0
1998	2.8	4.3	-1.0	3.0	-0.6	-1.6	5.1	1.1	49.1	93.8	34.5	89.5	-14.7	-32.1	13.1	5.5	97.7	-8.2	130.9
1999	3.6	4.1	0.7	2.7	3.6	3.5	4.6	2.6	57.4	34.5	29.5	35.9	-7.0	37.6	18.0	-0.6	97.1	13.0	113.9
2000	4.7	4.1	2.2	3.4	2.7	12.5	10.9	5.9	35.6	3.5	22.5	43.6	1.8	57.0	28.2	6.3	103.2	5.4	107.8
2001	2.5	1.2	-0.4	1.7	-1.0	-4.3	-0.8	-1.3	-52.7	-49.9	23.9	-46.6	-5.4	-14.0	24.3	7.3	110.7	-12.8	121.5

- Notes:
- 2001 GDP figures are preliminary IMF estimates.
  - Merchandise trade is based on exports. 2001 figures are JETRO estimates. All figures for services are based on receipts (exports).
  - FDI is based on inflows. Figures from 1994 onward are JETRO estimates based on IMF's *Balance of Payments Statistics* (BOPS) and are not strictly comparable with pre-1984 figures, which are from United Nations Conference on Trade and Development (UNCTAD). FDI between U.S. and Europe is total FDI between U.S. and Western Europe according to U.S. statistics.
  - Figures for M&As are based on value of cross-border M&As only.
  - Primary products exclude energy. Crude oil prices are based on average percentage changes in U.K. Brent, Dubai and West Texas Intermediate.
  - Real effective exchange rates of U.S. dollar are weighted using major currencies index, based on U.S. trade with euro-zone countries and six other major countries.
  - Changes in yen exchange rates are calculated by European method: (exchange rate in previous year - exchange rate in current year) / exchange rate in previous year x 100 (%).

Sources: GDP: *World Economic Outlook Database* (IMF).  
 Merchandise trade: *International Financial Statistics* (July 2002, IMF); WTO database; national statistics; and other sources.  
 Services trade: WTO statistics.  
 FDI: UNCTAD database, 2001; *Balance of Payments Statistics* (July 2002, IMF); *International Financial Statistics* (July 2002, IMF); U.S. Department of Commerce database; and other sources.  
 M&As: Thomson Financial.  
 Commodity prices: *International Financial Statistics* (July 2002, IMF).  
 Exchange rates: FRB database and *International Financial Statistics* (July 2002, IMF).

**Fig. I-2 Major products' growth rates and global trade shares**

(Units: US\$ million, %)

	Value			Annual change (%)			Share (%)		
	1999	2000	2001	1999	2000	2001	1999	2000	2001
All products	5,630,480	6,335,630	6,084,557	3.5	12.5	-4.3	100.0	100.0	100.0
Machinery and equipment	2,588,589	2,892,693	2,725,595	5.7	11.7	-5.8	74.3	43.1	66.6
General machinery	856,928	935,776	888,263	3.0	9.2	-5.1	13.2	11.2	18.9
Electrical equipment	811,113	989,829	872,526	11.1	22.0	-11.9	43.0	25.3	46.7
Transport equipment	727,332	750,148	750,651	3.2	3.1	0.1	12.0	3.2	-0.2
Automobiles	353,899	364,780	364,484	6.0	3.1	-0.1	10.7	1.5	0.1
Automobile parts	154,738	162,913	155,053	7.2	5.3	-4.8	5.5	1.2	3.1
Precision equipment	193,215	216,940	214,155	6.3	12.3	-1.3	6.1	3.4	1.1
Chemicals	664,107	718,493	724,176	4.7	8.2	0.8	16.0	7.7	-2.3
Chemical and related products	437,375	470,549	487,719	5.6	7.6	3.6	12.3	4.7	-6.8
Plastics and rubber	226,732	247,944	236,457	3.2	9.4	-4.6	3.7	3.0	4.6
Food	400,153	393,915	400,812	-1.8	-1.6	1.8	-3.8	-0.9	-2.7
Oil and fat products	44,549	40,520	40,201	-10.8	-9.0	-0.8	-2.9	-0.6	0.1
Miscellaneous manufactured products	200,034	211,666	206,158	3.3	5.8	-2.6	3.4	1.6	2.2
Other materials and products thereof	1,529,930	1,861,358	1,733,785	3.9	21.7	-6.9	30.5	47.0	50.8
Mineral fuels, etc.	365,584	601,718	537,647	19.7	64.6	-10.6	32.0	33.5	25.5
Textiles and textile products	350,683	370,511	358,361	-0.7	5.7	-3.3	-1.3	2.8	4.8
Iron and steel	187,899	208,233	195,005	-8.6	10.8	-6.4	-9.4	2.9	5.3
Other products	203,118	216,984	253,830	-13.9	6.8	17.0	-17.5	2.0	-14.7
Computers and peripherals	313,190	358,742	321,545	9.6	14.5	-10.4	14.6	6.5	14.8
Office equipment	18,128	18,664	18,068	-0.5	3.0	-3.2	-0.1	0.1	0.2
Telecommunications equipment	115,739	155,761	142,695	17.5	34.6	-8.4	9.2	5.7	5.2
Electronic parts including semiconductors	243,967	313,636	245,338	18.8	28.6	-21.8	20.5	9.9	27.2
Other electronic parts	170,072	206,090	181,099	7.3	21.2	-12.1	6.2	5.1	10.0
Video equipment	49,348	59,386	58,601	4.3	20.3	-1.3	1.1	1.4	0.3
Audio equipment	7,536	7,890	6,814	0.4	4.7	-13.6	0.0	0.1	0.4
Measuring instruments and testing equipment	74,832	87,977	82,904	6.8	17.6	-5.8	2.5	1.9	2.0
IT-related products	992,812	1,208,146	1,057,064	11.4	21.7	-12.5	54.1	30.5	60.2

Note: All figures are based on exports.

Sources: Prepared by JETRO from national statistics and other sources.



**Fig. I-3 Major economies' contributions to and shares of global trade in 2001**

(Units: US\$ million, %)

	Exports				Imports			
	Value	Annual change (%)	Contribution (%)	Share (%)	Value	Annual change (%)	Contribution (%)	Share (%)
U.S.	729,100	-6.8	19.5	12.0	1,140,999	-6.3	27.3	18.1
Canada	259,890	-6.5	6.6	4.3	221,516	-7.8	6.6	3.5
Japan	405,155	-15.7	27.8	6.7	351,098	-7.9	10.6	5.6
EU	2,264,294	-0.5	4.4	37.2	2,214,855	-3.3	26.4	35.2
France	291,124	-2.1	2.3	4.8	295,894	-4.2	4.6	4.7
Germany	570,518	3.8	-7.7	9.4	492,706	-1.3	2.3	7.8
Italy	240,786	1.8	-1.5	4.0	232,702	-1.1	1.0	3.7
U.K.	276,977	-4.6	4.9	4.6	331,737	-4.1	5.0	5.3
East Asia	1,092,964	-7.2	31.2	18.0	1,005,015	-7.1	27.3	16.0
China	266,284	6.9	-6.3	4.4	243,536	8.2	-6.5	3.9
Asian NIEs	585,159	-11.4	27.7	9.6	565,428	-12.7	29.2	9.0
Hong Kong	189,894	-5.9	4.4	3.1	201,076	-5.5	4.2	3.2
R.O.K.	150,653	-12.5	8.0	2.5	141,116	-12.1	6.9	2.2
Singapore	121,746	-11.8	6.0	2.0	115,998	-13.9	6.6	1.8
Taiwan	122,866	-17.2	9.4	2.0	107,238	-23.4	11.6	1.7
ASEAN4	241,521	-9.9	9.8	4.0	196,051	-6.2	4.6	3.1
Indonesia	55,987	-9.7	2.2	0.9	30,787	-8.2	1.0	0.5
Malaysia	88,005	-10.4	3.8	1.4	73,866	-9.9	2.9	1.2
Philippines	32,150	-15.6	2.2	0.5	29,551	-5.8	0.7	0.5
Thailand	65,379	-6.3	1.6	1.1	61,847	-0.5	0.1	1.0
Argentina	26,223	-0.7	0.1	0.4	20,310	-19.5	1.7	0.3
Brazil	58,223	5.7	-1.2	1.0	55,575	-0.4	0.1	0.9
Chile	17,616	-3.3	0.2	0.3	14,601	-5.1	0.3	0.2
Colombia	12,164	-7.4	0.4	0.2	12,690	10.2	-0.4	0.2
Mexico	158,547	-4.7	2.9	2.6	168,276	-3.6	2.2	2.7
Peru	6,850	-0.3	0.0	0.1	7,276	-2.3	0.1	0.1
Poland	36,092	14.0	-1.6	0.6	50,275	2.7	-0.5	0.8
Russia	99,198	-3.8	1.4	1.6	41,528	22.6	-2.7	0.7
South Africa	26,827	-10.7	1.2	0.4	25,127	-6.6	0.6	0.4
Turkey	30,999	12.8	-1.3	0.5	39,926	-25.9	4.9	0.6
Total world trade (estimate)	6,084,557	-4.3	100.0	100.0	6,291,266	-4.3	100.0	100.0

Note: Total world trade is estimated by JETRO.

