

**2003 JETRO WHITE PAPER
ON
INTERNATIONAL TRADE AND FOREIGN DIRECT INVESTMENT**

(Summary)

JETRO

JAPAN EXTERNAL TRADE ORGANIZATION

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I. Global trade shows mild recovery, but global FDI continues to decline

A. Trends in 2002 and first half of 2003

The global economy, after slumping 1.2% in 2001 due to the collapse of the IT bubble, recovered to post real growth of 1.9% and nominal growth of 3.5% in 2002, according to IMF data. Real economic growth in the U.S. increased from 0.3% in 2001 to 2.4% in 2002, while growth in the EU slowed from 1.6% to 1.0%. Germany grew the slowest among the EU economies at 0.2%, its poorest year since 1993 when it registered negative growth following national reunification. Japan experienced a second poor year of growth, which fell from 0.4% in 2001 to 0.1% in 2002. In East Asia, growth in domestic demand fueled a recovery in economic growth among the Asian newly industrialized economies (NIEs) of Hong Kong Special Administrative Region (Hong Kong), Republic of Korea (R.O.K.), Singapore and Taiwan, the ASEAN4 nations of Indonesia, Malaysia, Philippines and Thailand.

Data on industrial production in 11 major economies and real exports by 17 major economies indicate that the global economy's recovery began to weaken in early 2003 (Fig. 1-1). In the first quarter of 2003, real economic growth (annualized change on the previous quarter) in the U.S., EU and Japan came to 1.4%, 0.4% and 0.6%, respectively.

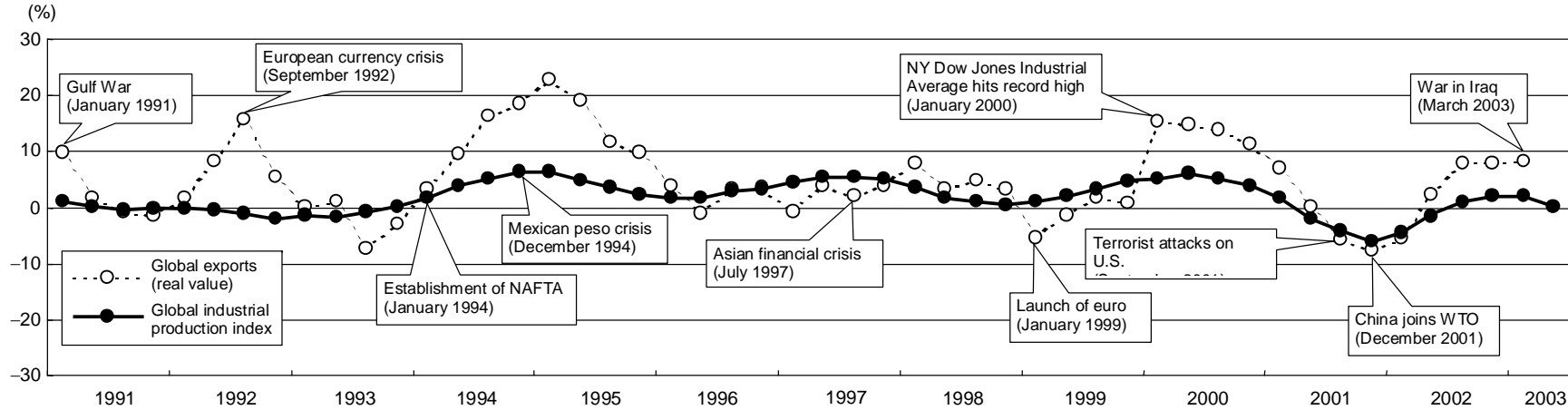
Although the global economy began to recover from the collapse of the IT bubble, the U.S. economy lacked the momentum it displayed in 1998, when, despite fears of a global downturn caused by an international financial crisis, the U.S. registered nominal growth of 5.6% and real growth of 4.3%.

According to JETRO estimates, global merchandise trade measured in terms of nominal exports bounced back from a decline of 3.7% the previous year to grow by 4.1% to US\$6,358.7 billion (Fig. 1-2) in 2002. Among global exports, the nine economies of East Asia (Asian NIEs, ASEAN4 and China; hereinafter referred to as "East Asia") accounted for 42.3% and the EU 52.4%, while in the case of imports East Asia contributed 35.9% and the EU 32.4%. Contributions from the U.S. and Japan were weak, with the U.S. contributing minus 14.4% to exports and 8.3% to imports, and Japan contributing 4.3% to exports and minus 5.8% to imports. The recent decline in IT-related trade bottomed out, recovering from minus 11.7% in 2001 to 0.5% in 2002. There was also growth in automobiles (9.6%) and iron/steel (8.1%). IT accounted for 0.1% of the growth in global trade and automobiles and iron/steel together accounted for 0.9%. The old economy thus replaced the new economy (IT products) as the engine of global trade.

Global FDI (inflow) in 2002 shrank 17.4% to US\$653.4 billion according to JETRO estimates. Global cross-border M&A shrank 37.8% to US\$401.8 billion and further contracted in the first half of 2003 by 32.8% year on year (Fig. 1-2). Global FDI fell to about 40% of its peak in 2000 and continued sliding downward in 2003. IT-related industries did not recover and increasing political instability on a worldwide level raised the risk of international activity, thereby curtailing M&A. Nevertheless, FDI inflow reached all-time highs in China (up 11.5% to US\$49.3 billion) and 10 countries of Central and Eastern Europe (up 20.3% to US\$23.0 billion).

Global trade in services according to WTO statistics (defined in terms of cross-border private-sector exports of services, excluding government services) grew 5.1% to US\$1,538.4 billion, marking a recovery from the previous year when it contracted for the first time in 18 years (Fig. 1-2).

Fig. 1-1 Global exports and industrial production (annual growth)



Note: Global real exports consist of the exports of 17 economies (Japan, U.S., Canada, Mexico, U.K., Germany, France, Italy, China, R.O.K., Taiwan, Hong Kong, Singapore, Thailand, Malaysia, Philippines and Indonesia). Figures for the first quarter of 2003 exclude Indonesia. The global industrial production index is based on the industrial production of 11 economies (Japan, U.S., EU, R.O.K., Taiwan, Hong Kong, Singapore, Thailand, Malaysia, Philippines and Indonesia).

Sources: Prepared by JETRO from sources including the IMF, OECD and national trade statistics of each country.

Fig. 1-2 Global economic and trade indices (year-on-year percentage change)

(Units: %, US\$ billion)

		1997	1998	1999	2000	2001	2002	2003 Q1	Notes
Global economic growth rate	Nominal	-0.5	0.1	3.5	2.6	-1.1	3.5	-	Real growth at 1990 prices and exchange rates
	Real	3.5	2.2	3.0	4.0	1.2	1.9	-	
Japan	Real	1.8	-1.1	0.1	2.8	0.4	0.1	0.6	} Change on previous quarter for Q1 2003
U.S.	Real	4.4	4.3	4.1	3.8	0.3	2.4	1.4	
EU	Real	2.5	2.9	2.8	3.5	1.6	1.0	0.4	
East Asia	Real	6.4	-0.1	6.6	7.7	3.8	6.1	-	
Global industrial production index		5.1	1.7	2.9	5.1	-2.7	-0.7	2.2	11 major countries and economies (see note to Fig. 1-1)
Global merchandise trade (exports)	Value	5,537.9	5,449.3	5,649.7	6,358.4	6,125.3	6,358.7	1,089.0	} JETRO estimates for 2002 } 16 major economies for Q1 2003 (see note to Fig. 1-1)
	% change	3.5	-1.6	3.7	12.5	-3.7	4.1	16.6	
	Real	10.8	4.6	5.9	12.9	-0.5	3.4	4.1	
Global merchandise trade price		-6.4	-6.2	-1.6	0.1	-3.7	0.7	1.9	U.S. export price for Q1 2003
Crude oil price (US\$/barrel)		19.3	13.1	18.0	28.2	24.3	25.0	31.3	Average price of WTI, Dubai and U.K. Brent
Global service trade (receipts)	Value	1,327.9	1,341.7	1,387.2	1,475.4	1,464.4	1,538.4	123.7	U.S., U.K. and Japan only in Q1 2003
	% change	4.0	1.0	3.4	6.4	-0.7	5.1	10.2	
Global FDI (inflow)	Value	474.0	690.5	1,090.0	1,493.8	791.0	653.4	-	JETRO estimate for 2002
	% change	23.1	45.7	57.9	37.0	-47.0	-17.4	-	
Global cross-border M&As	Value	329.9	630.1	863.2	1,222.4	645.8	401.8	144.9	First half for 2003
	% change	35.4	91.0	37.0	41.6	-47.2	-37.8	-32.8	

Sources: Prepared by JETRO from *International Financial Statistics* (IMF), *Balance of Payment Statistics* (IMF), *World Economic Outlook April 2003* (IMF), Thomson Financial data, national statistics and other sources.

B. U.S. contribution to global trade declines

The United States economy, following a prolonged period of expansion, began slowing down in March 2001 and registered real growth of 2.4% and nominal growth of 3.6% in 2002. These figures were lower than the 4.3% real and 5.6% nominal rates in 1998, when the U.S. economy helped to stem fears of a global downturn due to the East Asian financial crisis, and the 4.1% real and 5.6% nominal rates in 1999, when a vibrant U.S. economy helped to propel a global recovery. Even though U.S. consumer spending and home sales were strong in 2002, corporate scandals, the Iraq War and other geopolitical risks held down capital investment. The U.S. contribution to real economic growth was 0.7 points (34.6% of total growth), compared with 1.2 points (52.5%) in 1998 and 1.1 points (37.4%) in 1999. Moreover, the U.S. contribution to global nominal trade was just 0.3 points (8.3%), down sharply from 0.8 points (60.2%) in 1998 and 2.1 points (50.0%) in 1999 (Fig. 1-3).

The U.S. share of global FDI also contracted. U.S. FDI inflow declined 73.9% to US\$39.6 billion, the 1992-93 level, including a 48.8% decline in equity capital to US\$70.3 billion. Reinvested earnings shifted to a net inflow, US\$6.8 billion, and inter-company debt transactions shifted to a net outflow, US\$37.4 billion. FDI was down by wide margins in the information and financial sectors, but grew in sectors such as wholesaling and real estate.

U.S. FDI outflow grew 14.9% to US\$137.8 billion in 2002. Equity capital declined 64.1% to US\$18.1 billion, reinvested earnings increased 30.7% to US\$94.2 billion, and inter-company debt transactions recovered to produce a net outflow. As a result, increased earnings by the overseas subsidiaries of U.S. firms helped to expand U.S. FDI outflow. The value of cross-border M&A targeting U.S. firms plunged 62.4% to US\$76.6 billion while the value of cross-border M&A initiated by U.S. firms fell 23.6% to US\$85.7 billion.

Starting in 1996, when U.S. FDI inflows and outflows were approximately equal, inflows grew to around twice the level of outflows by 2000. During the economic boom in the late 1990s, U.S. firms were frequent targets of foreign acquisitions, resulting in large FDI inflows, especially from Europe. When FDI inflow peaked in 2000, approximately 30% of all M&A were targeted at U.S. firms. From a macroeconomic perspective, the rapid surge in FDI inflow played a significant role in lowering the current account deficit due to excessive investment in IT at the time.

Beyond the shores of the U.S., the Chinese economy has been making valuable contributions to global GDP growth since 1995, and 2002 was no different. China's share of global GDP grew from 1.7% in 1990 to 3.9% in 2002. It provided 1.0 point (23.8%) to global export growth and 0.8 points (21.1%) to import growth. China accounted for 5.1% of total exports (fourth worldwide) and 4.5% of total imports (sixth).

Fig. 1-3 Impact of U.S. and Japan on global economy

U.S.

(Unit: %)

	Real GDP				Trade						Inward FDI				Outward FDI				Cross-border M&A							
	Global growth	U.S.			Global (export) growth	U.S. (exports)			U.S. (imports)			Global growth	U.S.			Global growth	U.S.			Global growth	U.S. (sales)			U.S. (purchases)		
		Growth	Contribution	Share		Growth	Contribution	Share	Growth	Contribution	Share		Growth	Contribution	Share		Growth	Contribution	Share		Growth	Contribution	Share	Growth	Contribution	Share
1990	2.7	1.8	0.5	25.7	13.8	8.2	1.0	11.4	4.9	0.8	14.6	5.3	-29.0	-10.3	23.9	2.5	-14.4	-2.7	15.9	6.2	-23.4	-11.3	34.7	-17.2	-3.2	14.3
1991	0.8	-0.5	-0.1	25.3	2.6	7.1	0.8	11.9	-1.7	-0.2	13.9	-21.0	-52.2	-12.5	14.5	-15.1	1.9	0.3	19.1	-45.1	-47.7	-16.5	33.1	-31.4	-4.5	17.9
1992	0.9	3.0	0.8	25.9	6.5	6.3	0.7	11.9	9.0	1.2	14.3	6.8	-14.5	-2.1	11.6	1.7	27.4	5.2	24.0	-1.8	-44.5	-14.7	18.7	-16.4	-2.9	15.2
1993	1.0	2.7	0.7	26.3	0.1	3.7	0.4	12.3	8.9	1.3	15.8	33.0	159.4	18.5	22.6	21.0	73.9	17.7	34.4	3.0	21.1	3.9	22.0	42.6	6.5	21.1
1994	3.0	4.0	1.1	26.6	13.8	10.3	1.3	12.0	14.2	2.2	15.8	14.1	-10.2	-2.3	17.8	17.6	-4.5	-1.5	28.0	49.2	149.2	32.8	36.7	30.2	6.4	18.4
1995	2.8	2.7	0.7	26.5	19.7	14.1	1.7	11.4	11.8	1.9	14.8	28.0	25.3	4.5	17.2	24.3	23.2	6.5	27.3	47.8	20.2	7.4	29.9	98.9	18.2	24.8
1996	3.3	3.6	1.0	26.6	4.3	6.9	0.8	11.7	6.6	1.0	15.1	14.8	49.7	8.6	22.5	10.3	-7.0	-1.9	23.0	19.4	18.3	5.5	29.6	23.2	5.8	25.6
1997	3.5	4.4	1.2	26.8	3.5	10.2	1.2	12.4	9.4	1.4	15.9	23.1	22.0	5.0	22.3	18.3	14.1	3.2	22.2	35.4	19.3	5.7	26.1	36.4	9.3	25.8
1998	2.2	4.3	1.2	27.4	-1.6	-1.0	-0.1	12.5	5.0	0.8	17.0	45.7	69.6	15.5	25.9	45.1	36.1	8.0	20.8	91.0	169.5	44.2	36.8	44.0	11.3	19.4
1999	3.0	4.1	1.1	27.7	3.7	2.9	0.4	12.4	12.2	2.1	18.3	57.9	61.7	16.0	26.6	57.1	57.7	12.0	20.9	37.0	14.7	5.4	30.8	29.1	5.6	18.3
2000	4.0	3.8	1.1	27.6	12.5	11.3	1.4	12.3	18.9	3.5	19.2	37.0	11.0	2.9	21.5	24.2	-29.2	-6.1	11.9	41.6	27.3	8.4	27.7	-8.7	-1.6	11.8
2001	1.2	0.3	0.1	27.4	-3.7	-6.4	-0.8	11.9	-6.4	-1.2	18.6	-47.0	-52.8	-11.4	19.2	-48.3	-24.7	-2.9	17.3	-47.2	-39.8	-11.0	31.6	-22.2	-2.6	17.4
2002	1.9	2.4	0.7	27.5	4.1	-4.9	-0.6	10.9	1.8	0.3	17.7	-17.4	-73.9	-14.2	6.1	-3.1	14.9	2.6	20.6	-37.8	-62.4	-19.7	19.1	-23.6	-4.1	21.3