Sources: Prepared from national statistics and other sources.

**Fig. I-4 Major services' growth rates and global trade shares**

	Services			
	Nominal change (%)	Share (%)		
		Transport	Travel	Other services
1980	NA	36.9	28.2	34.9
1981	2.8	36.7	27.5	35.8
1982	-2.6	35.2	27.6	37.3
1983	-2.9	34.2	28.2	37.7
1984	3.3	33.6	29.9	36.5
1985	4.3	32.8	30.1	37.1
1986	17.1	29.9	31.7	38.4
1987	18.5	29.2	32.8	38.0
1988	13.5	29.7	33.7	36.6
1989	9.4	29.4	33.6	37.1
1990	19.1	28.5	33.8	37.6
1991	5.5	27.7	33.4	38.9
1992	11.9	26.4	34.4	39.2
1993	1.9	25.9	34.1	40.0
1994	10.3	25.6	33.6	40.8
1995	14.6	25.2	33.6	41.1
1996	7.1	24.1	33.8	42.2
1997	3.9	23.7	32.6	43.7
1998	1.1	23.2	32.6	44.2
1999	2.6	23.1	32.9	44.0
2000	5.9	23.4	32.3	44.2
2001	-1.3	23.3	31.8	44.9

Note: Services trade is based on receipts (exports).

Source: WTO statistics.

**Fig. I-5 FDI inflows into major economies (BOP basis)**

(Units: US\$ million, %)

	1997	1998	1999	2000	2000		2001	2001	
					Change (%)	Share (%)		Change (%)	Share (%)
U.S.	105,590	178,200	301,020	307,747	2.2	20.9	130,796	-57.5	18.8
Canada	11,523	22,526	25,206	62,758	149.0	4.3	27,574	-56.1	4.0
EU	130,443	259,293	490,612	800,005	63.1	54.5	321,941	-59.8	46.3
Belgium and Luxembourg	11,998	22,691	133,059	234,757	76.4	16.0	51,214	-78.2	7.4
Denmark	2,792	6,675	16,077	35,532	121.0	2.4	7,050	-80.2	1.0
France	23,048	29,518	46,625	43,173	-7.4	2.9	52,504	21.6	7.6
Germany	12,795	23,297	55,790	189,178	239.1	12.9	28,699	-84.8	4.1
Ireland	2,743	11,035	18,615	22,778	22.4	1.6	9,865	-56.7	1.4
Italy	3,700	2,635	6,943	13,175	89.8	0.9	15,025	14.0	2.2
Netherlands	11,055	37,634	41,283	56,631	37.2	3.9	55,563	-1.9	8.0
Spain	6,384	11,905	15,541	36,931	137.6	2.5	21,540	-41.7	3.1
Sweden	10,271	19,413	59,386	22,125	-62.7	1.5	12,857	-41.9	1.9
U.K.	37,379	74,652	87,833	119,933	36.5	8.2	53,854	-55.1	7.8
Australia	7,631	6,046	5,699	11,512	102.0	0.8	4,067	-64.7	0.6
China	44,237	43,751	38,753	38,399	-0.9	2.6	44,241	15.2	6.4
Hong Kong	11,368	14,776	24,587	61,883	151.7	4.2	22,834	-63.1	3.3
India	3,577	2,635	2,169	2,315	6.8	0.2	3,403	47.0	0.5
Japan	3,200	3,268	12,308	8,227	-33.2	0.6	6,191	-24.7	0.9
Malaysia	5,137	2,163	3,895	3,788	-2.8	0.3	554	-85.4	0.1
Philippines	1,222	2,287	573	1,241	116.6	0.1	1,792	44.4	0.3
R.O.K.	2,844	5,412	9,333	9,283	-0.5	0.6	3,198	-65.6	0.5
Taiwan	2,248	222	2,926	4,928	68.4	0.3	4,109	-16.6	0.6
Thailand	3,895	7,315	6,213	3,366	-45.8	0.2	2,839	-15.7	0.4
Argentina	9,161	7,292	23,984	11,665	-51.4	0.8	3,181	-72.7	0.5
Brazil	19,650	31,913	28,576	32,779	14.7	2.2	22,636	-30.9	3.3
Mexico	12,831	11,312	11,915	13,286	11.5	0.9	24,730	86.1	3.6
Czech Republic	1,300	3,718	6,324	4,986	-21.2	0.3	4,916	-1.4	0.7
Hungary	2,173	2,036	1,970	1,649	-16.3	0.1	2,443	48.2	0.4
Poland	4,908	6,365	7,270	9,342	28.5	0.6	8,000	-14.4	1.2
Russia	4,865	2,762	3,309	2,714	-18.0	0.2	2,540	-6.4	0.4
Israel	1,628	1,760	2,889	4,392	52.0	0.3	3,044	-30.7	0.4
South Africa	3,811	550	1,503	969	-35.6	0.1	7,162	639.3	1.0
World	461,646	688,433	1,083,472	1,469,221	35.6	100.0	694,753	-52.7	100.0
Industrialized countries	272,033	485,184	856,234	1,217,387	42.2	82.9	502,203	-58.7	72.3
Developing countries	189,613	203,249	227,239	251,834	10.8	17.1	192,549	-23.5	27.7

- Notes:
1. Figures for individual economies are from *International Financial Statistics* (IMF), unless indicated otherwise.
  2. Figures for the following economies are from balance of payments statistics: Taiwan (Economic Research Department, Central Bank of China), Latin America (ECLAC), Russia and Central and Eastern Europe (Vienna Institute for International Economic Studies), China (State Administration of Foreign Exchange, for 2001), Malaysia (Department of Statistics, for 2001), Sweden (Sveriges Riksbank, for 2001), U.S. (Department of Commerce, for 2000 and 2001).
  3. Figures for Hong Kong in 1997 are from *World Investment Report 2001* (UNCTAD).
  4. Figures for world, industrialized countries and developing countries are JETRO estimates. (For method of estimation, see the explanation below.)

Sources: *International Financial Statistics* (July 2002, IMF); national balance of payments statistics; and *World Investment Report 2001* (UNCTAD).

## Method used for estimating global FDI

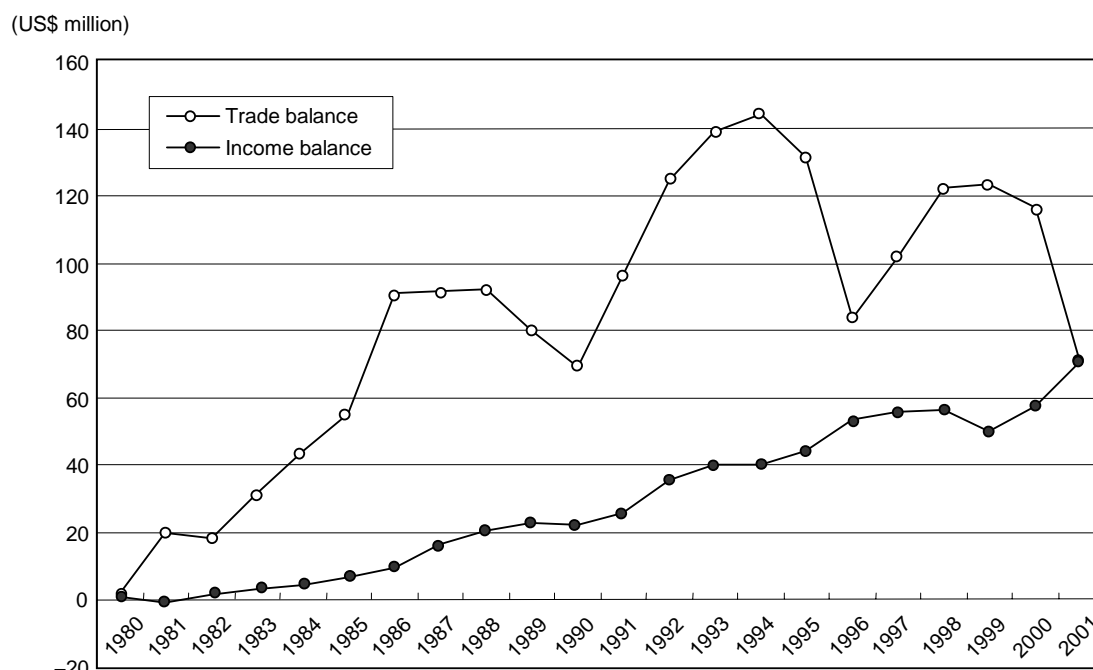
Global FDI (in terms of FDI inflow) was estimated as follows:

- Data on the 163 economies covered in the IMF's Balance of Payment Statistics Yearbook 2001 were

updated using the IMF's International Financial Statistics for July.

- In the case of the following economies, national or regional balance-of-payments statistics were used because of the lack of up-to-date IFS data: China (State Administration of Foreign Exchange statistics were used), India (Reserve Bank of India), 34 countries in Latin America (Economic Commission for Latin America and the Caribbean – ECLAC), Malaysia (Department of Statistics), Russia and 20 countries in Central and Eastern Europe (Vienna Institute for International Economic Studies), Sweden (Sveriges Riksbank) and U.S. (Department of Commerce).
- Using the above sources, it was possible to obtain data for 2001 on 20 industrialized economies (whose combined FDI inflows had come to US\$494.8 billion, or 98.5% of total FDI inflow in industrialized economies, in 2000) and 66 developing economies (whose combined FDI inflow had come to US\$186.6 billion, or 96.9% of total FDI inflow in all developing economies, in 2000).
- FDI inflows into industrialized and developing economies in 2001 were calculated from the above economies' respective shares of FDI in industrialized (98.5%) and developing (96.9%) economies in 2000, and the amounts were aggregated to estimate the total value of global FDI. FDI outflows from industrialized and developing economies and global FDI outflows were similarly estimated based on outflows from 20 industrialized economies (whose combined FDI outflow had come to US\$570.3 billion, or 96.7% of total FDI outflow from industrialized economies, in 2000) and 25 developing economies (whose combined FDI outflow had come to US\$22.5 billion, or 80.1% of total FDI outflow from developing economies, in 2000) for which 2001 data were available.

**Fig. I-6 Japanese trade and income balances (1980 to 2001)**



Source: Prepared from *International Financial Statistics* (IMF).

**Fig. I-7 Japanese merchandise trade (1970 to June 2002)**

(Units: US\$ million, %)

	Exports				Imports				Trade balance	
	Value (US\$)	Annual change (%)	Volume index	Annual change (%)	Value (US\$)	Annual change (%)	Volume index	Annual change (%)	Value (US\$)	Annual change (%)
1970	19,318	20.8	21.7	17.3	18,881	25.7	27.1	18.3	437	-54.8
1971	24,019	24.3	25.8	18.9	19,712	4.4	27.3	0.7	4,307	886.7
1972	28,591	19.0	28.0	8.5	23,471	19.1	30.3	11.0	5,120	18.9
1973	36,930	29.2	29.7	6.1	38,314	63.2	37.0	22.1	-1,384	-127.0
1974	55,536	50.4	35.0	17.8	62,110	62.1	36.2	-2.2	-6,575	375.2
1975	55,753	0.4	35.4	1.1	57,863	-6.8	32.0	-11.6	-2,110	-67.9
1976	67,225	20.6	43.6	23.2	64,799	12.0	34.7	8.4	2,427	-215.0
1977	80,495	19.7	47.7	9.4	70,809	9.3	35.5	2.3	9,686	299.2
1978	97,543	21.2	48.3	1.3	79,343	12.1	37.7	6.2	18,200	87.9
1979	103,032	5.6	48.0	-0.6	110,672	39.5	41.9	11.1	-7,641	-142.0
1980	129,807	26.0	56.5	17.7	140,528	27.0	40.2	-4.1	-10,721	40.3
1981	152,030	17.1	63.1	11.7	143,290	2.0	39.3	-2.2	8,741	-181.5
1982	138,831	-8.7	61.5	-2.5	131,931	-7.9	39.6	0.8	6,900	-21.1
1983	146,927	5.8	66.6	8.3	126,393	-4.2	40.3	1.8	20,534	197.6
1984	170,114	15.8	77.8	16.8	136,503	8.0	44.4	10.2	33,611	63.7
1985	175,638	3.2	80.7	3.7	129,539	-5.1	48.9	10.1	46,099	37.2
1986	209,151	19.1	80.1	-0.7	126,408	-2.4	50.6	3.5	82,743	79.5
1987	229,221	9.6	80.3	0.2	149,515	18.3	54.9	8.5	79,706	-3.7
1988	264,917	15.6	84.7	5.5	187,354	25.3	64.0	16.6	77,563	-2.7
1989	275,175	3.9	88.5	4.5	210,847	12.5	69.1	8.0	64,328	-17.1
1990	286,948	4.3	92.8	4.9	234,799	11.4	73.7	6.7	52,149	-18.9
1991	314,525	9.6	95.6	3.0	236,737	0.8	75.8	2.8	77,789	49.2
1992	339,650	8.0	97.1	1.6	233,021	-1.6	75.4	-0.5	106,628	37.1
1993	360,911	6.3	95.4	-1.8	240,670	3.3	79.0	4.8	120,241	12.8
1994	395,600	9.6	96.9	1.6	274,742	14.2	89.5	13.3	120,858	0.5
1995	442,937	12.0	100.0	3.2	336,094	22.3	100.0	11.7	106,843	-11.6
1996	412,433	-6.9	101.2	1.2	350,654	4.3	105.6	5.6	61,779	-42.2
1997	422,881	2.5	113.1	11.8	340,408	-2.9	107.4	1.7	82,474	33.5
1998	386,271	-8.7	111.6	-1.3	279,316	-17.9	101.7	-5.3	106,955	29.7
1999	417,442	8.1	114.0	2.2	309,745	10.9	111.4	9.6	107,697	0.7
2000	480,701	15.2	124.8	9.5	381,100	23.0	123.7	11.0	99,601	-7.5
2001	405,155	-15.7	112.1	-10.2	351,098	-7.9	121.9	-1.4	54,057	-45.7
Jan.-Jun. 2002	194,628	-6.9	117.0	3.4	156,753	-14.2	119.1	-3.2	37,875	43.5

Sources: Prepared from *Historical Statistics of Japan* (Japan Statistical Association); *Summary Report on Trade of Japan* (Japan Tariff Association); and Ministry of Finance's official foreign exchange rates from 1996.

**Fig. I-8 Japanese services trade (1985 to May 2002)**

(Units: US\$ million, %)

	Services receipts		Services payments		Balance
	Value	Annual change (%)	Value	Annual change (%)	Value
1985	21,987	-	31,750	-	-9,764
1986	23,444	6.6	36,516	15.0	-13,071
1987	29,410	25.4	50,085	37.2	-20,674
1988	35,418	20.4	65,700	31.2	-30,283
1989	40,165	13.4	76,800	16.9	-36,636
1990	41,245	2.7	84,057	9.4	-42,811
1991	44,979	9.1	86,933	3.4	-41,954
1992	49,109	9.2	93,143	7.1	-44,034
1993	53,548	9.0	96,874	4.0	-43,326
1994	58,787	9.8	107,211	10.7	-48,425
1995	65,497	11.4	123,063	14.8	-57,566
1996	67,491	3.0	129,541	5.3	-62,051
1997	68,868	2.0	122,714	-5.3	-53,846
1998	62,278	-9.6	111,787	-8.9	-49,509
1999	61,403	-1.4	116,045	3.8	-54,642
2000	68,903	12.2	116,327	0.2	-47,424
2001	63,898	-7.3	107,509	-7.6	-43,611
Jan.-May 2002	26,792	-4.6	41,999	-11.1	-15,207

Notes: 1. Based on balance of payments statistics without reflecting Japan's revised treatment of financial derivatives. Converted to U.S. dollars at interbank average rate for each period.

2. Figures for January to May 2002 are based on new statistics according to Japan's revised treatment of financial derivatives.

Source: *Balance of Payments* (Bank of Japan).

**Fig. I-9 Japanese FDI inflows & outflows (FY1970 to March 2002)**

(Units: US\$ million, %)

	FDI inflow		FDI outflow	
	Value	Annual change (%)	Value	Annual change (%)
FY 1970	114	62.5	904	35.9
FY 1971	255	123.1	858	-5.1
FY 1972	160	-37.2	2,338	172.5
FY 1973	167	4.3	3,494	49.4
FY 1974	154	-8.1	2,395	-31.5
FY 1975	167	8.6	3,280	37.0
FY 1976	196	17.4	3,462	5.5
FY 1977	224	14.3	2,806	-18.9
FY 1978	235	4.9	4,598	63.9
FY 1979	524	123.0	4,995	8.6
FY 1980	299	-42.9	4,693	-6.0
FY 1981	432	44.5	8,932	90.3
FY 1982	749	73.4	7,703	-13.8
FY 1983	813	8.5	8,145	5.7
FY 1984	493	-39.4	10,155	24.7
FY 1985	930	88.6	12,217	20.3
FY 1986	940	1.1	22,320	82.7
FY 1987	2,214	135.5	33,364	49.5
FY 1988	3,243	46.5	47,022	40.9
FY 1989	2,861	-11.8	67,540	43.6
FY 1990	2,778	-2.9	56,911	-15.7
FY 1991	4,339	56.2	41,584	-26.9
FY 1992	4,084	-5.9	34,138	-17.9
FY 1993	3,078	-24.6	36,025	5.5
FY 1994	4,155	35.0	41,051	14.0
FY 1995	3,837	-7.7	50,694	23.5
FY 1996	6,841	78.3	48,020	-5.3
FY 1997	5,527	-19.2	53,972	12.4
FY 1998	10,469	89.4	40,747	-24.5
FY 1999	21,510	105.5	66,694	63.7
FY 2000	28,276	31.5	48,580	-27.2
FY 2001	17,405	-38.4	31,606	-34.9

Note: Figures from fiscal 1996 have been released in Japanese yen only and are converted to U.S. dollars at interbank average rate for each period.