Japan

(Unit: %)

	Real GDP				Trade						Inward FDI				Outward FDI				Cross-border M&A							
	Global growth	Japan			Global (export) growth	Japan (exports)			Japan (imports)			Global growth	Japan			Global growth	Japan			Global growth	Japan (sales)			Japan (purchases)		
		Growth	Contribution	Share		Growth	Contribution	Share	Growth	Contribution	Share		Growth	Contribution	Share		Growth	Contribution	Share		Growth	Contribution	Share	Growth	Contribution	Share
1990	2.7	5.2	0.7	13.5	13.8	5.0	0.5	8.4	12.2	0.8	6.8	5.3	-271.2	1.5	0.9	2.5	9.7	2.0	21.6	6.2	-86.7	-1.0	0.1	35.5	3.5	12.7
1991	0.8	3.3	0.4	13.8	2.6	9.5	0.8	8.9	0.7	0.0	6.7	-21.0	-27.7	-0.2	0.8	-15.1	-37.4	-8.1	16.0	-45.1	-22.1	-0.0	0.2	-31.7	-4.0	15.8
1992	0.9	1.0	0.1	13.9	6.5	8.0	0.7	9.0	-1.6	-0.1	6.2	6.8	114.7	0.9	1.6	1.7	-45.0	-7.2	8.6	-1.8	86.8	0.2	0.4	-65.7	-10.4	5.5
1993	1.0	0.3	0.0	13.8	0.1	6.6	0.6	9.6	3.6	0.2	6.4	33.0	-95.7	-1.5	0.1	21.0	-20.5	-1.8	5.7	3.0	-72.4	-0.3	0.1	-61.8	-3.4	2.0
1994	3.0	1.0	0.1	13.5	13.8	9.6	0.9	9.3	13.9	0.9	6.4	14.1	668.1	0.3	0.4	17.6	30.8	1.7	6.3	49.2	867.2	0.9	0.6	-28.0	-0.6	1.0
1995	2.8	1.9	0.3	13.4	19.7	11.6	1.1	8.6	22.0	1.4	6.5	28.0	-95.7	-0.3	0.0	24.3	24.4	1.5	6.2	47.8	-39.5	-0.3	0.3	190.9	1.9	1.9
1996	3.3	3.4	0.5	13.4	4.3	-7.3	-0.6	7.7	4.0	0.3	6.5	14.8	427.9	0.1	0.1	10.3	4.2	0.3	5.9	19.4	355.4	0.9	1.0	100.1	1.9	3.3
1997	3.5	1.8	0.2	13.2	3.5	2.4	0.2	7.6	-3.0	-0.2	6.1	23.1	1441.2	0.8	0.7	18.3	11.1	0.7	5.5	35.4	-71.7	-0.7	0.2	-29.9	-1.0	1.7
1998	2.2	-1.1	-0.1	12.7	-1.6	-7.8	-0.6	7.1	-17.2	-1.1	5.1	45.7	2.1	0.0	0.5	45.1	-5.5	-0.3	3.6	91.0	628.2	1.3	0.8	76.7	1.3	1.6
1999	3.0	0.1	0.0	12.4	3.7	8.1	0.6	7.4	11.0	0.6	5.5	57.9	276.6	1.3	1.1	57.1	-9.6	-0.3	2.1	37.0	237.6	1.9	2.0	94.7	1.5	2.2
2000	4.0	2.8	0.3	12.2	12.5	14.3	1.1	7.5	21.9	1.2	6.0	37.0	-33.2	-0.4	0.6	24.2	41.6	0.9	2.4	41.6	-2.1	-0.0	1.4	10.2	0.2	1.7
2001	1.2	0.4	0.0	12.1	-3.7	-15.8	-1.2	6.6	-8.0	-0.5	5.7	-47.0	-24.1	-0.1	0.8	-48.3	21.6	0.5	5.5	-47.2	13.1	0.2	2.9	7.0	0.1	3.5
2002	1.9	0.1	0.0	11.9	4.1	2.6	0.2	6.5	-4.1	-0.2	5.3	-17.4	48.1	0.4	1.4	-3.1	-15.7	-0.9	4.8	-37.8	-61.7	-1.8	1.8	-64.1	-2.2	2.0

- Notes: 1. Figures for U.S. and Japan calculated at 1990 prices and value of U.S. dollar in 1990.
 2. Figures for world calculated by the IMF based on the GDP of each economy weighted by the U.S. dollar exchange rate.
 3. Contribution indicates the percentage point contribution.

Sources: Prepared from *World Economic Outlook* (IMF), Thomson Financial data and other sources.

C. Old economy regains position as engine of global trade

According to JETRO estimates of nominal exports, global merchandise trade grew 4.1% to US\$6,358.7 billion in 2002, up from a 3.7% decline in 2001 (Fig. 1-4). The recovery in IT trade was lackluster, but global exports of automobiles and materials such as chemicals and iron/steel grew (Fig. 1-5). Exports of IT products rose just 0.5% to US\$1,080.8 billion, but automobiles grew 9.6% to US\$403.4 billion, iron/steel grew 8.1% to US\$213.5 billion, and chemicals grew 9.3% to US\$803.9 billion.

The main sources of growth in automobile exports were the EU and Japan. China emerged as a major exporter of IT products, which began to show signs of recovery. China's IT trade grew 40.8% in exports to US\$83.8 billion and 32.7% in imports to US\$83.2 billion. As a result, in exports China rose to third (up from tenth in 2000), behind only the U.S. (US\$142.6 billion) and Japan (US\$104.8 billion), and in imports climbed into second (seventh in 2000) behind the U.S. (US\$195.7 billion).

IT products' share of global exports had increased considerably from 14.6% in 1998 to 19.2% in 2000, but in 2002 the share declined to 17.0%. Automobiles accounted for 6.3%, following a decline from 6.0% in 1998 to 5.7% in 2000. Chemicals' share was 12.6%, up from 11.6% in 1998 and 11.4% in 2000.

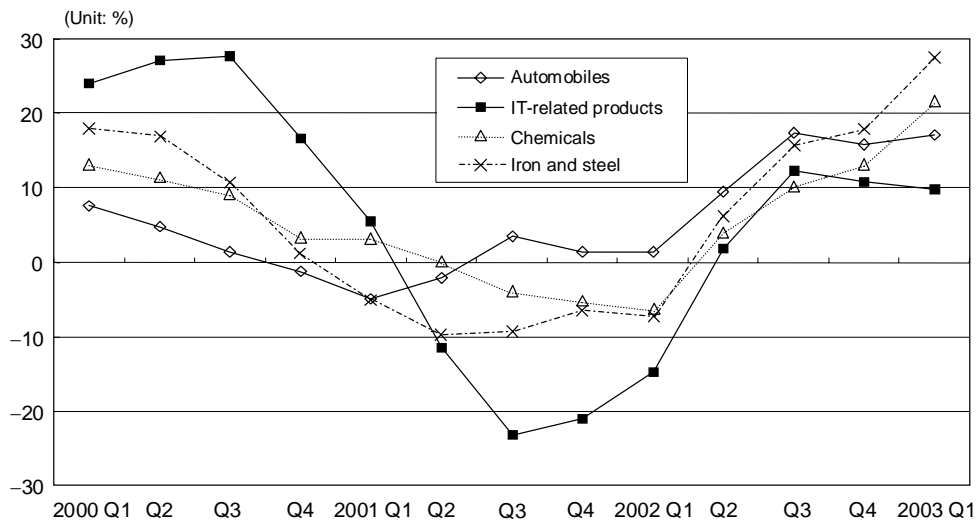
Fig. 1-4 Contributions to global exports by region and category

(Unit: %)

		Contribution to change in global trade	Share of global trade	Change on previous year	Contribution to change in global trade					
					U.S.	EU	Japan	East Asia	Asian NIEs	China
Total value of exports	2001	-3.7	100.0	-3.7	-0.8	0.2	-1.2	-1.3	-1.2	0.3
	2002	4.1	100.0	4.1	-0.6	2.1	0.2	1.7	0.5	1.0
Machinery	2001	-2.4	45.0	-5.3	-1.4	0.3	-2.2	-1.8	-1.6	0.4
	2002	1.3	44.6	2.9	-1.0	0.8	0.3	2.6	1.1	1.2
General machinery	2001	-0.7	14.7	-4.7	-1.5	0.3	-2.0	-1.7	-1.8	0.7
	2002	0.3	14.4	2.1	-1.6	0.6	0.1	2.8	0.8	1.9
Electrical equipment	2001	-1.8	14.4	-11.4	-2.6	-1.1	-3.0	-3.7	-3.1	0.5
	2002	0.2	14.1	1.6	-1.3	-1.4	-0.0	4.5	2.2	1.6
Transport equipment	2001	0.1	12.4	0.6	0.2	1.7	-1.2	0.0	-0.0	0.0
	2002	0.7	12.6	6.0	0.2	2.9	1.6	0.7	0.4	0.1
Automobiles	2001	0.0	6.0	0.7	0.0	2.4	-1.3	0.2	0.1	0.0
	2002	0.6	6.3	9.6	0.9	5.0	2.9	0.6	0.5	0.0
Automobile parts	2001	-0.1	2.6	-4.3	-1.8	-0.8	-1.5	0.2	-0.0	0.2
	2002	0.2	2.7	7.7	-0.2	3.7	0.8	1.1	0.4	0.4
Of which IT products	2001	-2.2	17.6	-11.7	-2.8	-1.2	-2.8	-4.1	-3.5	0.7
	2002	0.1	17.0	0.5	-1.9	-2.0	-0.2	5.0	2.0	2.3
Electronic parts including semiconductors	2001	-1.0	4.1	-20.7	-4.9	-0.9	-3.9	-10.2	-7.5	-0.1
	2002	0.2	4.1	3.8	-1.2	-2.1	0.4	6.4	3.1	0.9
Chemicals	2001	0.2	12.0	1.4	-0.3	2.0	-0.8	-0.5	-0.6	0.2
	2002	1.1	12.7	9.3	0.2	6.1	0.5	1.5	0.7	0.5
Textiles and textile products	2001	-0.2	5.9	-3.4	-0.5	-0.2	-0.2	-2.2	-2.0	0.1
	2002	0.2	5.9	2.8	-0.2	0.6	-0.0	1.6	-0.4	2.2
Iron and steel	2001	-0.2	3.2	-6.4	-0.5	-1.6	-0.7	-2.0	-1.5	-0.4
	2002	0.3	3.4	8.1	-0.1	3.0	1.1	1.5	0.7	0.7
Food	2001	0.2	6.7	2.5	0.1	0.8	0.2	-0.1	-0.2	0.1
	2002	0.3	6.7	4.3	-0.5	3.0	-0.2	0.6	-0.0	0.5

Source: Prepared by JETRO from national trade statistics.

Fig. 1-5 Changes in value of global exports of selected goods



Note: Total value of exports of 17 major economies (U.S., Canada, Mexico, Brazil, Germany, France, U.K., Japan, R.O.K., Taiwan, Singapore, China, Hong Kong, Thailand, Malaysia, Philippines, Indonesia), which accounted for 62.5% of the value of global exports in 2002.

Source: Prepared by JETRO from national trade statistics.

D. Global FDI falls to 40% of peak, shows no sign of recovery

According to JETRO estimates, global FDI inflow declined 17.4% to US\$653.4 billion in 2002, or 40% of the US\$1,490.0 billion peak reached in 2000 (Fig. 1-6). The ongoing decline has been brought on by a combination of the IT sector's weak recovery and slow M&A activity due to increased risks in an unstable international environment. The cumulative value of M&A has declined in tandem with declining corporate values due to slumping share prices. Cross-border M&A declined 37.8% to US\$401.8 billion (Fig. 1-7). Declines have been dramatic in the three fields that led the M&A boom, i.e., telecommunications, finance and insurance, and computer-related services. Global FDI in 2003 is expected to fall as a result of global cross-border M&A suffering a projected 32.8% year-on-year decline in the first half of the year.

At the same time, however, record growth in FDI was seen in China (up 11.5% to US\$49.3 billion) and 10 countries of Central and Eastern Europe (up 20.3% to US\$23.0 billion). Investment in China came principally from Hong Kong (33.9%), the British Virgin Islands (11.6%) and the U.S. (10.3%). Some 70% of the total came from investment in manufacturing, including 15.4% in electronic and communications facilities.

Fig. 1-6 FDI of major economies (net flows on balance of payments basis)

(Units: US\$ million, %)

	FDI inflow					FDI outflow				
	2001	2002	Growth rate	Contribution	Share	2001	2002	Growth rate	Contribution	Share
U.S.	151,581	39,633	-73.9	-14.2	6.1	119,963	137,836	14.9	2.6	20.6
EU15	358,202	381,623	6.5	3.0	58.4	422,974	396,370	-6.3	-3.8	59.1
Luxembourg	n.a.	128,269	n.a.	n.a.	19.6	n.a.	155,788	n.a.	n.a.	23.2
France	52,504	52,020	-0.9	-0.1	8.0	83,193	62,729	-24.6	-3.0	9.4
Germany	31,526	37,296	18.3	0.7	5.7	42,745	25,298	-40.8	-2.5	3.8
Netherlands	50,891	29,228	-42.6	-2.7	4.5	48,572	26,991	-44.4	-3.1	4.0
U.K.	62,033	25,433	-59.0	-4.6	3.9	68,207	36,829	-46.0	-4.5	5.5
Japan	6,241	9,245	48.1	0.4	1.4	38,333	32,301	-15.7	-0.9	4.8
East Asia	88,681	75,678	-14.7	-1.6	11.6	35,947	33,949	-5.6	-0.3	5.1
China	44,241	49,308	11.5	0.6	7.5	6,885	2,518	-63.4	-0.6	0.4
R.O.K.	3,528	1,972	-44.1	-0.2	0.3	2,420	2,674	10.5	0.0	0.4
Taiwan	4,109	1,445	-64.8	-0.3	0.2	5,480	4,886	-10.8	-0.1	0.7
Hong Kong	23,776	13,718	-42.3	-1.3	2.1	11,345	17,694	56.0	0.9	2.6
Singapore	10,949	6,097	-44.3	-0.6	0.9	9,548	4,082	-57.3	-0.8	0.6
Thailand	3,820	1,075	-71.8	-0.3	0.2	162	105	-35.1	-0.0	0.0
Malaysia	554	3,203	478.3	0.3	0.5	267	1,905	613.8	0.2	0.3
Indonesia	-3,278	-2,251	-	0.1	-	n.a.	n.a.	n.a.	n.a.	n.a.
Philippines	982	1,111	13.1	0.0	0.2	-160	85	-	0.0	0.0
Mexico	25,335	13,627	-46.2	-1.5	2.1	4,405	969	-78.0	-0.5	0.1
Brazil	22,457	16,566	-26.2	-0.7	2.5	-2,258	2,482	-	0.7	0.4
CEEC10	19,157	23,038	20.3	0.5	3.5	804	866	7.7	0.0	0.1
Russia	2,469	2,421	-1.9	-0.0	0.4	2,533	3,283	29.6	0.1	0.5
World	791,003	653,363	-17.4	-17.4	100.0	692,015	670,420	-3.1	-3.1	100.0

Notes: 1. World FDI is estimated from the total inflow of 97 economies and the total outflow of 61 economies.
2. Figures for the FDI outflow of the ASEAN4 and East Asia do not include Indonesia. The CEEC10 does not include Poland.