Sources: *Status of Foreign and Inward Direct Investment* (Ministry of Finance) and 8<sup>th</sup> and 10<sup>th</sup> *Surveys of Business Activities of Foreign Enterprises in Japan* (Ministry of Economy, Trade and Industry).

**Fig. I-10 Manufactured imports entering Japan**

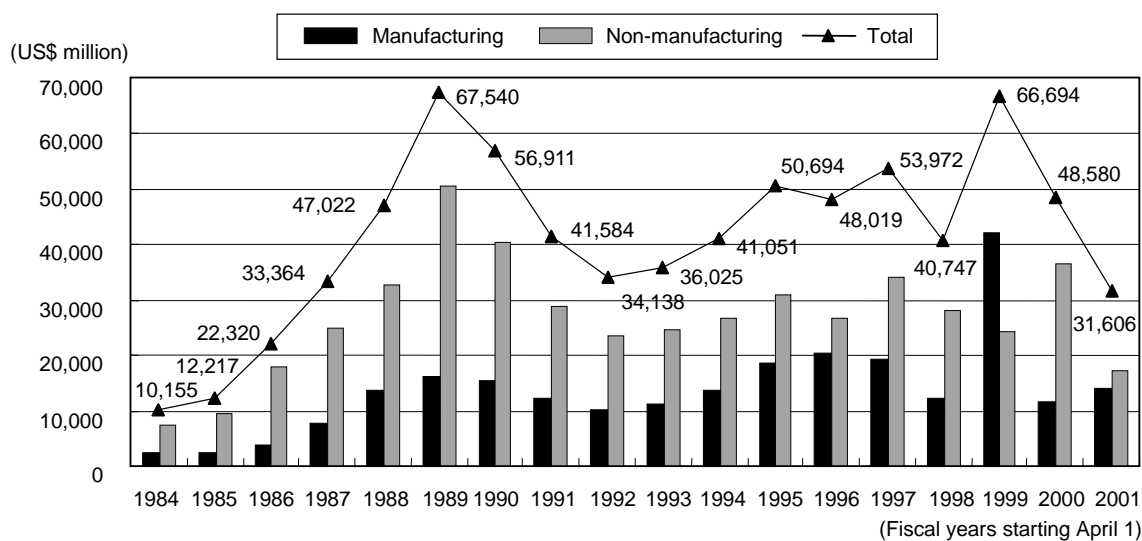
(Unit: US\$ billion)

	World	U.S.	EU	China	Asian NIEs	ASEAN4
1990	118.0	32.5	30.9	6.1	19.1	5.8
1991	120.3	33.6	27.5	8.3	20.2	7.6
1992	117.0	32.0	26.7	10.8	19.2	8.6
1993	125.2	34.1	25.6	14.2	20.0	10.7
1994	151.7	40.3	30.5	19.6	24.0	13.3
1995	198.6	50.1	43.7	27.8	33.1	18.3
1996	208.5	54.8	43.5	31.6	32.2	21.8
1997	201.8	54.1	39.1	33.1	29.1	22.0
1998	173.3	48.8	33.4	29.7	23.8	18.0
1999	193.3	48.7	36.6	35.0	29.8	22.4
2000	232.9	53.1	40.7	45.7	39.0	29.1
2001	215.7	46.1	39.0	48.8	32.0	26.8
2001 1st half	112.8	25.0	20.0	23.5	17.7	14.3
2001 2nd half	102.9	21.0	18.9	25.3	14.3	12.5
2002 1st half	98.6	20.5	17.5	23.6	14.5	12.1

Note: Estimates of imports in June 2002 are preliminary.

Source: *Trade Statistics* (Ministry of Finance).

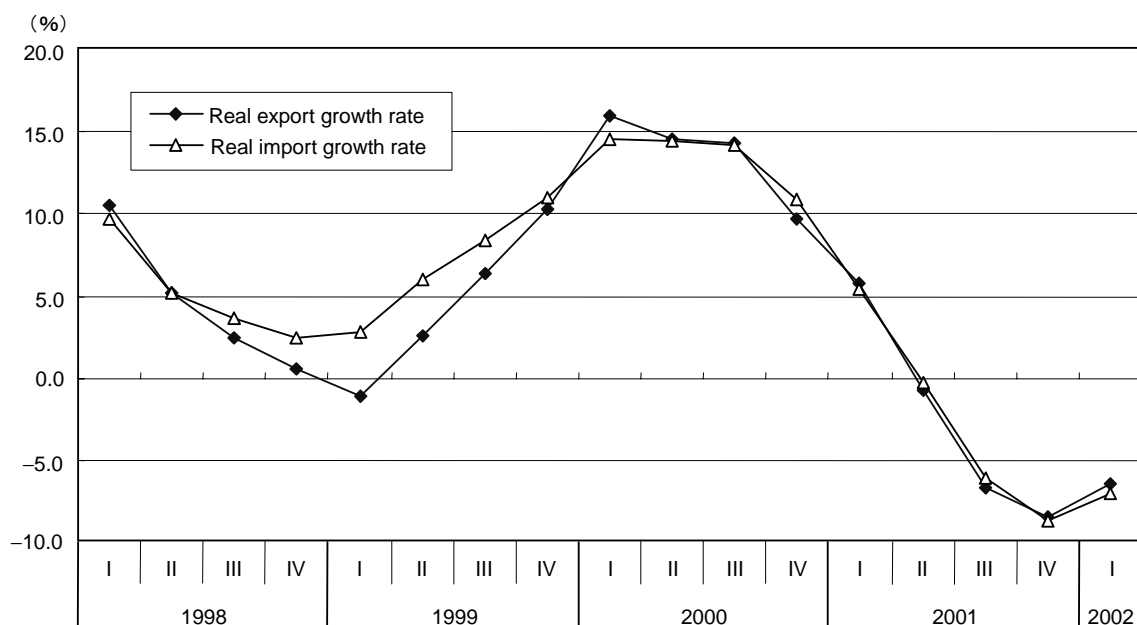
**Fig. I-11 Japanese FDI outflows (1984 to 2001)**



Source: Prepared from *Status of Foreign and Inward Direct Investment* (Ministry of Finance).



**Fig. I-12 Real import and export growth rates of 17 major economies**



Sources: Calculated by JETRO from national statistics; *International Financial Statistics* (IMF); national statistics of Taiwan; and Chinese monthly statistics.

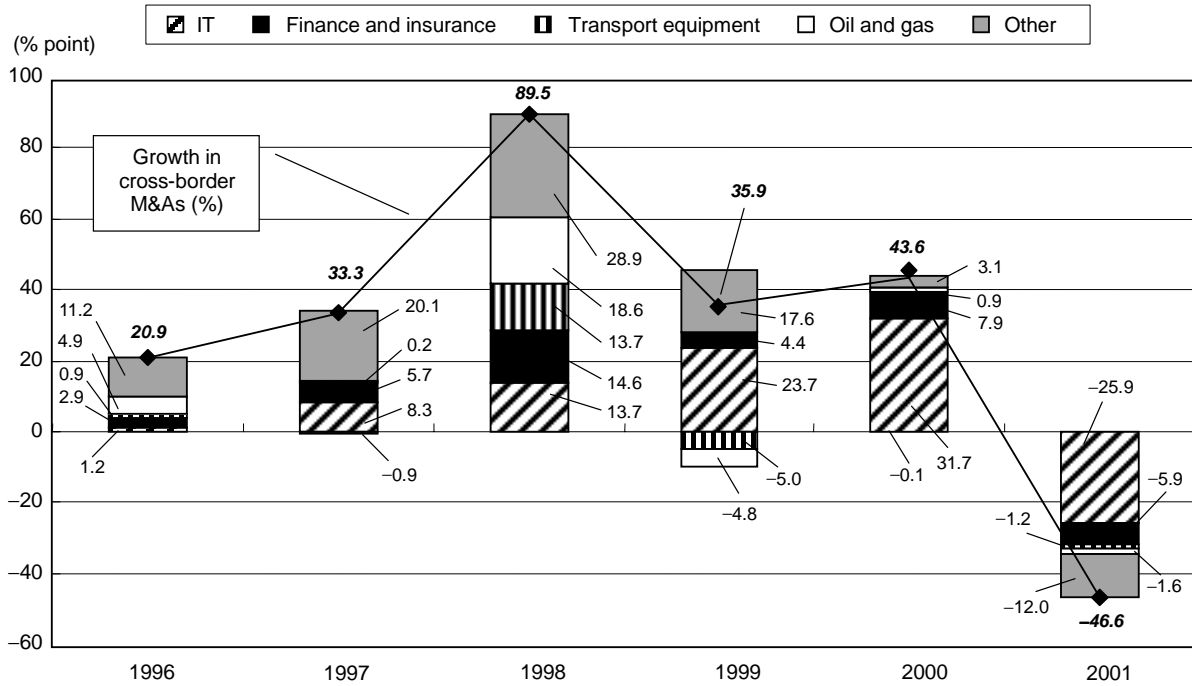
**Fig. I-13 Major products' growth rates and contributions to global IT trade**

	Growth rate (%)			Contribution (% points)			Share (%)		
	1999	2000	2001	1999	2000	2001	1999	2000	2001
Computers and peripherals	9.6	14.5	-10.4	0.5	0.8	-0.6	14.6	6.5	14.8
Office equipment	-0.5	3.0	-3.2	-0.0	0.0	-0.0	-0.1	0.1	0.2
Telecommunications equipment	17.5	34.6	-8.4	0.3	0.7	-0.2	9.2	5.7	5.2
Electronic parts including semiconductors	18.8	28.6	-21.8	0.7	1.2	-1.1	20.5	9.9	27.2
Other electronic parts	7.3	21.2	-12.1	0.2	0.6	-0.4	6.2	5.1	10.0
Video equipment	4.3	20.3	-1.3	0.0	0.2	-0.0	1.1	1.4	0.3
Audio equipment	0.4	4.7	-13.6	0.0	0.0	-0.0	0.0	0.1	0.4
Measuring instruments and testing equipment	6.8	17.6	-5.8	0.1	0.2	-0.1	2.5	1.9	2.0
Parts	13.7	24.2	-16.5	1.2	2.3	-1.8	34.8	18.7	44.5
Finished good	8.8	18.7	-7.4	0.7	1.5	-0.6	19.3	11.8	15.7
IT products (total)	11.4	21.7	-12.5	1.9	3.8	-2.4	54.1	30.5	60.2

Note: Based on exports.

Source: Prepared by JETRO from national statistics.

**Fig. I-14 IT and financial sectors' contributions to cross-border M&As**



Note: Based on sale prices. Data as of June 6, 2002.  
Source: Thomson Financial.

**Fig. I-15 Major countries' balances of trade in services**

			1999	2000	2001	2002 1Q
U.S.	Services	Receipts	4.0	7.6	-3.3	-5.2
		Payments	3.7	14.7	-5.6	1.0
	Travel	Receipts	4.8	9.8	-11.9	-17.2
		Payments	4.2	9.6	-8.7	-8.1
Japan	Services	Receipts	-15.1	7.6	5.0	0.8
		Payments	-10.5	-3.7	4.4	-6.0
	Travel	Receipts	-20.3	-7.0	10.5	18.8
		Payments	-1.2	-7.6	-6.3	-18.2
U.K.	Services	Receipts	8.8	9.6	-0.5	-2.2
		Payments	12.6	11.4	0.6	-2.0
	Travel	Receipts	-1.7	2.7	-12.6	-11.7
		Payments	13.5	10.7	3.9	0.7
Germany	Services	Receipts	6.1	14.1	4.9	-1.0
		Payments	11.5	11.8	5.5	-6.4
	Travel	Receipts	3.0	17.7	-3.9	4.3
		Payments	8.4	8.3	0.0	-5.4

Sources: Prepared from U.S. Department of Commerce; Bank of Japan; national statistics of U.K.; and Deutsche Bundesbank.

## **II. Emergence of China and shifting division of labor in East Asia**

1. Chinese imports grew 10.4% year on year in the first half of 2002. Over the same period, FDI contracts measured on an approval basis continued to grow strongly, rising 31.5% year on year to US\$43.99 billion. Measured by value of investments actually carried out, FDI grew 18.7% to US\$24.58 billion, surpassing the record set a year earlier.
2. The increase in China's export competitiveness was due in considerable part to foreign firms, which accounted for 50.1% of Chinese exports in 2001. The same has been true in the ASEAN economies, where foreign firms have made major contributions to growth in industrial production and exports. The rise in East Asian manufacturing's export competitiveness and the sophistication of its export products has been led by foreign firms.
3. The largest sources of FDI entering China in 2001 measured on an approval basis were Hong Kong (accounted for 29.9%), followed by the Virgin Islands (12.7%), U.S. (10.9%), Taiwan (10%), Japan (7.8%) and the R.O.K. (5%). Among the top investors, China accounted for especially high shares of total outward investment by Hong Kong, Taiwan and the R.O.K. Investment by the U.S. in the ASEAN4 had exceeded U.S. investment in China in 2000, but the situation reversed in 2001 (Fig. II-1).
4. The ASEAN region has progressively cut its tariffs in connection with the establishment of the ASEAN Free Trade Area (AFTA) in January 2002. Interregional trade within ASEAN in 2001, however, comprised only 22.2% of the region's total trade, compared to 60.4% in the EU and 54.8% in the North American Free Trade Agreement (NAFTA) region. The effectiveness of AFTA must be improved to increase foreign-capital inflow and economic development in the region. Relatively high tariffs on automobiles, consumer electronics and materials must be lowered in accordance with agreed tariff-reduction schedules, and procedural problems with country-of-origin certificates, customs-clearance requirements, etc. must be improved.

**Fig. II-1 FDI in China and ASEAN4**

(Units: US\$ million, %)

		1998		1999		2000		2001	
		Value	Share (%)	Value	Share (%)	Value	Share (%)	Value	Share (%)
Hong Kong	China	6,985	41.1	7,758	52.4	7,791	78.1	n.a.	n.a.
	ASEAN4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
U.S.	China	1,497	1.1	1,641	0.9	1,602	1.0	1,236	1.1
	ASEAN4	702	0.5	-168	-0.1	3,629	2.2	457	0.4
Japan	China	1,306	5.4	363	1.6	937	3.0	2,161	5.6
	ASEAN4	3,578	14.8	341	1.5	1,692	5.4	2,922	7.6
Taiwan	China	2,035	38.2	1,253	27.7	2,607	33.9	2,784	38.8
	ASEAN4	209	3.9	163	3.6	116	1.5	114	1.6
R.O.K.	China	677	14.7	337	11.2	433	10.3	513	14.2
	ASEAN4	257	5.6	200	6.7	165	3.9	236	6.5
Sub-total (excluding Hong Kong)	China	5,515	-	3,594	-	5,579	-	6,694	-
	ASEAN4	4,746	-	536	-	5,602	-	3,729	-

- Notes:
1. "Share" indicates China and ASEAN4 shares of each country's FDI outflow.
  2. Subtotals are not fully comparable as their calculations vary (balance of payment statistics for Hong Kong, U.S. and Japan, investments implemented for R.O.K., and contracts for Taiwan).
  3. Figures for Hong Kong are converted from Hong Kong dollars to U.S. dollars at average *International Financial Statistics* (IMF) rate for each period.
  4. Figures for Japan are converted from Japanese yen to U.S. dollars at Bank of Japan interbank average rate for each period.

Sources: Prepared from national statistics on investment.

### **III. New WTO round and FTA trends**

#### **A. Launch of new WTO round: agenda and prospects**

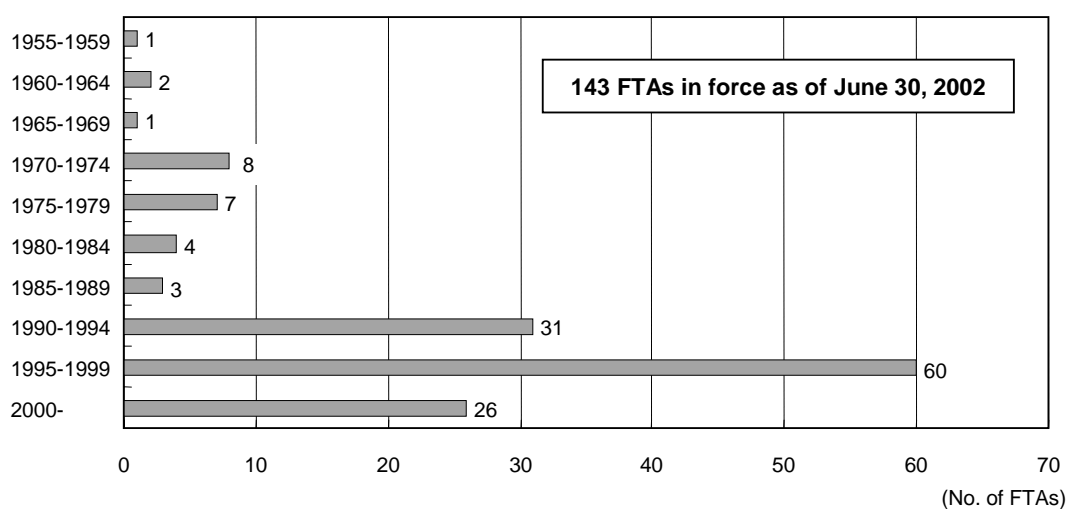
1. Ministers adopted a declaration launching a new round of multilateral trade negotiations at the fourth WTO ministerial conference held in Doha, Qatar, in November 2001. The new round, known as the Doha Development Agenda, is scheduled to be concluded by January 1, 2005 and resulting agreements are to be enforced as a single undertaking by member countries. The declaration adopts a work program covering a wide range of issues, including developing countries' concerns in implementing current WTO agreements, agriculture, services, tariffs on non-agricultural products, the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), the Singapore Agenda (on investment, competition, facilitation of trade and transparency of government procurement), rules (on antidumping, subsidies and regional trade agreements), dispute settlements and the environment. The agenda is broadly in line with the views of Japan.
2. Japan is especially interested in seeing the new round lead to further lowering of tariffs on non-agricultural products, strengthening of the WTO's antidumping agreement, establishment of investment rules and acceptance of arrangements to protect the coexistence of diverse forms of agriculture. Moves to launch negotiations on non-agricultural tariffs were strongly resisted by developing countries, which have high tariffs on a large number of products, so little headway was made. Negotiations began, however, after it was agreed that negotiation modalities would be determined by the end of May 2003. An important priority is the strengthening of the WTO's antidumping agreement to prevent abusive application of antidumping investigations and actual penalties. This would require concessions by the U.S., which has taken a negative attitude regarding the amendment of the existing agreement. Explicit consensus was reached at the fifth ministerial conference to commence negotiations on investment rules incorporating equal national treatment for foreign firms. The formulation of such rules within the framework of the WTO is particularly important to Japan, considering that out of 1,941 bilateral investment treaties (BITs) concluded worldwide by the end of 2000, only 10 were with Japan. Regarding agriculture, negotiation modalities concerning issues such as tariff reduction rates are to be determined by the end of March 2003. For its part, Japan wishes to see the outcome of negotiations reflect non-trade issues such as food security.