Sources: Prepared from *IFS July 2003* CD-ROM, the Vienna Institute for International Economic Studies materials, Economic Commission for Latin America and the Caribbean (ECLAC) data, national balance of payments statistics for each economy, and other sources.

Fig. 1-7 Global cross-border M&A

(Units: US\$ million, %)

	Year (1 st half for 2003)	Value	Industry share	Industry contribution	YOY % change	Contribution by region	
						U.S.	EU
All industries	2000	1,222,399	100.0	41.6	41.6	8.4	24.0
	2001	645,812	100.0	-47.2	-47.2	-11.0	-31.7
	2002	401,824	100.0	-37.8	-37.8	-19.7	-1.5
	H1 2003	144,946	100.0	-32.8	-32.8	-0.7	-24.2
Manufacturing	2000	266,997	21.8	-4.2	-12.0	10.3	-26.3
	2001	190,267	29.5	-6.3	-28.7	-20.8	-10.2
	2002	112,508	28.0	-12.0	-40.9	-19.3	-4.9
	H1 2003	35,813	24.7	-9.3	-36.0	13.3	-46.8
Non-manufacturing	2000	893,396	73.1	45.7	79.2	1.2	61.0
	2001	389,442	60.3	-41.2	-56.4	-4.7	-42.8
	2002	241,915	60.2	-22.8	-37.9	-24.3	0.8
	H1 2003	92,786	64.0	-15.3	-26.2	-4.9	-10.2
Electricity, gas and water	2000	57,669	4.7	0.6	9.9	-0.4	4.4
	2001	22,063	3.4	-2.9	-61.7	-22.5	-14.7
	2002	71,657	17.8	7.7	224.8	41.1	134.7
	H1 2003	10,679	7.4	-17.3	-77.8	-3.0	-46.0
Telecommunications	2000	366,554	30.0	22.4	112.1	-37.8	138.9
	2001	127,190	19.7	-19.6	-65.3	9.6	-75.7
	2002	26,268	6.5	-15.6	-79.3	-38.0	-10.2
	H1 2003	14,035	9.7	2.1	47.6	-2.8	50.4
Finance and insurance	2000	189,005	15.5	6.7	44.4	16.7	29.9
	2001	113,488	17.6	-6.2	-40.0	-7.6	-33.6
	2002	46,150	11.5	-10.4	-59.3	-36.8	-5.8
	H1 2003	30,925	21.3	0.9	6.9	35.1	-14.7
Business services (computer-related services, etc.)	2000	92,574	7.6	7.8	266.6	176.2	68.4
	2001	39,425	6.1	-4.3	-57.4	-46.2	-8.5
	2002	24,563	6.1	-2.3	-37.7	-12.5	-9.7
	H1 2003	4,312	3.0	-0.7	-26.9	-11.8	-2.9
Information technology (IT)	2000	517,129	42.3	31.3	109.8	-11.1	108.1
	2001	197,857	30.6	-26.1	-61.7	-3.5	-58.0
	2002	66,305	16.5	-20.4	-66.5	-26.9	-9.8
	H1 2003	22,894	15.8	-3.2	-23.2	-43.8	20.0

Note: Industry of M&A classified according to industry of target company. U.S. and EU data based on country of seller.

Source: Prepared from Thomson Financial data.

II. China drives Japanese trade recovery, European FDI in Japan doubles

Japanese trade measured on a customs-clearance basis saw exports rise 2.6% to US\$415.9 billion and imports fall 4.1% to US\$336.8 billion. In volume terms, concurrent increases in exports (8.4%) and imports (1.6%) occurred for the first time in two years. The Japanese trade balance registered its first growth in three years, climbing from US\$54.1 billion the previous year to US\$79.0 billion. In the first half of 2003, trade increased by double digits year on year both in exports (up 14.0% to US\$221.8 billion) and imports (up 17.6% to US\$184.7 billion) (Fig. 2-1). In volume terms, exports grew 5.8% and imports grew 6.6%.

The pace of growth appeared to be slowing down, however, during the first half of 2003. Exports suffered from weakness in the U.S. economy and an economic slowdown among the NIEs, while imports were tempered by slumping domestic output. The fallout from the outbreak of Severe Acute Respiratory Syndrome (SARS) had a mixed impact. Although it enabled stocks of automobile parts to be replenished, it also hampered demand for products such as automobiles in the economies of Japan's trading partners. Trade with China grew strongly in the first half, with exports surging 49.6% on a year earlier to US\$25.8 billion and imports jumping 24.3% to US\$34.7 billion.

Japanese exports to the U.S. declined 2.6% to US\$118.5 billion, which was much smaller than the 14.8% decline in 2001. Exports to the EU also dropped for a second year running to US\$61.1 billion, though the pace of decline fell from 17.6% to 5.5%. Exports to the Asian NIEs and ASEAN4 began to grow after plunging the previous year. Exports to China enjoyed another year of strong growth, surging 28.2% to US\$39.9 billion, paced by automobiles, materials and video equipment.

Imports entering Japan fell 4.1% to US\$336.8 billion, a second consecutive year of negative growth. Declines were seen in imports from the U.S. (down 9.3%), Asian NIEs (down 8.0%) and the ASEAN4 (down 5.4%). Imports from China, however, rose for the fourth straight year, this time by 6.2% to US\$61.7 billion. Merchandise imports declined 3.0% to US\$209.3 billion, but merchandise's share of total imports rose 0.7 points to 62.1%. IT products from the U.S. and EU, and crude oil and liquefied natural gas from the Middle East all declined, and office equipment and audio-video equipment from the Asian NIEs and ASEAN4 fell sharply. Imports of IT products from China grew considerably.

Japan's current account surplus in U.S. dollars (BOP basis) grew dramatically by US\$24.6 billion to US\$112.5 billion. The surplus in trade and services increased US\$25.1 billion (94.3%) to US\$51.6 billion. The income account surplus fell US\$3.5 billion to US\$65.8 billion, due to sharply smaller surpluses in FDI earnings and other investment returns, even though returns on securities investment increased.

Japan's outward FDI measured on a BOP basis shrank 15.7% to US\$32.3 billion, the first decline in three years, due to a fall-off in large-scale investments in telecommunications. Japanese inward FDI rose 48.1% to US\$9.2 billion, second only to the level recorded in 1999 (Fig. 2-1).

Fig. 2-1 Japanese trade

(Units: US\$ million, %)

		1998	1999	2000	2001	2002	2002				2003	
							Q1	Q2	Q3	Q4	Q1	Q2
Total exports		386,271	417,442	480,701	405,155	415,862	93,498	101,117	108,421	112,827	109,141	112,709
	(YOY % change)	(-8.7)	(8.1)	(15.2)	(-15.7)	(2.6)	(-14.2)	(0.9)	(10.4)	(15.3)	(16.7)	(11.5)
Share	U.S.	30.5%	30.7%	29.7%	30.0%	28.5%	30.3%	28.3%	27.9%	27.9%	25.5%	25.3%
	EU	18.4%	17.8%	16.3%	16.0%	14.7%	15.2%	14.5%	14.3%	14.8%	16.2%	15.5%
	China	5.2%	5.6%	6.3%	7.7%	9.6%	8.2%	9.4%	10.1%	10.4%	11.2%	12.0%
	NIEs	20.2%	21.6%	23.9%	21.7%	22.7%	21.4%	23.4%	22.8%	23.0%	23.0%	22.8%
	ASEAN4	7.8%	8.6%	9.5%	9.3%	9.3%	9.0%	9.5%	9.7%	9.1%	8.9%	9.3%
Total imports		279,316	309,745	381,100	351,098	336,832	76,821	80,222	87,932	91,856	92,255	92,417
	(YOY % change)	(-17.9)	(10.9)	(23.0)	(-7.9)	(-4.1)	(-18.9)	(-8.9)	(5.2)	(8.4)	(20.1)	(15.2)
Share	U.S.	23.9%	21.6%	19.0%	18.1%	17.1%	18.1%	18.3%	17.1%	15.2%	15.2%	16.5%
	EU	13.9%	13.8%	12.3%	12.8%	13.0%	13.3%	12.5%	13.2%	13.0%	12.7%	12.5%
	China	13.2%	13.8%	14.5%	16.5%	18.3%	17.4%	18.1%	18.4%	19.2%	18.2%	19.4%
	NIEs	10.3%	11.6%	12.2%	11.0%	10.5%	10.6%	11.1%	10.1%	10.3%	9.8%	10.1%
	ASEAN4	11.5%	12.1%	12.8%	12.7%	12.6%	12.7%	12.4%	12.5%	12.6%	12.5%	12.5%
Balance of trade		106,955	107,697	99,601	54,057	79,030	16,677	20,894	20,489	20,971	16,886	20,292
	(YOY % change)	(29.7)	(0.7)	(-7.5)	(-45.7)	(46.2)	(17.5)	(71.3)	(40.7)	(60.0)	(1.3)	(2.9)
	U.S.	51,069	61,147	70,479	58,192	60,915	14,402	13,859	15,159	17,496	13,828	13,218
	EU	32,257	31,647	31,527	19,871	17,379	3,978	4,683	3,953	4,765	6,036	5,886
	China	-16,874	-19,545	-24,876	-27,014	-21,826	-5,702	-4,962	-5,263	-5,899	-4,595	-4,310
	NIEs	49,327	54,033	68,351	49,412	58,890	11,860	14,726	15,852	16,452	16,044	16,321
	ASEAN4	-1,864	-1,587	-3,350	-7,100	-3,497	-1,333	-385	-483	-1,297	-1,813	-1,101
Exchange rate (¥/US\$)	130.9	113.9	107.8	121.5	125.3	132.5	127.1	119.2	122.5	118.8	118.4	
Export volume index (1995 = 100)	116.6	114.0	124.8	112.1	121.4	112.0	121.8	123.4	128.5	121.8	125.7	
(YOY % change)	(-1.3)	(2.1)	(9.4)	(-10.2)	(8.4)	(-2.9)	(9.9)	(11.8)	(15.1)	(8.7)	(3.2)	
Import volume index (1995 = 100)	101.7	111.4	123.7	121.9	123.9	117.9	120.2	126.3	131.2	125.1	128.6	
(YOY % change)	(-5.3)	(9.6)	(11.0)	(-1.4)	(1.6)	(-5.6)	(-0.8)	(7.8)	(5.3)	(6.2)	(7.0)	
Export price index (1995 = 100)	109.2	100.4	99.7	105.2	103.3	106.2	102.7	100.7	103.8	102.7	102.2	
(% growth)	(0.7)	(-8.1)	(-0.7)	(5.5)	(-1.8)	(-0.1)	(-3.8)	(-4.0)	(1.0)	(-3.3)	(-0.5)	
Import price index (1995 = 100)	114.3	100.3	104.9	110.3	108.1	109.2	108.8	105.2	109.0	111.2	108.1	
(% growth)	(-5.5)	(-12.2)	(4.6)	(5.1)	(-2.0)	(-2.7)	(-3.6)	(-5.2)	(3.9)	(1.9)	(-0.7)	
Proportion of manufactured products (%)	62.1	62.4	61.1	61.4	62.1	63.1	62.6	62.6	60.5	59.0	61.0	
Crude oil import price (US\$/barrel)	13.9	17.1	28.5	25.3	24.6	19.9	24.8	26.3	27.3	30.5	28.5	
Real GDP growth rate	-1.1	0.1	2.8	0.4	0.2	0.0	1.3	0.8	0.5	0.0		
Contribution from overseas demand	0.3	0.1	0.2	-0.5	0.7	0.5	0.5	-0.2	0.4	-0.2		
FDI outflow	24,153	22,743	31,556	38,333	32,301	10,835	7,288	5,616	8,300	6,360		
(YOY % change)	(-7.1)	(-5.8)	(38.8)	(21.5)	(-15.7)	(-26.9)	(47.6)	(-24.2)	(-26.7)	(-41.3)		
FDI inflow	3,193	12,741	8,322	6,241	9,245	4,478	1,606	2,075	931	3,532		
(YOY % change)	(-1.0)	(299.1)	(-34.7)	(-25.0)	(48.1)	(279.3)	(-18.3)	-	(-76.0)	(-21.1)		

Notes: 1. Preliminary estimates for June imports in Q2 2003.

2. Exchange rates are the interbank (Tokyo market) spot rate and central rate averages for the period.

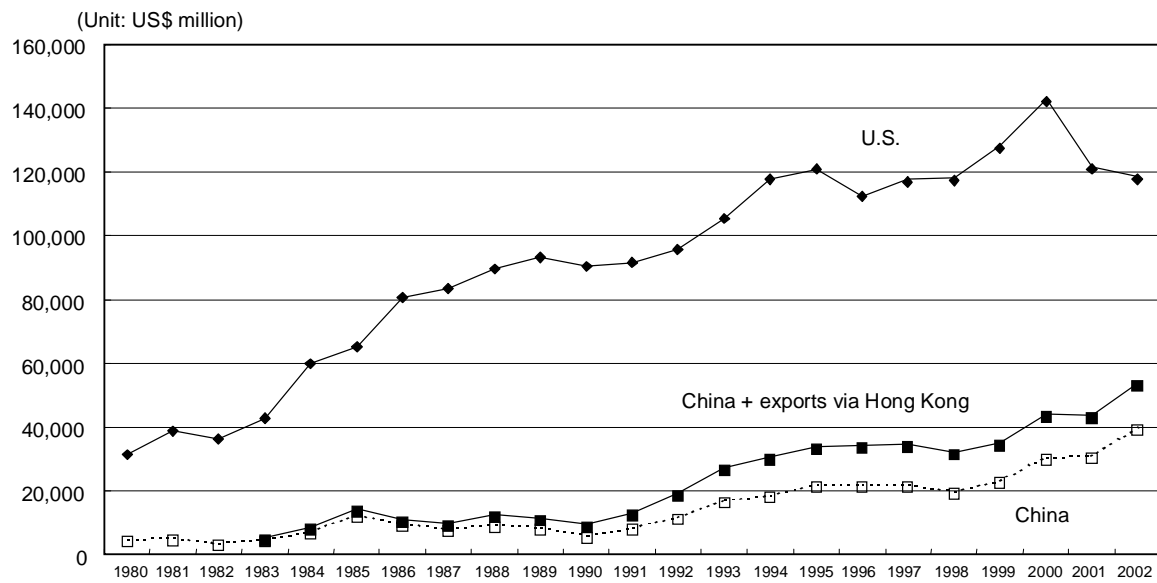
Sources: Prepared from *Trade Statistics* (Ministry of Finance), *System of National Accounts* (Cabinet Office) and other sources.

A. China becomes Japan's top trading partner

Japanese trade with China grew strongly for a fourth year running. Exports from Japan increased 28.2% to US\$39.87 billion (Fig. 2-2), due to increased output by Japanese plants in China, strengthened demand for capital and intermediate goods thanks to new factories (mainly electronic parts, automobile parts, machine tools and iron and steel), vigorous investment in construction machinery and machinery, and buoyant demand for products such as automobiles (Fig. 2-3). A considerable proportion of exports destined for China were routed through Hong Kong. According to statistics from Hong Kong, the value of products imported from Japan and then exported to China came to US\$14.0 billion. Including exports that transited through Hong Kong, total Japanese exports to China amounted to US\$53.9 billion, representing a further narrowing of the gap between Japanese exports to the U.S. and China. With Chinese imports, exports and output all remaining strong, it appears SARS had a rather negligible impact on the Chinese economy.