#### **B. Proliferation of FTAs and challenges for Japan**

1. Of the 143 FTAs in existence worldwide as of June 2002, 117, or 80%, had been launched since 1990 (Fig. III-1). This increase was the result of countries realizing that bilateral and regional FTAs offered a means of achieving trade liberalization in a shorter time than through multilateral negotiations under the GATT/WTO framework. While multilateral negotiations under the WTO since 1986 had resulted in only the one Uruguay Round, major FTAs were signed one after another during this same period, including the NAFTA, AFTA and Mercosur agreements.
2. In January 2002, Japan signed its first FTA, an economic partnership agreement (EPA) with Singapore known for short as the JSEPA. In addition to the usual provisions for trade liberalization, investment and movement of people, the agreement also provides for cooperation in finance, IT and

trade/investment promotion. Japan, in order to ensure all future FTAs comply with Article 24 of the GATT/WTO Agreement, which calls for the abolishment of tariffs covering “substantially all trade,” as well as to respond to the strong wishes of its FTA partners, in some cases will need to abolish certain tariffs covering sensitive items, such as agriculture, forestry and fishery products. Japan should be flexible on this matter; it should learn from the examples of NAFTA and FTAs concluded by the EU, which address problems with sensitive agricultural products through special measures, such as a 10-year timetable for the abolition of tariffs or the postponement of any such decision until a future date. Meanwhile, the EU is expanding and the Free Trade of the Americas (FTAA) and a China-ASEAN FTA are being negotiated. Japan must also pursue FTAs with other countries and regions actively if it is to remain a leading player in the global economy over the long term.

**Fig. III-1 FTAs implemented since 1955**



- Notes:
1. 143 excludes 29 of 172 regional trade agreements (RTAs), notified to GATT/ WTO and currently in force, which were deemed to be duplicates, i.e. re-reported by countries upon joining EC or notified both to GATT and General Agreement on Trade in Services (GATS).
  2. FTAs are assigned to year in which they took effect. Two FTAs (GCC in 1984 and ECO in 1992) were assigned to years in which they were notified, because dates of enforcement could not be determined.

Sources: Prepared from WTO Secretariat statistics.

## **IV. Economic globalization and need for improved investment conditions**

### **A. Effects of globalization on Japan**

In 1990, Japanese manufacturers employed 15.19 million people in Japan, according to the Labor Force Survey, and 1.24 million people overseas, according to the fiscal 1990 Survey of Overseas Business Activities. By 2000, the domestic figure had fallen to 13.21 million, while the overseas figure had risen to 2.81 million. The combined figure dropped only marginally, however, from 16.43 million to 16.02 million (Fig. IV-1). Domestic production in most industries began to fall after peaking between the 1980s and early 1990s, due to changes in domestic demand structure and competition from inexpensive imports, most notably from Southeast Asia and China (Fig. IV-2).

### **B. Industrial restructuring in Europe**

#### **1. German approach: Creating better investment conditions**

While employment among German firms overseas increased from 1.56 million people in 1990 to 2.77 million in 2000, domestic unemployment stayed at almost four million. Rather than worrying about the hollowing out of its domestic industrial base, however, Germany has addressed its unemployment situation by improving domestic conditions for investment, such as lowering both labor costs and taxation, aiming to aggressively attract foreign capital. At the national level, the federal government is cutting the corporate burden of social insurance, which is rather high compared with other countries, and lowered the corporate tax rate from 40% to 25% in 2001. It is also providing additional support for ventures. Meanwhile, the federal states are independently undertaking the task of courting foreign capital.

#### **2. British approach: Closing domestic regional gaps**

Manufacturing's share of GDP in the U.K. fell from 25% in 1982 to 23% in 1990 to 19% in 1999, while the service sector's share rose from 57% to 63% to 70% over the same period. The structural transformation of the British economy can be traced back to the economic policies of Prime Minister Margaret Thatcher. The Thatcher government, which came to power in 1979, placed a high priority on curbing public spending, increasing labor mobility through trade union reform, decreasing state intervention, raising the initiative of the private sector and introducing market competition. The result was a sweeping transformation of the U.K. from a "society of dependence," with high levels of welfare and spending, to an entrepreneurial society geared to the expansion of the service sector. However, while individual domestic regions benefited from this economic reconstruction, gaps between various regions also emerged.

Since the election of Prime Minister Tony Blair, taxation has been shifted from the national government back to local governments and the excessive allocation of public spending for England has come under reconsideration. The Blair government has also launched a "New Deal" training program to help the unemployed find jobs, with companies provide training and the government providing a grant to firms for each person taken on. The aims are to expand employment and improve labor skills through public-private cooperation.

3. French approach: Repositioning of traditional industries

Although France's central government is extremely powerful and has been firmly supportive of the country's traditional industries, it was forced in 1996 to abandon its full or partial exemption of employers in the textile, apparel and leather footwear industries from paying social security charges, because the practice, known as the "Borotra plan," had been found to be in contravention of EU treaties. As a consequence, the French government began focusing the promotion of regional and industrial development in line with European Commission directives. By increasing the brand strength and added value of labor-intensive products such as apparel, perfumes, bags and footwear, France has succeeded in repositioning these traditional industries as leading exporters of luxury goods. Regional economic promotion has also resulted in successes such as Valenciennes, the former coal-mining district, which began seeking automotive investors after Renault opened a plant in 1976 and recently succeeded in attracting Toyota. More than 100 automotive companies now operate in Valenciennes and the region accounts for around 15% of domestic automobile volume output, making it one of France's most important centers for automobile production.

### **C. Expansion of FDI inflow into Japan through improved investment conditions**

1. Importance of expanding FDI inflow into Japan

FDI inflow into Japan is equivalent to 1.2% of GDP, far less than the near 20% figure averaged in other major industrialized countries. FDI inflow has nevertheless risen in recent years, with the gap between FDI inflow and outflow shrinking from 1:10 in 1998 to 1:6 in 2001. The effects of this persistent imbalance are apparent in employment. Japanese affiliates overseas employed around 3.45 million workers in fiscal 2000 compared with only 320,000 employed by foreign affiliates in Japan in fiscal 1999. According to a JETRO survey of foreign affiliates conducted in May 2002, it is estimated that just 2.6% of all employees in Japan work for foreign firms, the lowest rate among all major industrialized countries.

2. Measures to improve conditions for investment in Japan

There are six major ways in which investment conditions in Japan can be improved, beginning with easing the high expense of doing business in Japan by lowering the costs of electricity, telecommunications and physical distribution.

Secondly, the government needs to develop better conditions for attracting skilled foreign workers, including creating a domestic environment in which foreigners and their families can live more comfortably. This can be achieved through reciprocal recognition of foreign engineering qualifications, improved education for foreign children, reciprocal pension arrangements with other countries and reciprocal recognition of medical licenses to enable foreign doctors to practice in Japan.

Thirdly, companies themselves need to adopt international standards and a more global perspective in business. For companies to gain the confidence of shareholders and survive international competition, they must strengthen their transparency, accountability and checks and balances through separation of ownership and management. They must also improve their corporate governance.

Fourthly, local governments must take the lead in tackling the hollowing out of their industrial bases. A key to attracting foreign investment is the availability of distinctive industries and/or technology bases needed by potential investors. With competition to attract investors now on a global scale, local

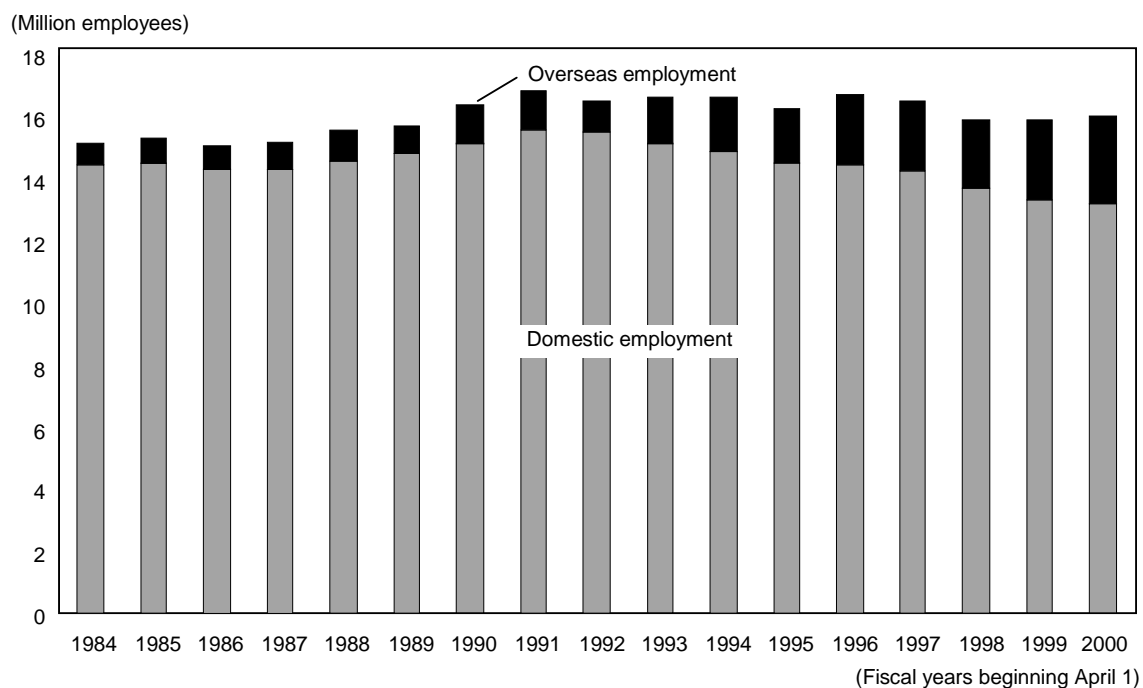


government leaders need to promote their regions and encourage the enhancement of local incentives.

Fifthly, attracting foreign investment requires the provision of one-stop information services at the national level. In the R.O.K., the Korea Trade Investment Promotion Agency (KOTRA) established the Korea Investment Service Center (KISC) to provide foreign investors with a convenient, one-stop service offering streamlined procedures and extensive information for investing in the country. Japan should consider offering a similar service. In this regard, JETRO launched the “Invest Japan!” website in October 2001 to provide a one-stop online source of information for foreign investors. The site offers a wide variety of information on locating in Japan, including set-up cost simulations and investment conditions throughout the country.

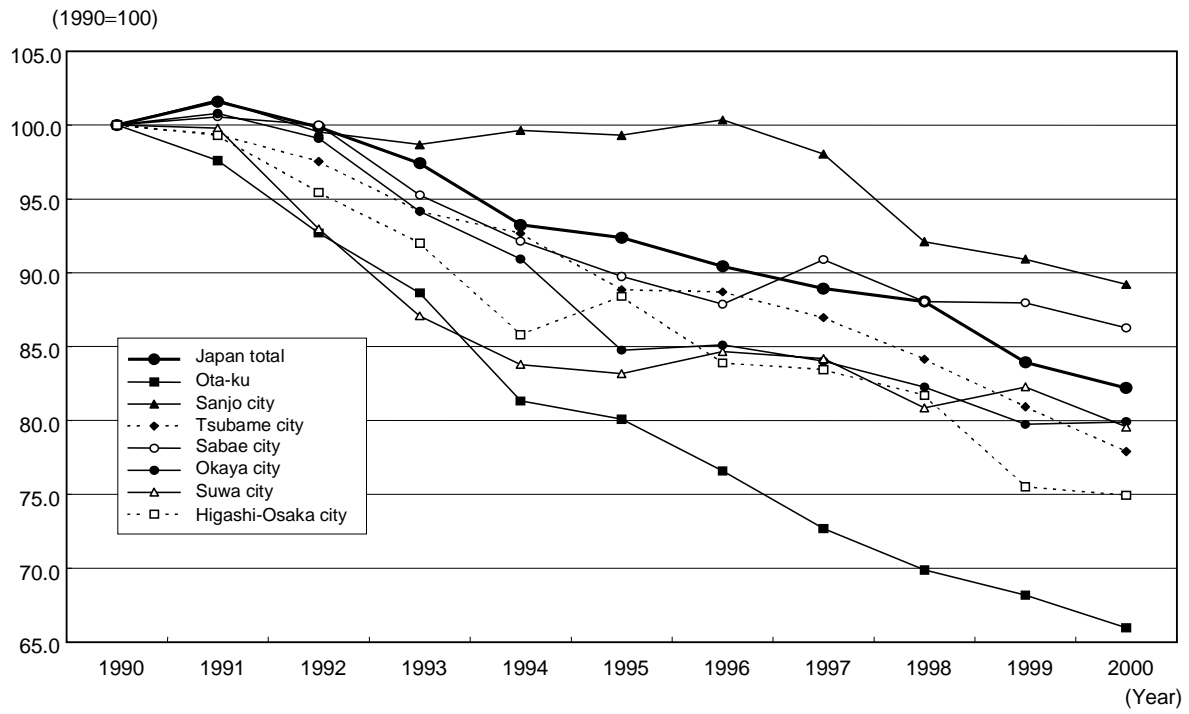
Sixthly, special zones for business need to be established in Japan. These are a particularly effective means of encouraging inflows of foreign capital in fields where regulation has kept Japanese productivity below international levels.

**Fig. IV-1 Domestic and overseas employment by Japanese manufacturers**



Sources: For domestic employment, *Labor Force Survey* (Ministry of Public Management, Home Affairs, Posts and Telecommunications), and for overseas employment, *Survey of Overseas Business Activities* (Ministry of Economy, Trade and Industry).

**Fig. IV-2 Employees working in Japan's main manufacturing clusters**



Source: Prepared from *Census of Manufactures* (Ministry of Economy, Trade and Industry).

## **V. Japan's declining presence and competitiveness**

### **A. Declining global presence**

1. Japan's shares of global trade and FDI have been falling as economic globalization progresses. Its global trade (exports) share, after peaking at 10.2% in 1986, fell to 7.6% in 2000. Japan's shares of imports entering the U.S., EU, East Asia and Latin America have also declined since peaking in the mid-1980s (Fig. V-1). The nation's share of global FDI also has continued to fall since the late 1990s, both in terms of stock and flow. In 1992 its outward FDI stock was 12.4%, second only to the United States, but by 2000 it had fallen back to eighth, the same position it had occupied in 1980. Moreover, after being the world's largest source of outward FDI flow in 1990, it dropped to seventh, 6.2%, in 2001. Japan's share of inward FDI is also extremely low both in terms of stock and flows.
2. Japan had recorded the world's largest annual trade surpluses every year between 1997 and 2000, but in 2001 it was overtaken by Germany (Fig. V-2). Japan had also accounted for the largest trade surpluses with the U.S. every year between 1976 and 1999, but it was topped by China in 2000. The nation's diminishing global presence was also reflected in the fact that China imported more from East Asia (excluding China itself ) than from Japan in the second half of 2001. According to trade statistics for these eight East Asian economies, they had combined trade deficits of US\$62.7 billion with China and US\$55.1 billion with Japan for all of 2001.

### **B. Export dependence and offshore activities both increase**

1. Japanese manufacturing's export dependence (export value / output value) grew from 12.2% in 1990 to 12.9% in 1995 and 16.5% in 2000. The level of export dependence was particularly high among machinery manufacturers, mainly in the electrical, transport and precision machinery industries. Import penetration [value of imports / (value of output - value of exports + value of imports)] also rose from 7.7% in 1990 to 8.8% in 1995 and 11.6% in 2000. In the machine tool industry, overseas demand had accounted for only 25.7% of total orders received in 1991, but both in 1998 and 2000 the shares were up to around half, 53.8% and 47.9%, respectively.
2. According to a JETRO survey conducted in June 2002, 53.6% of the Japanese firms surveyed saw sales in Japan fall either somewhat or considerably between 1996 and 2001, while only 25.6% reported increased sales. In overseas markets, however, more Japanese firms saw sales increase than decrease, 48.4% to 27.4%, and more firms registered an increase than decrease in operating profit, 42.5% compared to 33.5%.

## C. Export strategies

### 1. U.S. National Export Strategy

Since 1993, the U.S. has had an over-arching national export promotion strategy called the National Export Strategy. The purpose has been to (1) cut the trade deficit, (2) increase the competitiveness of U.S. industry and (3) create high-wage employment through increased exports of goods and services. In devising a strategy for 2002, the government interviewed more than 3,000 small and medium-sized businesses and analyzed other industrialized countries' export-support measures for small businesses. The strategy also covers the export of agricultural produce and services, and improvements in services for U.S. businesses. Senior U.S. officials continue to promote U.S. industry overseas, such as Secretary of Commerce Donald Evans heading a mission of 15 leading firms to China in April 2002.