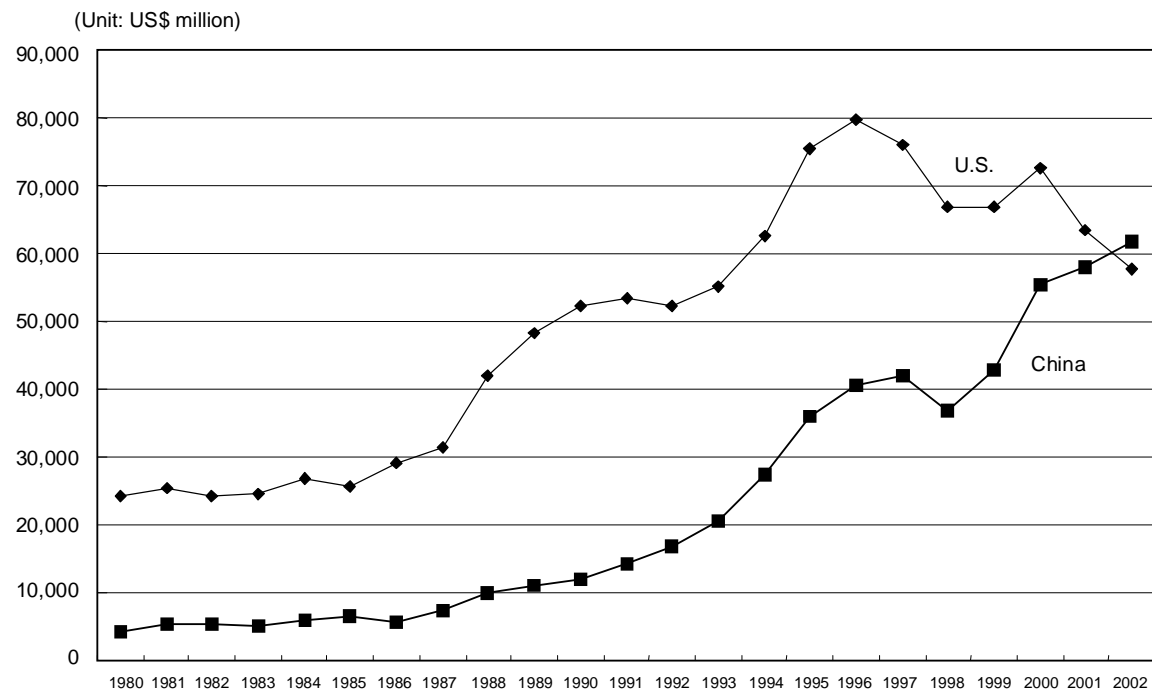
Imports from China grew 6.2% to US\$61.69 billion, which exceeded U.S. imports (US\$57.63 billion) for the first time. Accounting for the largest share was machinery (up 5 points to 33.5%), which replaced textile products (down 3.5 points to 25.6%) (Fig. 2-4). IT products surged 29.0% to US\$13.5 billion, accounting for 65.4% of total machinery imports. In particular, imports of computers and other finished goods grew, a trend that has seen finished products' share of total IT imports from China rise from 38.2% in 1995 to 52.7% in 2002. Moreover, China surpassed the U.S. to become Japan's largest source of IT products (Fig. 2-5). Both Japanese firms and Taiwanese OEM suppliers to Japanese firms have fueled this trend by shifting production to China. Japan is also importing more motorcycles and consumer electronic products made by Chinese manufacturers.

Fig. 2-2 (1) Japanese exports to U.S. and China



Note: China + exports via Hong Kong = Japanese exports to China + exports from Japan destined for China via Hong Kong
 Source: Prepared by JETRO from trade statistics.

Fig. 2-2 (2) Japanese imports from U.S. and China



Source: Prepared by JETRO from trade statistics.

Fig. 2-3 Japanese major exports to China (2002)

(Unit: %)

Main categories	Share of exports to China		2002	
	1996	2002	Change from 2001 in export value to China	Change from 2001 in export value to world

Exports to Japanese-affiliated firms (primarily for re-import into Japan)

Iron and steel	10.9	18.9	40.7	14.6
Clad, plated or coated	17.7	23.1	54.3	17.1
Cold-rolled steel sheets and strips	37.8	23.3	82.1	16.5
Steel pipes	6.1	20.4	73.0	-1.3
Semiconductors and other electronic parts	2.1	13.7	70.6	3.2
Individual semiconductor elements	3.8	13.3	50.6	9.6
Integrated circuits	1.7	12.9	97.2	3.2
Automobile parts	2.2	4.9	15.2	7.0
Seatbelts	0.0	13.7	20.6	-19.6
Brake systems	2.4	5.4	24.4	9.3
Machining equipment	11.1	11.2	71.2	-19.8
Machine tools	8.9	14.3	42.1	-16.7
(Machining centers, etc.)	5.6	10.9	21.1	-26.8
Total	15.5	21.6	49.3	5.3

Exports to non-Japanese-affiliated firms (primarily for consumption in China)

Organic compounds	7.6	19.9	25.3	5.9
General machinery (motors)	3.6	4.4	26.3	-1.3
Forging presses, etc.	15.5	27.6	85.5	-10.7
Textile machinery	20.2	39.4	27.2	6.3
Sewing machines	8.1	13.1	43.2	2.3
Pulp and paper manufacturing machinery	30.3	30.3	123.4	4.4
Printing and bookbinding machinery	20.0	20.0	35.5	-7.3
Construction and mining machinery	3.1	7.3	27.7	21.7
Heating and cooling machinery	8.8	14.7	42.5	-4.3
Pharmaceuticals	5.0	2.8	38.1	3.1
Automobiles	0.9	2.1	198.7	18.3
Trucks	0.8	2.6	252.9	16.3
Passenger cars	0.7	1.9	213.4	18.5
(Up to 1,000cc)	1.4	1.5	1,208.3	-8.0
(Over 1,000cc-1,500cc)	0.1	0.2	1,039.3	12.2
(Over 1,500cc-3,000cc)	1.3	2.3	189.0	13.5
(Over 3,000cc)	0.0	2.1	271.7	26.7
Total	21.6	20.5	36.5	9.6

Notes: 1. Categories selected in accordance with the definitions of categories of goods for trade statistics used by the Ministry of Economy, Trade and Industry.

2. "Machining equipment" includes "forging presses, etc.".

Source: Prepared by JETRO from *Trade Statistics* (Customs Cleared) (Ministry of Finance).

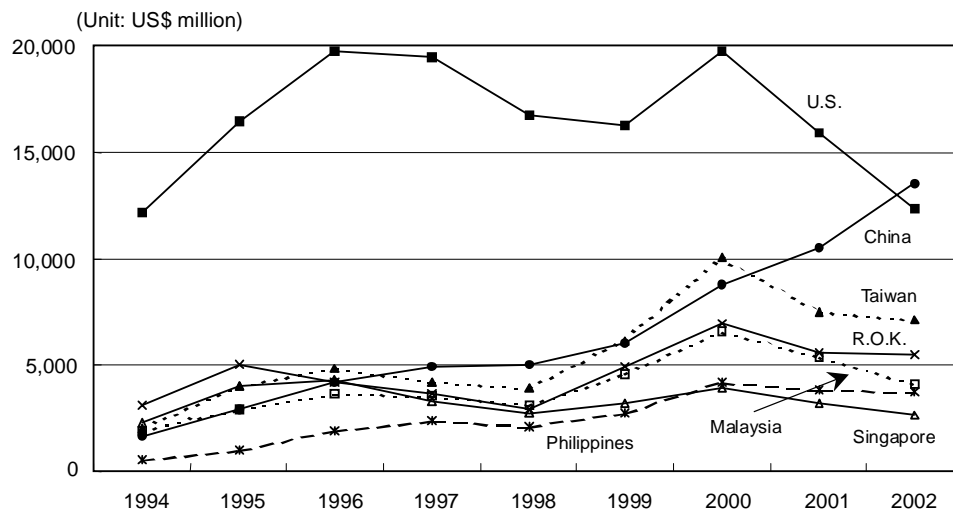
Fig. 2-4 Chinese imports entering Japan

(Units: US\$ million, %)

	2001		2002	
	Value	% share	Value	% share
Total Chinese imports	58,105	100.0	61,692	100.0
Food	5,949	10.2	5,847	9.5
Raw materials	1,326	2.3	1,246	2.0
Mineral fuels	2,029	3.5	2,023	3.3
Imports of manufactured products	48,801	84.0	52,575	85.2
Chemical products	1,717	3.0	1,761	2.9
Textile products	16,926	29.1	15,834	25.6
Non-metal mineral products	1,172	2.0	1,236	2.0
Metal and metal products	2,033	3.5	2,210	3.6
Machinery and equipment	16,542	28.5	20,693	33.5
Office equipment	3,236	5.6	5,687	9.2
Audio-video equipment	3,341	5.7	3,477	5.6
Communications equipment	530	0.9	784	1.3
Semiconductors and other electronic parts	570	1.0	667	1.1
Automobiles	1	0.0	2	0.0
Scientific optical equipment	1,451	2.5	1,548	2.5
(Of which IT-related products)	10,481	18.0	13,523	21.9
Other	10,411	17.9	10,841	17.6

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

Fig. 2-5 Japanese imports of IT-related products (by main economies)



Source: Prepared by JETRO from trade statistics.

B. Japanese outward FDI falls overall, but remains strong in U.S. and China

Japanese outward FDI declined for the first time in three years, falling 15.7% to US\$32.30 billion (Fig. 2-6). Nevertheless, Japanese automotive investment in North America, such as Nissan Motor's additional investment in its Mississippi plant, helped to produce an increase of 12.7% (US\$8.65 billion). Investment in Western Europe fell 45.5% to US\$9.76 billion following a spike in the previous year when NTT DoCoMo invested heavily in the UK. Japanese FDI in the ASEAN4 slumped 25.3% to US\$2.18 billion, but surged 20.3% to US\$2.99 billion in the Asian NIEs and Singapore, due in considerable part to construction of the world's largest TFT LCD plant at a total investment of ¥123.0 billion by a joint venture formed by Toshiba and Matsushita Electric Industrial. Moreover, investment in China surged 20.8% to US\$2.61 billion. Overall, investment in East Asia rose 2.8% to US\$7.79 billion. Japan's outward investment position in China stood at US\$12.48 billion, well below US\$18.78 billion in the ASEAN4 and US\$24.92 billion in the Asian NIEs.

Fig. 2-6 (1) Japanese outward FDI (BOP basis)

(Units: US\$ million, %)

	Outward FDI		Change on previous year	Share
	2001	2002		
Total	38,333	32,301	-15.7	100.0
Asia	7,836	8,177	4.3	25.3
ASEAN4	2,922	2,183	-25.3	6.8
Asian NIEs	2,488	2,993	20.3	9.3
China	2,161	2,610	20.8	8.1
North America	7,675	8,649	12.7	26.8
U.S.	7,081	7,592	7.2	23.5
Latin America	4,327	4,072	-5.9	12.6
Cayman Islands	1,492	3,457	131.7	10.7
Western Europe	17,911	9,764	-45.5	30.2
Germany	686	576	-16.0	1.8
U.K.	12,856	2,053	-84.0	6.4
France	225	4,009	1,678.3	12.4
Netherlands	3,076	1,455	-52.7	4.5
Belgium	651	1,763	170.8	5.5
EU	17,591	9,809	-44.2	30.4
Other	583	1,639	18.6	5.1

Source: Prepared from *Regional Balance of Payments* (Ministry of Finance/Bank of Japan).

Fig. 2-6 (2) Main outward M&A by Japanese firms in 2002

Date	Acquiring company	Industry	Acquired company	Country of origin		Amount (US\$ million)
				Country of origin	Industry	
December 2002	Hitachi Ltd.	Computers, office equipment	Hard disk drive unit of IBM Corp.	U.S.	Computers, office equipment	2,050
May 2002	Nissan Motor Co., Ltd.	Transport equipment	Renault SA	France	Transport equipment	1,662
March 2002	Kirin Brewery Co., Ltd.	Food	San Miguel Corp. (SMC)	Philippines	Food	534
September 2002	Dentsu Inc.	Advertising	BCOM3 Group Inc.	U.S.	Advertising	500
May 2002	Asahi Glass Co.	Plate glass	Glaverbel SA	Belgium	Plate glass	405*
June 2002	Nikko Principal Invest Japan	Finance	Capio Healthcare UK	U.K.	Real estate	368
January 2002	Paloma Industries Ltd.	Heating equipment	Water heater unit of Southcorp Ltd.	Australia	Residential supplies	278
January 2002	Kuraray Co., Ltd.	Synthetic fibers	Clariant AG	Switzerland	Synthetic resins	238
November 2002	Terumo Corp.	Medical devices	Vascutek Ltd. (Centerpulse AG)	U.K.	Medical devices	170
May 2002	Mitsui & Co., Ltd.	Mining	Moura Coal Mine	Australia	Mining	166

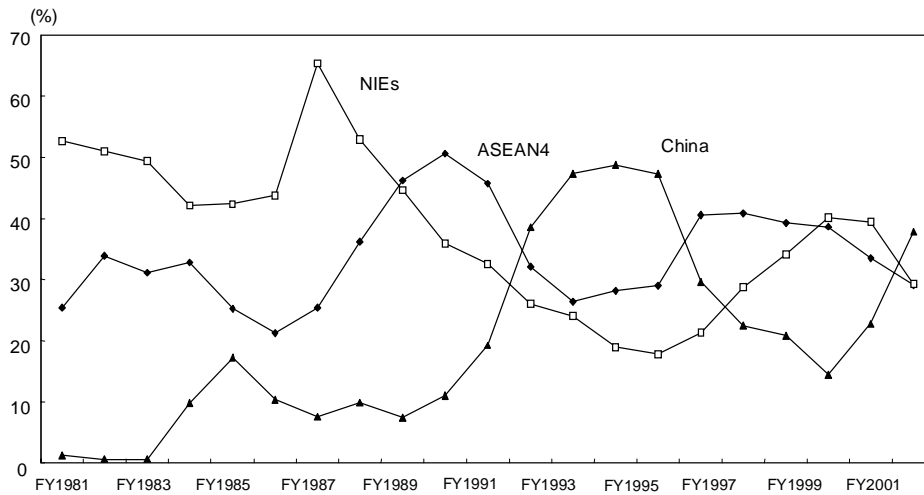
Note: *Including M&A implemented in August.

Source: Prepared from Thomson Financial data.

C. Significant percentage of Japanese firms in China selling in local market

Ministry of Finance statistics on Japanese investment in China show that the food industry attracted the greatest number of investments in the mid-1980s, followed by the textiles industry in the early 1990s and the chemicals, electrical machinery and transport machinery industries from the end of the 1990s (Fig. 2-7). Although companies that export at least 70% of their products account for a majority, 51.3%, of Japanese manufacturing affiliates in China, those that market at least 70% of their products domestically account for more than one third, 36.8%, a significant portion nonetheless. Firms falling somewhere in between these two groups account for 11.9% (all figures are JETRO estimates).

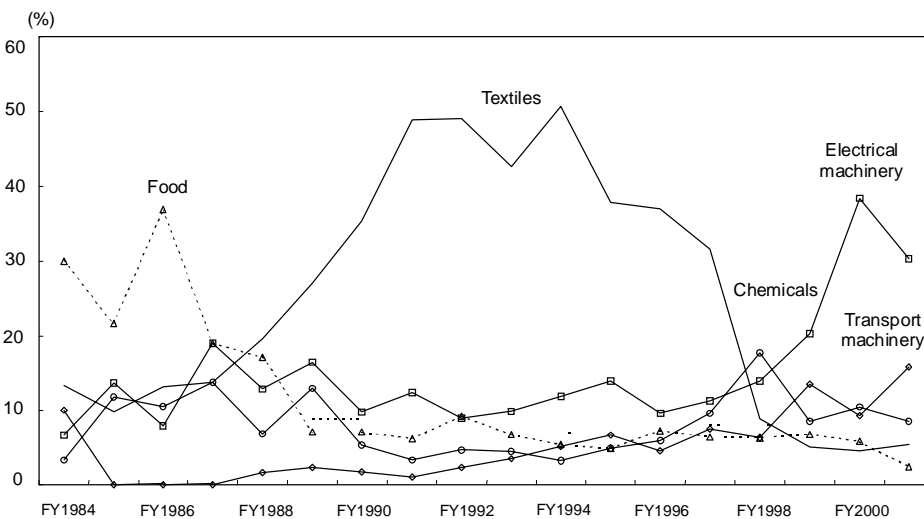
Fig. 2-7 (1) Manufacturing's share of investment (cases) in Asia



Note: Taiwan and Philippines added to NIEs' share from FY1987.

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

Fig. 2-7 (2) Japanese manufacturing investment (cases) in China



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

D. Autos, pharmaceuticals, etc. help European investment in Japan double

Japanese inward FDI saw investment from North America decrease 26.4% to US\$3.13 billion (Fig. 2-8). This was due to the repatriation of investments through the reorganization of Japanese subsidiaries by U.S. parent companies in December 2002. Investment from Western Europe doubled to US\$6.32 billion as Renault upped its stake in Nissan Motor and Roche acquired Chugai Pharmaceutical. Over the past few years, inward FDI has been fueled by 1) new foreign entrants due to deregulation in telecommunications, pharmaceuticals, etc., 2) new foreign entrants in the financial sector and 3) Japanese firms (automobiles, retail, etc.) allying with foreign firms in response to the reorganization of global markets.

Fig. 2-8 (1) Japanese inward FDI (BOP basis)

(US\$ million, %)

Country/region	Inward FDI		Change from previous year	Share
	2001	2002		
Total	6,241	9,245	48.1	100.0
Asia	129	12	-90.7	0.1
ASEAN4	-183	-140	-	-
Asian NIEs	316	151	-52.3	1.6
China	1	2	94.0	0.0
North America	4,252	3,128	-26.4	33.8
U.S.	3,495	2,564	-26.6	27.7
Latin America	-1,011	-189	-	-
Cayman Islands	-1,050	-114	-	-
Western Europe	2,927	6,316	115.8	68.3
Germany	243	555	128.8	6.0
U.K.	-1,219	541	-	5.9
France	424	2,305	443.9	24.9
Netherlands	2,556	1,710	-33.1	18.5
Switzerland	128	1,045	719.0	11.3
EU	2,794	5,271	88.6	57.0
Other	-56	-22	-	-

Source: Prepared from *Regional Balance of Payments* (Ministry of Finance/Bank of Japan).

Fig. 2-8 (2) Main inward M&A in Japan in 2002

Date	Acquired company	Industry	Acquiring company	Country of origin		Amount (US\$ million)
				Country of origin	Industry	
March 2002	Nissan Motor Co., Ltd.	Transport machinery	Renault SA	France	Transport machinery	1,769
September 2002	Chugai Pharmaceutical Co., Ltd.	Pharmaceutical	Roche Holdings AG	Switzerland	Pharmaceutical	977
February 2002	Consumer credit business of Taihei	Consumer finance	CitiFinancial (Citigroup Inc.)	U.S.	Banking	796
December 2002	Seiyu	Retailing	Wal-Mart Stores Inc.	U.S.	Retailing	480*
May 2002	Loan Portfolio of Marufuku KK.	Consumer finance	CitiFinancial (Citigroup Inc.)	U.S.	Banking	469
January 2002	Seiyu Food Systems Inc.	Food services	Compass Group PLC	U.K.	Food services	461
December 2002	Digital Electronics Corp.	Power distribution control systems	Schneider Electric SA	France	Industrial equipment	259
May 2002	Hokuriku Seiyaku Co., Ltd.	Pharmaceutical	Abbott Laboratories	U.S.	Pharmaceutical	252
February 2002	Showa Cabot Supermetal KK.	Metals	Aizu Holdings (Cabot Corp.)	U.S.	Metals	200
April 2002	Seiko Contact Lens	Eye products	Ocular Sciences Inc.	U.S.	Eye products	169

Note: *Includes capital increase by Wal-Mart in May.

Source: Prepared from Thomson Financial data.

III. Growing East Asian consumer markets show new potential

East Asia recovered from the second half of 2001, led by growth in intra-regional demand centered around consumption (Figs. 3-1, 3-2). Private consumption grew because 1) consumers in countries affected by 1998 economic crisis decided to start spending again, 2) incomes and wages rose and unemployment rates fell, 3) governments worked to lower interest rates and introduced fiscal policies and measures to stimulate consumption, and 4) consumer-finance markets expanded as a result of increased credit card use, installment sales and consumer lending.

East Asian consumer markets are expected to continue growing as a result of further economic growth in the region and the emergence of a middle class. In China, consumer spending increased from US\$194.0 billion in 1991 to US\$582.0 billion in 2002 (nominal terms based on GDP). China's share of total consumer spending in East Asia, which was valued at US\$1,461.0 billion in 2002, rose from 27.5% in 1991 to 39.9% in 2002. Meanwhile, high economic growth in East Asia has led to the emergence of a middle class characterized by relatively high incomes and consumer spending. People making up this class include managers and engineers of foreign affiliates in the financial, information technology and high-tech sectors, private entrepreneurs, the self-employed, physicians, lawyers and accountants. The emergence of a middle class has been particularly apparent in the coastal urban areas of China since the 1990s. In addition, the ASEAN4's middle class reemerged as these economies recovered from the financial crisis. Conservative estimates based on household incomes suggest that the size of the East Asian middle and upper classes is at least 140 million.

If the private consumption value in Japan is set as an index of 100, then private consumption in East Asia rose from 40.1 in 1995 to 63.9 in 2002. Although East Asia accounted for just 9.8% of global retail sales in real terms in 2001, the region's future potential is strong. In view of the contraction of Japan's domestic retail markets for automobiles, home appliances and audio-video equipment, East Asia is likely to become increasingly important to Japan as a consumer market.

Japanese firms doing business in East Asia face stiff competition from Korean, Taiwanese and Chinese firms, as well as competitors from Europe and the United States, so they do not necessarily enjoy advantages in East Asia. If Japanese firms are to strengthen their competitive advantages in this increasingly competitive region, they must 1) redesign their business models to reflect recent changes in East Asian markets, 2) increase brand strength by improving the image of Japanese products and Japan itself, 3) form strategic alliances to tap into the strengths of local firms (e.g., local production and marketing know-how), 4) reorganize production to meet ASEAN market needs, 5) reduce losses due to counterfeit products, and 6) promote the formation of the East Asian Free Trade and Business Zone.

Fig. 3-1 Percentage point contributions to change in real GDP of East Asian economies

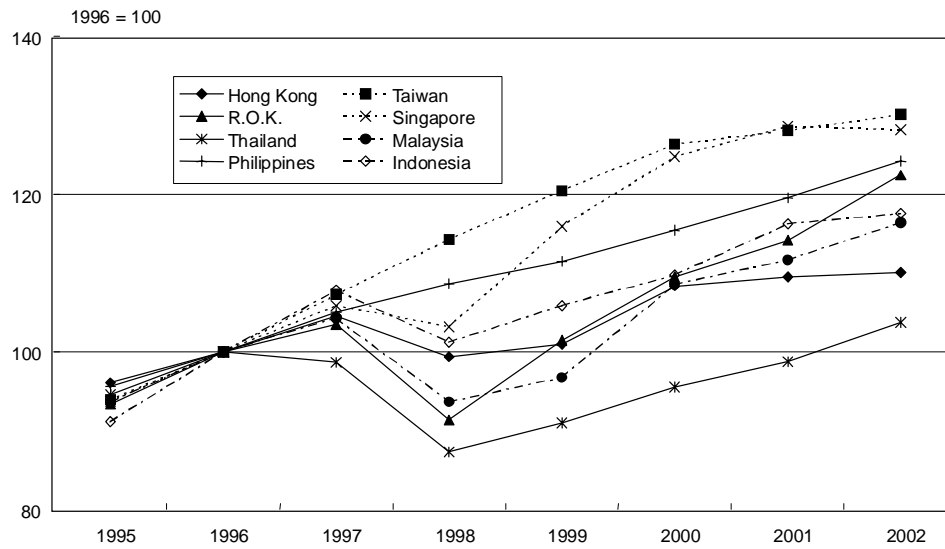
(Unit: YOY % change)

		1985-90 average	1990-95 average	1995-2000 average	2001	2002	2002				2003	
							Q1	Q2	Q3	Q4	Q1	
China	Real GDP growth rate	10.6	12.8	8.6	7.3	8.0	7.6	7.8	7.9	8.0	9.9	
	Contribution	Private consumption	4.9	5.2	4.6	3.3	3.7					
		Government consumption	1.0	1.4	1.2	1.6	1.2					
		Gross fixed capital formation	2.0	5.9	3.2	4.6	6.3					
		Net exports	0.7	0.7	0.4	-0.2	0.4					
R.O.K.	Real GDP growth rate	9.0	7.7	5.5	3.0	6.3	6.2	6.6	5.8	6.8	3.7	
	Contribution	Private consumption	4.7	4.2	2.2	2.1	3.5	4.8	4.1	3.2	2.1	0.5
		Government consumption	0.9	0.5	0.2	0.0	0.2	0.4	0.4	0.1	0.1	0.3
		Gross fixed capital formation	4.4	3.6	0.4	-0.5	1.3	1.7	1.5	0.1	1.8	1.2
		Net exports	-0.6	-0.4	3.4	1.5	2.0	-1.1	0.4	3.1	4.9	2.5
Taiwan	Real GDP growth rate	8.4	6.8	5.8	-1.9	3.5	1.2	4.0	4.8	4.2	3.2	
	Contribution	Private consumption	5.4	4.4	3.6	0.8	1.2	1.1	1.4	1.5	0.8	0.8
		Government consumption	1.5	0.6	0.3	-0.2	-0.1	0.0	-0.1	-0.3	-0.1	0.1
		Gross fixed capital formation	1.9	2.2	1.5	-4.3	-0.4	-2.6	-1.1	1.6	0.6	-0.1
		Net exports	-0.4	-0.3	0.7	2.3	2.3	4.1	3.6	0.2	1.5	0.6
Singapore	Real GDP growth rate	6.7	9.1	6.8	-2.0	2.2	-1.5	3.8	3.8	3.0	1.6	
	Contribution	Private consumption	3.2	3.1	2.0	0.2	0.4	-0.6	-0.0	-0.0	2.1	0.3
		Government consumption	0.6	0.7	1.1	0.7	0.5	0.1	1.4	0.8	-0.1	-0.6
		Gross fixed capital formation	0.1	3.8	2.1	-1.3	-3.1	-4.4	-1.4	-3.7	-2.7	-1.6
		Net exports	1.7	1.8	1.6	5.3	4.1	3.8	-0.3	7.6	5.4	11.6
Thailand	Real GDP growth rate	9.3	9.0	1.8	1.8	5.3	3.9	5.1	5.8	6.2	6.7	
	Contribution	Private consumption	4.6	4.7	0.8	1.8	2.6	2.0	2.2	2.9	3.2	3.4
		Government consumption	0.4	0.5	0.3	0.2	0.0	0.7	-0.2	-0.3	-0.1	-0.6
		Gross fixed capital formation	4.8	4.9	-3.0	0.2	1.2	0.6	1.6	1.5	1.4	1.3
		Net exports	-0.3	-1.0	3.2	1.4	1.4	2.2	1.1	0.8	1.6	1.7
Malaysia	Real GDP growth rate	10.7	9.4	5.5	0.4	4.1	1.3	4.0	5.8	5.4	4.0	
	Contribution	Private consumption	5.8	4.4	2.1	1.3	2.0	1.6	2.5	1.9	2.2	2.0
		Government consumption	1.0	1.0	0.4	1.4	1.6	1.1	1.6	2.7	1.1	1.6
		Gross fixed capital formation	3.6	7.3	-0.2	-0.7	0.1	-2.6	-0.6	0.8	2.7	1.1
		Net exports	0.6	-3.2	3.1	0.3	-2.1	2.2	1.1	0.8	1.6	1.7
Indonesia	Real GDP growth rate	9.0	8.0	1.9	3.3	3.7	2.4	4.4	4.9	3.4	3.4	
	Contribution	Private consumption	6.9	5.7	3.3	4.2	3.3	1.9	1.4	0.5	-0.5	2.8
		Government consumption	0.8	0.3	-0.1	0.6	1.0	0.5	0.7	1.2	1.7	0.8
		Gross fixed capital formation	3.8	3.0	-0.2	0.9	-0.0	-2.1	-1.1	0.8	1.4	1.4
		Net exports	-2.1	-1.2	0.8	-1.4	1.8	5.1	3.0	-0.9	-3.9	-1.9

- Notes:
1. The percentage point contributions in China were calculated by converting nominal GDP to real terms using the real GDP growth rate assuming each category's share of total GDP to be the same for nominal and real GDP.
 2. Figures for Indonesia in 1985-90 are for 1988-90 due to the lack of continuity with data up to 1987.
 3. Contributions to GDP of each country and region do not always sum to exact totals due to inventory changes and statistical errors and omissions.

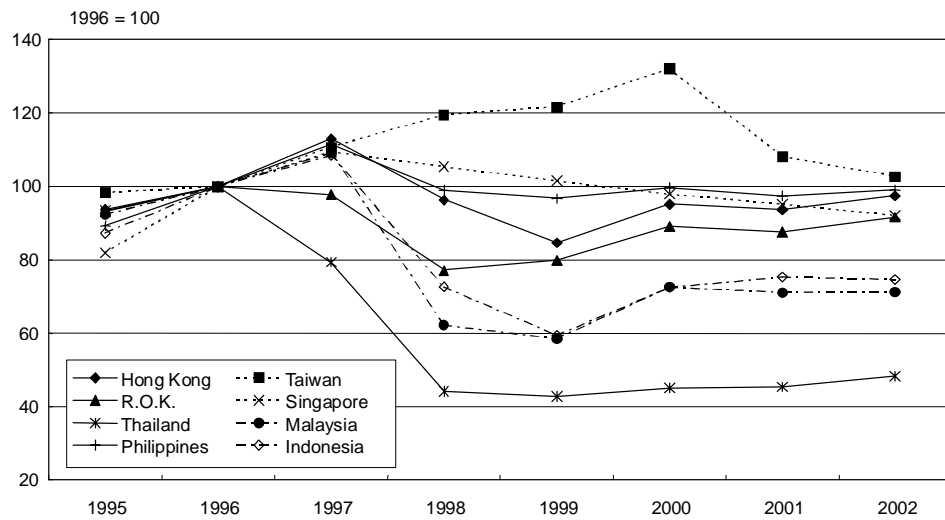
Sources: Annual data for 1985-2001 prepared from *Key Indicators 2002* (Asian Development Bank). Annual data for 2002 and quarterly data prepared from the central banks and statistical agencies of the economies concerned. All data for Japan is from Cabinet Office sources.

Fig. 3-2 (1) Private consumption (real) in East Asia



Sources: Prepared from *Key Indicators 2002* (Asian Development Bank) and national statistics.

Fig. 3-2 (2) Gross fixed asset formation (real) in East Asia



Sources: Prepared from *Key Indicators 2002* (Asian Development Bank) and national statistics.