### 2. Efforts to develop overseas markets

a. Real growth in Japanese exports slowed from 5.2% in the 1980s to 2.6% in the 1990s (Fig. V-3). This largely reflected the fact that Japanese companies increased their overseas production activities, but the slowdown was not due solely to globalization trends. Japan's average annual export growth in the 1990s was not only less than the world average of 6.8%, it was also below the U.S. and German averages, even though these two countries had higher rates of overseas production than Japan.

b. Until the end of the 1980s, Japanese export growth had been underpinned by rapid turnover in high-growth products. In the 1990s, however, turnover slowed and no dramatic change was seen in the composition of Japanese export goods. Part of this was due to lackluster exports of IT products, such as PCs and cellular phones, which had been the leading growth products in global trade. Moreover, in the future, if Japanese companies step up local procurement of core parts and capital goods needed for their expanding overseas production activities, Japanese exports of goods such as PCs and cellular phones are likely to fall further. Japan must expand exports and create employment by, among other things, encouraging the production of higher value-added products, the development of new products and the improvement of competitiveness through increased productivity.

According to the previously mentioned JETRO survey of June 2002, Japanese companies encounter a variety of problems when they attempt to enter new markets overseas (Fig. V-4). In response, the following four solutions are proposed:

Firstly, programs are needed for one-stop services that provide information about investment risks and other key information. This would help to counter the lack of information regarding, for example, potential overseas markets and partners interested in importing Japanese products.

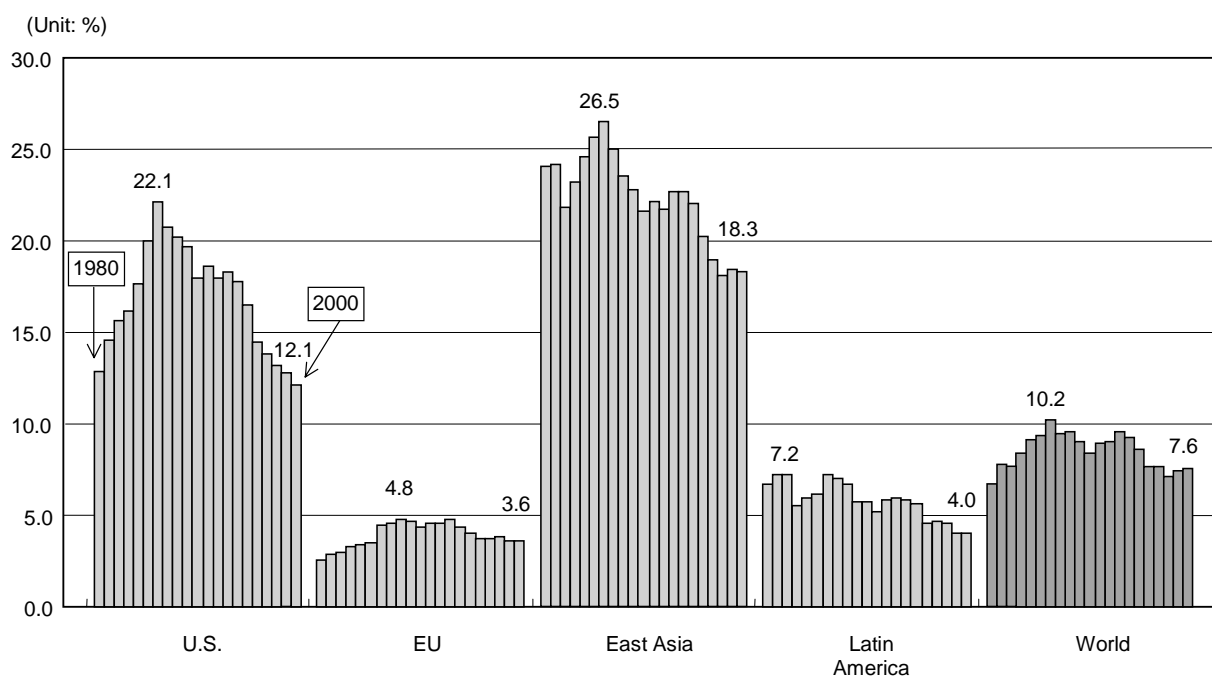
Secondly, a system is needed to educate and train people to function in the global marketplace. This would help to overcome the shortage of Japanese people with necessary language skills and the many problems Japanese firms encounter when entering overseas markets due to weak communication skills and difficulties gathering market data. Central-government backing is needed to reform the nation's education system, as well as provide companies with training and related financial support.

Thirdly, action is required to tackle the problem of pirated products made in eastern Asia, which is worsening by the year. According to a survey by the Patent Office, 33.0% of pirated Japanese

products in 2000 were produced in China, 18.1% in the R.O.K. and 17.6% in Taiwan, with the proportion in China rising. Because of the enormous economic loss to Japan arising from such products, the protection of Japanese intellectual property must be strengthened by calling on countries to adopt and effectively enforce needed laws.

Fourthly, swift action should be taken to establish an East Asian free business zone through economic partnership agreements. In a recent report, the Industrial Competitiveness Strategy Council identified three high-profit, value-added fields as being key to propelling future growth in domestic manufacturing: integrated finished goods, high-performance parts/materials and unified product/service packages. In addition, exports of promising products such as these should be expanded.

**Fig. V-1 Japan's shares of major economies' combined imports and exports (1980-2000)**



Source: Calculated by JETRO from *Direction of Trade Statistics* (IMF) and Taiwanese trade statistics.

**Fig. V-2 Top 10 trade surpluses worldwide**

(Unit: US\$ million)

	2000		2001	
		Value		Value
1	Japan	116,720	Germany	82,830
2	Russia	60,704	Japan	70,210
3	Germany	57,290	Russia	49,430
4	Saudi Arabia	49,843	Saudi Arabia	44,387
5	Canada	39,833	Canada	39,820
6	China	34,474	Ireland	30,003
7	Norway	25,500	Norway	24,973
8	Ireland	25,416	Netherlands	23,588
9	Indonesia	25,040	Italy	17,813
10	Netherlands	21,278	Sweden	13,832

Note: 2001 ranking is provisional due to exclusion of China and Indonesia, because their data had not been released.

Source: Prepared from *International Financial Statistics* (July 2002, IMF).

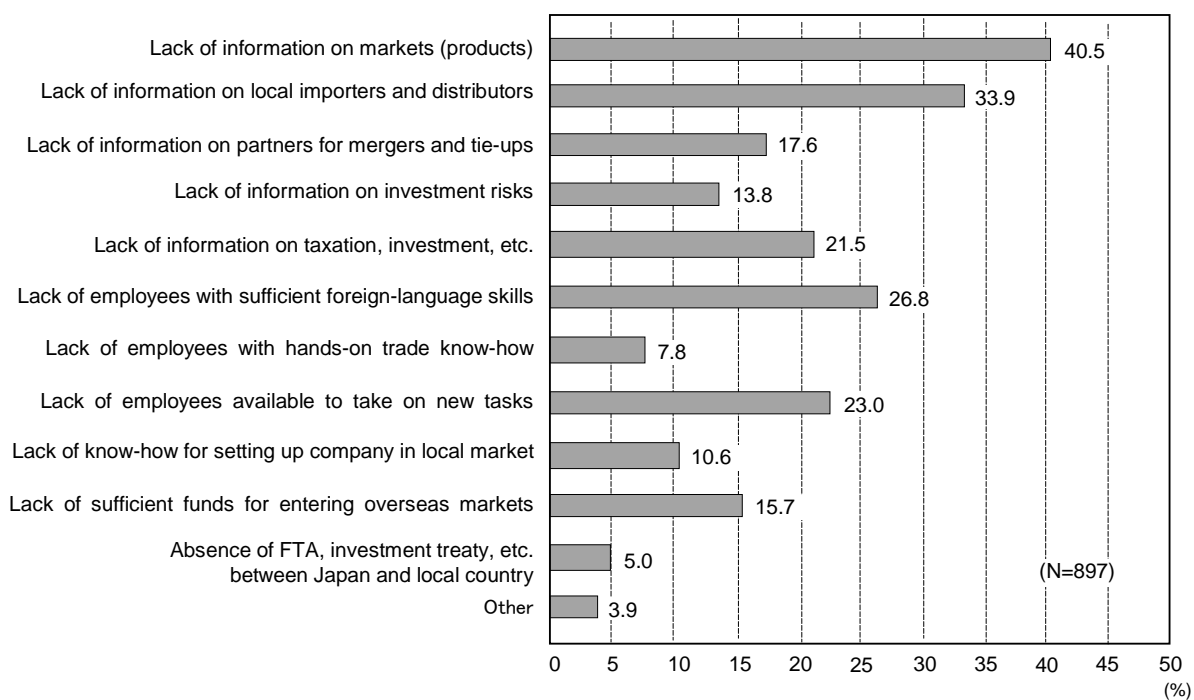
**Fig. V-3 Growth in average annual export volumes**

(Unit: %)

	1980s	1990s
World	3.9	6.8
France	3.7	6.3
Germany	4.5	5.3
Japan	5.2	2.6
U.K.	4.2	5.9
U.S.	3.2	6.6

Sources: Calculated by JETRO from *International Financial Statistics* (July 2002, IMF) and WTO database.

**Fig. V-4 Obstacles faced by Japanese firms overseas**



Source: Survey on overseas expansion by Japanese firms, conducted in June 2002 (JETRO).