A. Chinese economy and middle class drive growth in East Asia

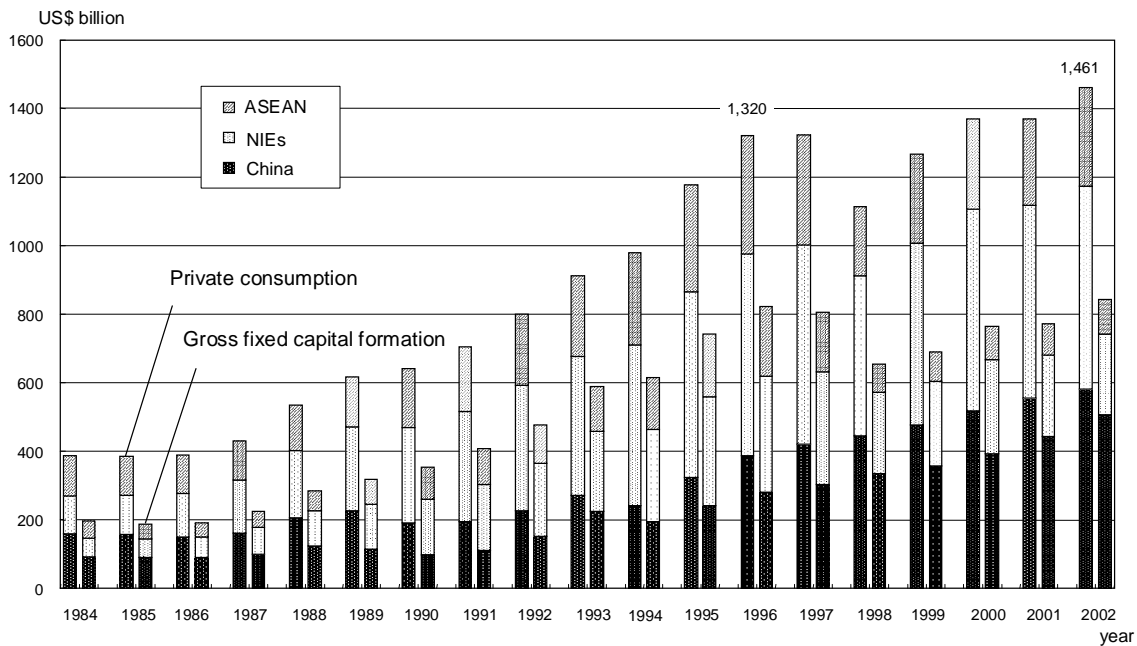
The Chinese economy has been a key factor in the development of the East Asian consumer market, particularly for automobiles. Sales volume in East Asia in 2002 came to 6.5 million autos, of which China accounted for 3.25 million, the fourth highest figure worldwide (Fig. 3-4). Given that per-capita sales of new automobiles correlate closely with per-capita GDP, new auto sales in the year 2010 are forecast to reach 5.70 million units in China and 1.70 million units in the ASEAN4. Combined, their share of global demand is projected to increase from 8.6% in 2000 to 14.0% in 2010. China is also providing a growing market for the world, with imports rising from US\$63.8 billion in 1991 to US\$295.2 billion in 2002. China's shares of global imports in 2001 included 4.5% of capital goods (up from 3.1% in 1998), 5.7% of intermediate goods (up from 3.7%) and 1.3% of consumer goods (up from 0.9%).

The emergence of a middle class in China, Thailand and other countries has also been a factor behind the development of East Asia's consumer market. Generally speaking, this group consists of consumers who have stable incomes required to purchase homes and cars and surplus incomes for spending on services such as education and travel. While not all consumers in this group necessarily prefer high-end imported appliances, very high percentages own cellular phones and other consumer durables. They shop at hypermarkets such as Carrefour and often make purchases with credit cards. This consumer segment (including the most affluent groups), which is the primary target of Japanese and other foreign firms, is estimated to number at least 140 million people (40.9 million in China, 4.8 million in Thailand, 5.7 million in Malaysia, 5.0 million in Indonesia, 2.5 million in the Philippines, and the entire population of the NIEs, i.e. 6.7 million in Hong Kong, 4.1 million in Singapore, 22.5 million in Taiwan, and 47.3 million in the R.O.K.). According to United Nations estimates, the population of productive-age people (ages 15 to 64) in East Asia is expected to grow from 1.15 billion in 2000 to 1.31 billion in 2010, during which time high economic growth is expected to continue. As economies continue to develop and urbanize and education levels rise, middle-class consumers are expected to continue expanding.

Given the population forecasts for East Asia, the regional market can be expected to grow. The population of East Asia in 2000 (excluding Taiwan due to the unavailability of statistics) came to 1.7 billion in 2000, or 28.1% of the world's population of 6.0 billion. According to the median estimate¹ of the United Nations Population Division, the total population of East Asia will reach 1.9 billion in 2010, of which China will account for 1.36 billion (average annual growth rate of 0.7%), the ASEAN4 420 million (1.3%) and the Asian NIEs 60 million (0.6%). Productive-age people account for relatively large shares of the populations in East Asian countries, and the UN estimates that this group is growing both in relative and absolute terms. Population aging in the ASEAN4 is proceeding more slowly than the world average, but birthrates are falling and populations are aging rapidly in China and the Asian NIEs, which are approaching population structures typical of industrialized countries.

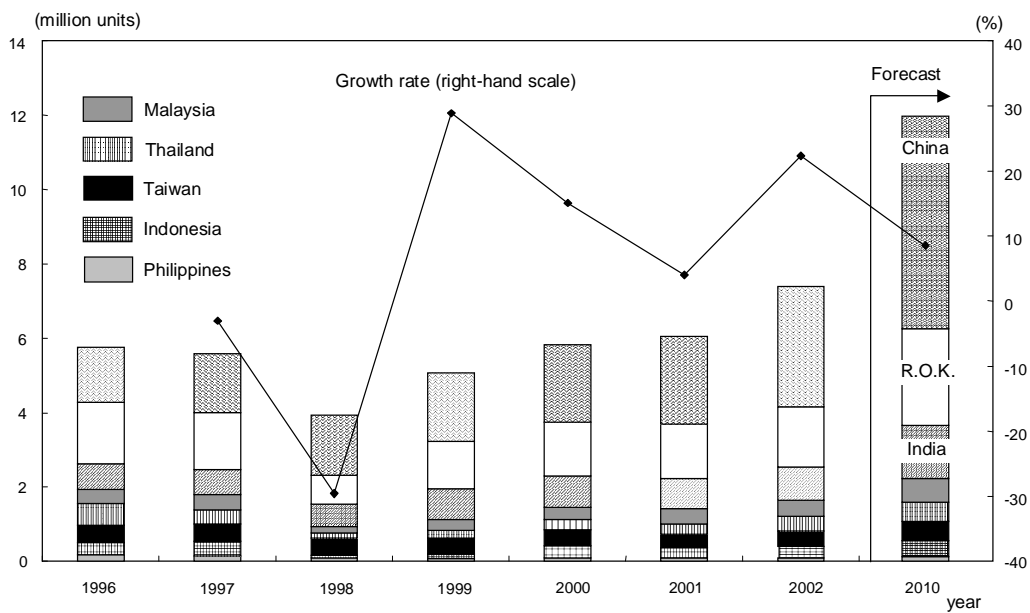
¹ The United Nations Population Division posits several population scenarios that differ according to whether and how the underlying variables (birthrates, death rates and international population migration) are modified. For median estimates, the birthrates of countries with high rates are changed to decline and those of countries with low rates are changed to remain level, death rates are modified taking into account average life expectancies and the effects of diseases such as HIV, and international migration is modified on the basis of past trends.

Fig. 3-3 Private consumption and gross fixed capital formation (nominal) in East Asia



Sources: Prepared from *Key Indicators 2002* (Asian Development Bank), *International Financial Statistics* (IMF, July 2003) and national statistics.

Fig. 3-4 Automobile volume sales in Asia



Notes: 1. JETRO estimates for 2010. Assumptions regarding annual average real economic growth rates in 2002-2010 are China 7.3%, R.O.K. 6.2%, Taiwan 3.2%, Thailand 3.3%, Malaysia 4.8%, Indonesia 4.2%.
2. Growth rates for 2003-2010 are annual averages.

Sources: Prepared from local statistics, *Asia Shuyo Sangyo No Kaiko To Tenbo* (Past and Future of Key Industries in Asia; Japan Research Institute) and other sources.

Fig. 3-5 East Asia's newly affluent consumers

Country (region)	Size of middle and upper classes			Avg. income of affluent consumers ¹			Year of calculation	Total population in 2001 (1,000s)
	Number of households	Proportion of total households	Population (avg. household size x no. of households)	Avg. per-capita monthly income of employable persons ²				
				Local currency	Purchasing power parity equivalent (¥)	Nominal (¥)		
China (urban areas)	15.5 mil. households	10%	40.9 mil.	At least 2,100 yuan	¥173,000	¥31,000	2001	480,640 (urban areas) 1,276,270 (nationwide)
Thailand	1.3 mil. households	8%	4.8 mil.	At least 15,000 baht	¥186,000	¥42,000	2001	62,910
Malaysia	1.3 mil. households	25%	5.7mil.	At least 1,700 ringgit	¥166,000	¥51,000	1999	22,630
Indonesia	1.3 mil. households	2%	5.0 mil.	At least 1,500,000 rupiah	¥125,000	¥21,000	1999	214,840
Philippines	0.5 mil. households	3%	2.5 mil.	At least 23,000 peso	¥327,000	¥57,000	2000	77,130

Notes: 1. Affluent consumers are defined as income groups that foreign firms target as customers and, among other benchmarks, can afford to buy new automobiles.
 2. All figures calculated by JETRO from national statistics.
 3. Purchasing power parities published for each year are from the World Bank.

Sources: Prepared from sources including income statistics from each country, *World Development Indicators* (World Bank) and reports filed by JETRO's overseas offices.

Fig. 3-6 Characteristics of East Asia's new middle class

Item	Characteristics
Income level	Persons with comparatively high incomes, positioned between the rich and the poor. Incomes levels of this class are not necessarily the average for that country, but rather are of a level that enables these people to purchase products made by Japanese and other foreign firms. In low-income countries, therefore, the class also consists of those at the top end of the income spectrum.
Occupations	Narrowly defined, the class consists of managers, professionals, technicians and clerical staffers. Widely defined, it also includes white-collar sales occupations and some service occupations. In concrete terms, it includes white-collar workers employed by foreign affiliates, managers in the financial, information and high-tech sectors, engineers, self-employed persons, physicians, accountants, lawyers and other professionals.
Education level	Tertiary education. Some can understand foreign languages and have studied abroad.
Consumption patterns	High spending on consumer durables (such as consumer electronics and automobiles), homes, leisure and education. Due to the spread of urban lifestyles, nuclear families and increase in dual-income families, consumption resembles urban consumption patterns in industrialized countries. Credit card use and shopping at modern retailers, such as supermarkets and convenience stores, are also becoming more common.
Other	Many members of this class now also use the Internet and telecommunications devices such as cellular phones to access information. As a result of the spread of the Internet and cable TV, they can immediately acquire global information about news, culture, etc. They are particularly sensitive to new trends and products favored by younger age groups, which spend relatively more of their income on such items. In China, where the emergence of a middle class has been particularly conspicuous, these consumers are mainly in their twenties and thirties.

Sources: Prepared from various sources on the middle class.

B. East Asian consumer markets gain importance for Japan

Private consumption in East Asia measured in nominal GDP terms came to US\$1,461.0 billion in 2002. This was 20.0% of U.S. private consumption in 2002, up from 14.2% in 1985 and 23.7% in 1995; although down following the Asian financial crisis, the figure stayed at around 20% in the latter half of the 1990s. Compared with Japan, East Asian private consumption increased from 40.1% in 1995 to 63.9% in 2002 (Fig. 3-7).

East Asia's share of global retail sales in real terms (excluding automobiles) was 9.8% in 2001. Combined with Japan's 14.0%, the greater East Asian figure of 23.7% rivals the EU's 25.2% share. In the electronics market, East Asia accounted for only around 15% of global demand in 2002 (17.1% of consumer electronics and 16.0% of computers and peripherals), 9.3% of automobile sales volume (2001) and 10.3% of tourism (receipts in 2000). But growth rates are high, so these shares are increasing (Figs. 3-9, 3-10). With Japan's auto and consumer appliance markets shrinking, the East Asian consumer market's importance to Japan, already high, is likely to continue growing.

Fig. 3-7 Consumer sales in East Asia, Japan and U.S.

(Units: %, except for US\$ billion in line 1)

	East Asia								Japan		U.S.	
			ASEAN4		Asian NIEs		China					
	1995	2002	1995	2002	1995	2002	1995	2002	1995	2002	1995	2002
Private consumption (GDP basis)	1,176	1,461	311	289	542	590	323	582	2,932	2,285	4,969	7,304
Compared with U.S. (= 100)	23.7	20.0	6.3	4.0	10.9	8.1	6.5	8.0	59.0	31.3	100.0	100.0
Compared with Japan (= 100)	40.1	63.9	10.6	12.6	18.5	25.8	11.0	25.5	100.0	100.0	169.5	319.6
Electronics demand ¹	12.7	18.7	2.9	2.8	7.1	7.5	2.7	8.4	19.1	15.5	32.4	30.3
Consumer electronics	15.3	17.1	2.8	2.5	6.7	5.0	5.8	9.6	16.7	12.2	25.3	28.2
Computers and peripherals	7.7	16.0	1.4	1.6	4.8	5.9	1.5	8.5	21.0	15.2	32.9	29.8
Wireless communications devices	8.1	14.3	2.7	1.9	3.4	7.4	2.0	5.1	14.6	15.5	46.3	37.1
Communications devices	10.1	12.6	2.5	1.6	4.1	5.4	3.6	5.6	20.0	14.3	28.3	40.5
Number of cellular phone subscribers	11.2	28.2	3.3	4.4	3.9	5.8	4.0	18.1	12.9	6.9	37.3	12.3
	1995	2001	1995	2001	1995	2001	1995	2001	1995	2001	1995	2001
Automobile volume sales ²	10.2	9.3	2.8	1.9	4.3	3.2	3.2	4.2	13.9	10.5	30.7	31.1
	1996	2001	1996	2001	1996	2001	1996	2001	1996	2001	1996	2001
Total retail sales (constant 1996 prices) ³	9.9	9.8	2.7	2.0	2.9	2.6	4.4	5.1	17.0	14.0	27.9	29.8
Retail sales by type of outlet												
Department stores	13.9	14.6	2.1	1.6	5.5	4.2	6.3	8.9	18.3	15.9	36.6	44.6
Clothing stores	8.1	7.6	1.0	0.8	5.1	4.2	2.0	2.6	22.0	19.7	20.4	26.7
Drug stores	5.8	6.8	0.6	0.6	1.4	1.2	3.8	5.0	13.1	11.8	28.2	37.9
Home centers	8.7	10.1	0.8	0.5	2.3	1.6	5.7	8.0	5.9	6.6	32.4	40.4
Appliance/computer stores	9.9	11.0	1.5	1.4	4.7	3.7	3.7	6.0	20.1	17.4	29.0	39.0
Furniture/furnishings stores	7.5	7.6	1.3	1.1	4.9	4.4	1.3	2.0	10.3	8.0	25.6	35.6
Sporting goods stores	4.3	4.6	0.7	0.5	1.9	1.7	1.6	2.4	20.0	17.7	27.6	33.2
Toy stores	6.4	10.4	0.6	0.3	0.5	0.3	5.3	9.7	22.6	17.9	48.0	54.4
Jewelers	11.8	10.0	3.2	1.8	6.5	5.1	2.1	3.1	13.5	10.6	22.0	28.7
	1996	2000	1996	2000	1996	2000	1996	2000	1996	2000	1996	2000
Travel receipts ⁴	10.2	10.3	4.7	4.1	3.3	2.6	2.2	3.5	0.8	0.7	19.1	21.0
Travel payments ⁴	7.6	8.0	2.9	2.1	3.7	2.9	1.0	3.0	10.2	7.4	12.8	15.7

- Notes: 1. Electronics (including sub-categories): value, forecasts for 2002.
 2. Unit automobile sales in East Asia are for seven countries and regions: ASEAN4, China, R.O.K. and Taiwan.
 3. Real terms.
 4. Exclude Taiwan and Hong Kong.

Sources: Prepared from *Retail Trade International* (Euromonitor), materials produced by automobile associations in each country; *The Yearbook of World Electronics Data* (Reed Electronics Research), ITU data and other sources.

Fig. 3-8 East Asian, Japanese and U.S. shares of global imports

(Unit: %)

	East Asia								Japan		Japan + East Asia		U.S.	
	1998		2001		ASEAN4		Asian NIEs		China		1998		2001	
Capital goods	15.1	16.0	3.2	2.9	8.8	8.6	3.1	4.5	3.7	3.7	18.7	19.7	15.5	16.2
Intermediate goods	19.1	21.4	4.2	4.5	11.2	11.2	3.7	5.7	4.4	4.6	23.5	26.1	14.5	14.2
Consumption goods	8.4	9.1	0.7	1.0	6.8	6.7	0.9	1.3	4.5	4.8	12.8	14.0	25.7	27.3
Automobiles	2.0	2.2	0.4	0.6	1.4	1.2	0.3	0.5	1.8	1.7	3.8	3.9	28.4	32.8
Computers and peripherals	10.5	13.8	0.8	1.5	8.7	9.9	1.0	2.4	5.5	7.3	16.0	21.2	24.6	23.2
Energy and food	12.2	13.8	2.7	3.0	8.0	8.5	1.5	2.2	11.6	11.0	23.8	24.7	13.7	16.4
Energy	16.6	16.7	3.1	3.3	11.4	10.5	2.1	2.9	13.6	11.5	30.2	28.1	18.0	19.9
Food	8.9	9.6	2.5	2.7	5.4	5.7	1.0	1.3	10.1	10.2	18.9	19.8	10.3	11.5
Other	10.9	7.5	1.9	1.6	6.8	2.8	2.3	3.0	5.4	4.9	16.3	12.4	23.6	26.3

Source: Prepared by JETRO from national trade statistics.

Fig. 3-9 Annualized changes in key indicators of East Asia, Japan, U.S. and EU

(Unit: %)

	East Asia				Japan	Japan + East Asia	U.S.
	1995-2002	ASEAN4	Asian NIEs	China			
Private consumption (nominal GDP basis)	3.1	-1.0	1.2	8.8	-3.5	-1.3	5.7
Retail sales (real level in 1996) ¹	2.8	-2.1	1.2	6.3	-0.8	0.6	4.5
Automobile unit sales ²	3.7	-1.3	-0.7	11.0	-2.4	-0.9	1.7
Electronics sales ³	8.9	2.7	3.9	21.0	0.1	4.1	2.1
Consumer electronics and audio-video equipment	2.1	-0.9	-3.7	8.0	-3.9	-0.8	2.0
Computers and peripherals	15.6	6.1	7.3	33.4	-0.5	5.4	2.7
Wireless communications devices	15.1	0.4	18.7	21.3	7.0	10.3	2.8
Communications devices	8.4	-1.2	9.4	12.0	0.2	3.4	10.6
Cellular phone subscribers	63.9	49.6	52.0	78.1	31.4	51.6	22.6
	1996-2000	1996-2000	1996-2000	1996-2000	1996-2000	1996-2000	1996-2000
Travel receipts ⁴	3.6	1.0	-1.1	13.2	0.9	3.4	5.5
Travel payments ⁴	4.6	-3.0	-1.5	28.9	-2.8	0.7	7.9

Notes: 1. Figures cover 1996-2001.

2. Seven economies of ASEAN4, China, R.O.K. and Taiwan.

3. Value.

4. Exclude Taiwan and Hong Kong.

Sources: Prepared from *Retail Trade International* (Euromonitor), materials produced by the automobile associations of each country, ITU data and other sources.

Fig. 3-10 Retail sales projections

(Unit: %)

	Annualized change from 2002-06
East Asia	6.4
ASEAN4	12.2
Thailand	8.8
Malaysia	6.1
Indonesia	12.5
Philippines	16.7
Asian NIEs	4.6
R.O.K.	5.1
Taiwan	4.7
Hong Kong	3.3
Singapore	3.3
China	5.4
Japan	-0.1
Japan + East Asia	2.9
U.S.	1.4
EU15	2.7
U.K.	3.9
Germany	0.6
France	3.1
Italy	3.5

Note: Calculated in nominal local currencies converted at U.S. dollar exchange rates in 2002.

Source: *Retail Trade International* (Euromonitor).

C. Increased competition in East Asia

Japanese companies in East Asia have been put on the defensive in markets for middle to low-end consumer electronics, such as appliances and IT devices. They have also faced stiffening competition from North American, European and Korean firms in markets for high-end products (Fig. 3-11). In personal computer and cellular phone markets, European and North American brands are widespread and sales of Korean products are increasing. In automobile markets, Japanese firms are at a competitive advantage in ASEAN, but in China they are playing catch-up to European firms. In general retail markets, European firms are building up presence in ASEAN and China, while Japanese firms are conspicuously withdrawing.

In the Chinese market, many Japanese firms in the food, beverages, cosmetics and general retail sectors have succeeded by concentrating on limited sales territories, such as Shanghai, but in the Chinese market overall, however, European and North American firms have a stronger presence. In the future, Japanese finished consumer products are expected to face increased competition. The major rivals will include Chinese firms in markets for cheap consumer electronics, and companies from Europe and North America, as well as rapidly advancing Korea, in markets for higher end products.

Fig. 3-11 Competitive positions of Japanese firms in East Asian markets in 2002

		China	R.O.K.	Taiwan	Thailand	Malaysia	Indonesia	India
Automobiles	Passenger vehicles	<ul style="list-style-type: none"> Japanese firms' share has leveled off at 27%. Volkswagen group's share is around 40% and General Motors' share is about 10%. Japanese firms are seeking to win market share by launching new models and lowering prices. 	<ul style="list-style-type: none"> Hyundai's share is 50% and Kia's share is 30%. Renault-Samsung has a 10% share. The ban on imports of Japanese vehicles was lifted in 1999, but the Japanese share of the passenger vehicle market is just 1.3%. 	<ul style="list-style-type: none"> The Japanese share is around 70%, including 30% for Toyota and 20% for Nissan. The combined European/U.S. share is 20%, led by Ford. 	<ul style="list-style-type: none"> Japanese firms have held at least 80% since the 1990s, including Toyota at 40%, Honda 28% and Nissan 10% in 2002. European and U.S. combine for over 10%, but growth has leveled off. In the high-end market, their share rivals that of Japanese firms. 	<ul style="list-style-type: none"> Nissan, Toyota and Honda combined for a Japanese share of just 5% in 2001. Including Perodua Auto (in which Daihatsu and Mitsui & Co. have a 51% stake), however, and the figure rose to 34%. Domestic makers Proton and Perodua Auto respectively accounted for 60% and 30% of the passenger car market in 2002. 	<ul style="list-style-type: none"> The Japanese share has grown in recent years to 70%, including 34% for Toyota 19% for Honda. Korean automakers aim to increase their 9% market share by launching low-cost models. 	<ul style="list-style-type: none"> Maruti Udyog (backed by Suzuki Motor) has a 47% share. Toyota has 4% and Honda 2% (fiscal 2002). Hyundai leads Korean automakers with a strong 15%, while European and U.S. firms combine for 7%. Indian makers such as Telco have a combined 25% share.
	Commercial vehicles	<ul style="list-style-type: none"> Japanese firms Isuzu, Toyota and Nissan were estimated to have accounted for about 6% of unit sales in 2001. Nissan and Isuzu have plans to expand local production and sales. 	<ul style="list-style-type: none"> Japanese firms have virtually no market share. Korean firms dominate the market, including Hyundai at 50%, Ssangyong 30% and Kia 20%. Market size is around 400,000 units. 	<ul style="list-style-type: none"> The Japanese share is 80%, led by Mitsubishi's strong 60%. European and U.S. makers including Ford and Volkswagen combine for a 10% share. 	<ul style="list-style-type: none"> Since the beginning of the 1990s, Japanese firms have held a 90% share of the market. Isuzu was the top maker as of 2002 with 33% of the market, followed by Toyota with 28%. 	<ul style="list-style-type: none"> The Japanese share shrank to 56% in 2001, down from 80% 10 years prior. National automaker Perodua Auto's share increased to 23%. The European/U.S. combined share was 10%. 	<ul style="list-style-type: none"> The Japanese share has been at least 90% since the early 1990s. The Korean share is 5%, led by Hyundai and Kia. European and American makers hold very small shares. 	<ul style="list-style-type: none"> Japanese firms have practically no share. Indian firms Telco and Ashok Leyland have 56% and 18% shares (fiscal 2002), respectively.
	Motorcycles	<ul style="list-style-type: none"> Honda's share is estimated at just under 10%, making it the market leader. Suzuki and Yamaha also have established presences through joint ventures. Total sales are estimated at around 9.5 million units. Japanese firms need to take action against Chinese counterfeits. 	<ul style="list-style-type: none"> Domestic output was about 230,000 units, of which around 150,000 were sold domestically. Honda established a sales subsidiary in 2001 to import and market motorcycles. 	<ul style="list-style-type: none"> Yamaha accounted for 31% and Suzuki 4% of domestic sales. Taiwanese firms Kwang Yang Motor and Sanyang Industry each have 30% shares. Yamaha is building share by releasing new models, etc. 	<ul style="list-style-type: none"> Japanese makers account for a massive 99% share. Chinese-made motorcycles have made little headway due to high tariffs and exhaust emissions regulations. 	<ul style="list-style-type: none"> Malay makers such as Modenas (Motosikal Dan Enjin Nasional) have large shares, although Modenas is backed 30% by Kawasaki Heavy Industries and Nissho Iwai Corporation. Chinese motorcycles have made practically no headway. 	<ul style="list-style-type: none"> Honda, Kawasaki Heavy Industries, Suzuki and Yamaha have a combined share of more than half the market. Chinese makers have tried to gain a foothold, but poor product reliability has led to a very low share. 	<ul style="list-style-type: none"> Japanese firms have a combined share of 42% (fiscal 2002). This includes the 34% share of Hero Honda, a local joint venture in which Honda owns 26%. 58% of the market is held by local firms such as Bajaj Auto and TVS.

	China	R.O.K.	Taiwan	Thailand	Malaysia	Indonesia	India
Consumer electronics	<ul style="list-style-type: none"> Japanese firms have a relatively large share of the high-end market, but Chinese firms such as TCL dominate the lower end. The Chinese dominate the refrigerator, washing machine and air conditioner markets, although Sanyo Electric has a 10% share in washing machines. 	<ul style="list-style-type: none"> An increasing number of high-end TVs are being imported from Japan, while the majority of other models are from Korean makers. Japanese firms have practically no share of the white goods market. Chinese products are also uncommon. 	<ul style="list-style-type: none"> Japanese makers such as Sony, Matsushita and Sharp have a 20% share of the high-end (LCD and plasma display) TV market. Korean firms, however, are quickly catching up. Taiwan's SAMPO and TECO also have large shares. Japanese shares of the refrigerator, washing machine and air conditioner markets run 30% to 50%. Korea's LG is rapidly gaining increasing share. 	<ul style="list-style-type: none"> Although Japanese makers still have a large share of the TV market, Korean firms are catching up. Japanese firms have a relatively large share of the air conditioner market, but Korean firms are rapidly increasing their presence in this market, as well as refrigerators and washing machines. 	<ul style="list-style-type: none"> Japanese makers had 80-90% of the TV market in 1998. However, Korean and Chinese makers are grabbing increasing slices of the market. The top makers in the refrigerator and washing machine markets are LG and Samsung of Korea, while the air conditioner market is dominated by Japanese firms such as Matsushita Electric Industrial, which has a 40-50% share. 	<ul style="list-style-type: none"> Japanese makers have a firm 50% grip on the TV market, but Korean makers are catching up at the higher end. China's Haier Group is both producing locally and importing into the country. Japanese makers still have a large share of the refrigerator, washing machine and air conditioner markets, though Korean firms are catching up. 	<ul style="list-style-type: none"> Japanese makers have a relatively large share of the high-end TV market. Korean makers are putting up stiff competition, while Indian makers Videocon and BPL have a combined share of around 40%. The Japanese share of the air conditioner market is around 20%. Indian, Korean, European and North American makers dominate the refrigerator and washing machine markets.
Information devices (PCs, cellular phones)	<ul style="list-style-type: none"> European and North American firms such as Nokia, Motorola and Siemens AG have over half the cellular phone market, but Chinese firms are catching up and now have a share of around 40%-50%. The PC market is dominated by Chinese manufacturer Legend Group. Toshiba also has a relatively large share. 	<ul style="list-style-type: none"> Korean makers have more than 80% of the cellular phone market. Korean makers such as Samsung, LG-IBM and TriGem Computer also have a large share of the PC market. Among Japanese firms, Toshiba entered the market in 2002 and is expanding its share. 	<ul style="list-style-type: none"> In the cellular phone market, European and U.S. firms such as Nokia and Motorola are well established, followed by Samsung and Taiwan's Acer and BenQ. The Japanese players include Matsushita Electric and Sony-Ericsson. In the PC market, Taiwanese makers such as Acer and BenQ have acquired a combined share of around 60%. U.S. makers such as Hewlett-Packard and IBM also have big shares. The Japanese share is very low, but Toshiba has a firm foothold and Sony launched its Vaio line in 2002. 	<ul style="list-style-type: none"> European and U.S. manufacturers such as Nokia and Motorola own much of the cellular phone market, while the Japanese share is small. U.S. firms also have a strong presence in the PC market, though Japanese makes account for some of the notebook market. 	<ul style="list-style-type: none"> Nokia, Motorola and Samsung are strong in the cellular phone market. U.S. firms account for a large slice of the PC market, though Sony is battling for more share with its Vaio lineup. 	<ul style="list-style-type: none"> The big names in the cellular phone market are European and U.S. firms such as Nokia and Motorola. Matsushita Electric and Sony-Ericsson are present, though their shares are low. In the PC market, U.S. brands are largely dominant. Among Japanese makers, Toshiba has a relatively large share. 	<ul style="list-style-type: none"> Nokia and Motorola are strong in the cellular phone market, but Matsushita Electric and Samsung of Korea are catching up with the launch of new models. The main players in the PC market are European and U.S. makers, and Indian firms have a relatively significant share too.

	China	R.O.K.	Taiwan	Thailand	Malaysia	Indonesia	India
Retailing HM = hypermarkets GMS = general merchandise stores SM = supermarkets CVS = convenience stores	<ul style="list-style-type: none"> The beginning of the 1990s saw a wave of Japanese department stores expand into China, but most have pulled out. Among GMSs, Ito-Yokado is holding onto its markets in Beijing and Chengdu, while AEON does the same in Qingdao, Guangzhou and Shenzhen. But these operations are small in terms of number of stores and geographical spread. Among HMs, Carrefour of France, Wal-Mart of the U.S., Metro AG of Germany, etc. dominate. Although Lawson set up operations in Shanghai in 1996, Japanese CVSs have a weak presence in China, in contrast with booming local franchises. 	<ul style="list-style-type: none"> No Japanese department store has entered the Korean market, which is completely dominated by local operators such as Lotte Shopping, Hyundai Department Store and Shinsegae. The HM business is dominated by Korean, European and American stores, such as E Mart (Samsung), Carrefour, Home Plus (Samsung-Tesco [UK] joint venture) and Lotte Mart. In the CVS business, Japan's FamilyMart and Ministop have entered the market, giving Japanese firms a competitive 30% share. 	<ul style="list-style-type: none"> Japanese stores (including alliances) such as Sogo, Mitsukoshi, Hanshin Department Store, Takashimaya and Isetan dominate the department store business. In the HM business, France's Carrefour and Auchan (RT Mart) and other European stores dominate. AEON entered the GMS market in 2003. In the CVS business, 7-Eleven (operated by President Chain Store Corp. under U.S. license) dominates with a 50% share. In second place is FamilyMart of Japan with a 15% share. 	<ul style="list-style-type: none"> Japanese chains Isetan and Sogo have entered the department store business, but Daimaru pulled out. The market is dominated by local chains with an approx. 70% share. European firms such as Tesco of the U.K. and Groupe Casino and Carrefour of France have broken into the HM market. In the SM market, Netherlands Royal Ahold (Tops) and the Mall Group (Home Fresh Mart) dominate with a combined 60% share. From Japan, AEON and Seiyu hold small shares. By far the leader in the CVS market is 7-Eleven (operated by Thai CP Group under U.S. license), which has a 70% share. 	<ul style="list-style-type: none"> The department store market includes Japanese stores Isetan, Sogo, AEON (Jusco). Jusco itself leads the market. The HM market is dominated by Carrefour (France) and Dairy Farm Group (Hong Kong). Malaysian HM chain Parkson has a 10% share. The CVS market is yet to attract any Japanese entrants. The dominant player in this market is 7-Eleven (operated by the Berjaya Group under U.S. license). 	<ul style="list-style-type: none"> Local stores have more than 50% of the department store market, and the only foreign names are stores such as Metro of Singapore. The dominant hypermarket is Carrefour of France, followed by Dairy Farm Group (Giant) of Hong Kong, which is expanding its presence. The CVS market is completely dominated by local operators. 	<ul style="list-style-type: none"> Entry by foreign firms is not allowed.

Sources: Prepared from *Asia Shuyo Sangyo No Kaiko To Tenbo* (Past and Future of Key Industries in Asia; Japan Research Institute), *Chugoku Keizai Sangyo No Kaiko To Tenbo* (Past and Future of the Chinese Economy and Industry; Japan Chamber of Commerce and Industry in China), *2002 Nen Chugoku Tonan Asia Denshi Kougyo no Doko Chousa Houkokusho* (Survey of Trends in the Electronic Industry in China and Southeast Asia, 2002; Japanese Electronics and Information Technology Industry Association (JEITA)), *Retail Trade International* (Euromonitor), press reports, reports filed by JETRO's overseas sources and various other sources.

D. Strategic action required by Japanese firms in East Asia

Japanese firms have been setting up manufacturing operations in East Asia for many years, helping to turn the region into a global center of production. In the future, however, marketing activities in the region will grow even more important. Observers have noted how firms from Europe and the U.S. have adopted long-term strategies for operations in China and the rest of East Asia, which they regard as growth markets. In response, Japanese firms must take action in the following six key areas if they are to maintain and strengthen their competitive advantages in East Asia:

1. Redesign business models to reflect recent changes in East Asian markets

European and North American firms have a far stronger presence than their Japanese counterparts in East Asia, especially China, even though the two have a rough parity in terms of physical numbers. Compared with leading European and American multinationals in China, Japanese firms have yet to make their true capabilities felt. Moreover, European and American firms are making greater use of local human resources and tend to implement decisions much faster. To overcome these weaknesses, Japanese firms must:

- Adopt a faster style of management, including greater utilization of local decision-making, to cope with the frantic pace of change in China and keep pace with market changes for incorporation into products
- Develop new products suited to Chinese needs
- Expand business by making maximum use of proprietary intellectual property
- Make greater use of local human resources familiar with Chinese business practices, values and ways of thinking

2. Increase brand strength by improving the image of Japanese products and Japan itself

According to a study comparing the brand images of Japanese, American and R.O.K. products in China, the R.O.K., Taiwan and Thailand, the quality and style of Japanese products is appreciated, but Korean products are rated more highly in terms of dynamic appeal (Fig. 3-12). In the Chinese market, Korean fashion and trend-sensitive products such as cellular phones are enjoying a boom that is propelling sales. The boom has been stimulated by the increasing popularity of Korean culture, such as TV dramas, music and fashion, principally among young Chinese. Riding this boom, Korean products throughout East Asia have been attracting greater interest and stronger sales. As Asian firms become more competitive, however, there is a limit as to how far industrial competitiveness can be improved through government policies and conventional corporate strategies. Brand strength offers the potential for raising competitiveness by adding value and differentiating products and services. Japanese companies are increasingly recognizing the need to strengthen their brands to generate better returns on investment. Moreover, improving the image of Japan itself could help Japanese companies bolster their brand strength further. Accordingly, information about the country should be made more available to help raise Japan's profile in Asia.

3. Form strategic alliances to tap into the strengths of local firms

To date, numerous Japanese companies have established operations in Taiwan and formed alliances with Taiwanese firms to successfully support entry into China and ethnic Chinese markets throughout East Asia. Since it has proven highly risky for Japanese firms to launch products straight onto the Chinese market, they have found it safer to test products and services in the comparatively amenable Taiwanese market before attempting to launch them elsewhere. In the automobile industry, for example, some Japanese manufacturers develop models in Taiwan before launching them in China and throughout Asia. Other firms, highly evaluating Taiwan's improved technological and human resource capabilities, are diversifying the functions of their Taiwanese operations from simple production centers to operational hubs for all of Asia, including China. In general, Japanese firms are developing their businesses with an eye on East Asia by 1) supporting Chinese operations with Taiwanese human resources, 2) forming alliances

with Taiwanese firms that possess know-how for doing business in China and 3) using Taiwan as a pilot for the global Chinese market (Fig. 3-13).

4. Reorganize production to cater to ASEAN market

Tastes vary widely in ASEAN countries due to differences in income levels, as well as cultural and social diversity. Manufacturers of finished consumer goods need to carefully tailor their products and marketing strategies to match these varying tastes. In the automobile market, for example, not only do color preferences vary, differences in taxation and other government policies mean that each national market has its own peculiar structure. While one-ton trucks are the most common vehicles in Thailand, passenger cars lead vehicle sales in Malaysia. The popularity of electronic appliances also differs according to income level. In the case of TV sets, for example, 14- to 21-inch models are popular in Indonesia, while Singapore's more affluent consumers want 29- to 34-inch models. As a consequence, the marketing strategies and sales methods cannot be the same for each market. This situation presents a competitive opportunity for Japanese firms, which have accumulated a wealth of capital, know-how, experience and human resources in the course of building up their operations in the ASEAN region over the years.

Japanese manufacturing operations in the ASEAN region fall into two basic groups: 1) import-substitution production and marketing bases for host countries (e.g., automobiles, white goods and consumer electronics), and 2) production and export bases for the global market (e.g., electronics). For electronics makers and other Japanese firms positioning ASEAN as their global production centers, the key is to maintain and strengthen international competitiveness to rival price-competitive Chinese products. Following a rush of foreign direct investment in China in recent years, ASEAN countries have drastically relaxed restrictions on foreign investment and expanded measures for preferential tax. They are also courting investment in manufacturing support services and facilities, such as R&D centers, regional headquarters and procurement centers, as well as increasing their overall attractiveness as manufacturing bases. One of the major efforts has been to beef up industrial infrastructure needed in each market, for example, to reduce production cycles, shorten delivery times and support small-lot production. They have also enhanced their attractiveness as mass production centers by introducing preferential measures and effective industrial policies. What Japanese firms now need to do is capitalize on these measures and policies by incorporating them into their international strategies.

As the ASEAN Free Trade Area (AFTA) project moves forward with the introduction of its ASEAN Industrial Cooperation and Common Effective Preferential Tariff schemes, firms are beginning to reorganize operations to eliminate redundancy, concentrate production and build up complementary strengths. The region aims to eliminate intra-regional tariffs by 2015, leading to further integration of its markets. Japanese firms, in addition to using their existing production operations to meet the specific needs of individual markets, must also formulate long-term strategies that address ongoing trends toward region-wide integration. In responding to these challenges, Japanese firms should not only leverage the business know-how and human resources they have accumulated over the years, they must also carry out unprecedented reforms to strengthen their local R&D capabilities and make greater use of local personnel.

5. Reduce losses due to counterfeit products

A severe problem faced by Japanese firms overseas is losses caused by counterfeit products. The problem is particularly serious in Asia, when four to five out of every 10 companies typically suffer losses due to counterfeiting in China, Taiwan, the R.O.K. or Thailand. Strong measures are needed to counter this trend, yet few firms have the necessary legal resources, nor do many even have the intellectual property rights to products being counterfeited.

The Program for Promoting the Creation, Protection and Exploitation of Intellectual Property, drawn up by the Intellectual Property Policy Headquarters, calls for the following measures:

- Government support for the collection and provision of information on how Japanese firms can exercise their rights overseas, i.e., initiate legal action and acquire intellectual property rights.
 - Pressure on countries where piracy occurs, working through the WTO, the World Intellectual Property Organization, bilateral agreements such as free trade agreements and economic partnership agreements, and cooperation with individual countries in capacity building in terms of providing more protection for intellectual property rights.
 - Tougher enforcement of border controls and mechanisms for Japanese customs authorities to provide rights holders with information (names of counterfeit-product importers and exporters, etc.) in countries where anti-piracy continues.
6. Support formation of East Asian free business bloc

East Asia provides Japanese manufacturers both with a production base and a market. Sales by Japanese manufacturing affiliates in East Asia almost equaled sales by Japanese manufacturers in the U.S. market, and the value of Japanese exports to East Asia in fact exceeded exports to the U.S. in fiscal 2000 (ended March 31, 2001). Japanese firms in East Asia are expanding their exports back to the Japanese market (Fig. 3-14). In view of the Japanese market's prolonged slump, Japanese firms have worked to increase profits and return on investment in East Asia, which now rival those in North America.

The formation of economic partnerships in East Asia is gathering pace, as seen in the signing of the Initiative for Japan-ASEAN Comprehensive Economic Partnership and free trade agreements (FTA) between Japan and the R.O.K. and between China and ASEAN. At the same time, the ASEAN region is becoming a prime battleground among European and North American countries seeking to reap the benefits of strengthened cooperation with the region. China, as part of its FTA negotiations with ASEAN, plans to start reducing tariffs on agricultural products from Thailand ahead of schedule in October 2003. Although Japan has signed an FTA with Singapore and is now in preparatory negotiations with ASEAN to set the framework for FTA negotiations in October 2003, some quarters in Japan have complained that the country has been too slow off the blocks compared with China. In fact, any slowness on Japan's part could imperil its successes to date and derail ongoing efforts to revitalize the economy.

Fig. 3-12 Images of foreign-affiliated products

(Unit: %)

		High quality	Stylish	Dynamic	Cosmopolitan	Pioneering	Distinctive	Expensive	Safe	Fun
Japanese products	Singapore	56.0	48.9	24.1	32.1	37.3	38.1	42.2	37.5	32.0
	Taipei (Taiwan)	53.0	43.0	27.5	32.5	34.4	29.6	44.4	23.3	16.5
	Seoul (R.O.K.)	38.6	34.6	25.4	30.6	26.6	28.9	37.3	21.8	17.5
	Kuala Lumpur (Malaysia)	76.9	57.9	58.7	60.7	55.0	42.4	37.6	57.4	44.8
	Bangkok (Thailand)	50.4	45.0	33.6	41.1	33.4	31.3	19.6	16.6	26.4
	Jakarta (Indonesia)	73.7	51.5	34.4	54.4	24.5	22.6	18.0	37.8	27.6
	Shanghai, Beijing, Guangzhou (China)	51.9	30.1	21.3	27.9	23.4	27.1	31.6	29.5	8.4
	Delhi, Mumbai (India)	62.7	45.6	37.5	42.0	29.4	32.4	33.9	28.1	30.7
American products	Singapore	26.6	23.7	14.4	27.4	19.1	22.1	46.5	23.7	10.1
	Taipei (Taiwan)	27.1	26.3	21.9	33.5	26.4	20.6	19.5	21.0	11.5
	Seoul (R.O.K.)	21.4	25.4	22.4	32.0	24.9	23.8	30.6	18.6	11.0
	Kuala Lumpur (Malaysia)	53.3	45.0	35.1	49.0	32.0	17.6	60.3	31.4	18.2
	Bangkok (Thailand)	56.6	32.9	19.3	41.9	23.4	22.6	60.3	23.9	9.8
	Jakarta (Indonesia)	33.0	51.2	17.4	33.4	19.3	16.4	45.6	14.5	11.8
	Shanghai, Beijing, Guangzhou (China)	34.8	24.0	18.6	30.4	19.9	20.9	44.5	23.5	6.7
	Delhi, Mumbai (India)	49.1	45.6	35.1	41.2	22.3	23.9	42.4	22.9	24.2
European products	Singapore	30.4	19.5	13.0	24.5	19.9	20.3	51.5	25.2	10.3
	Taipei (Taiwan)	29.1	28.9	17.5	28.4	21.8	19.5	30.0	14.0	9.8
	Seoul (R.O.K.)	19.4	20.8	18.4	24.4	22.1	23.8	27.3	18.9	9.5
	Kuala Lumpur (Malaysia)	43.4	34.5	29.7	37.4	24.6	12.0	48.1	24.4	11.6
	Bangkok (Thailand)	46.3	28.9	16.4	36.6	19.1	20.3	58.6	20.3	8.0
	Jakarta (Indonesia)	37.6	46.7	18.7	33.0	23.0	19.9	45.8	17.2	11.0
	Shanghai, Beijing, Guangzhou (China)	30.5	26.1	17.1	25.1	17.3	20.9	40.9	18.1	5.4
	Delhi, Mumbai (India)	33.4	30.6	26.1	26.0	19.4	18.1	24.2	13.3	16.0
Korean products	Singapore	10.1	18.7	32.3	7.9	12.4	11.8	11.4	14.6	14.8
	Taipei (Taiwan)	5.5	15.6	29.1	8.9	9.6	14.4	5.4	4.5	8.3
	Seoul (R.O.K.)	29.8	27.3	43.6	22.1	24.4	25.0	21.8	36.9	20.6
	Kuala Lumpur (Malaysia)	28.3	27.9	37.2	26.6	18.6	12.4	17.8	22.3	13.0
	Bangkok (Thailand)	14.0	19.5	15.4	20.0	16.0	17.4	8.4	8.4	9.3
	Jakarta (Indonesia)	36.3	33.0	39.0	31.9	28.8	17.4	21.8	27.2	18.3
	Shanghai, Beijing, Guangzhou (China)	17.3	25.4	25.1	12.9	24.4	21.9	19.7	12.0	14.2
	Delhi, Mumbai (India)	24.1	24.0	20.6	18.6	18.8	14.8	15.2	10.0	11.9

Notes: 1. Survey based on interviews in each city. Multiple responses allowed. The percentages indicate the proportion of respondents choosing that category.

2. Figures in bold (shaded) indicate the product with the highest proportion of responses in each city.

Source: *Hakuhodo Global Habit Survey* (Hakuhodo, 2003).

Fig. 3-13 Japanese companies with East Asian hubs in Taiwan

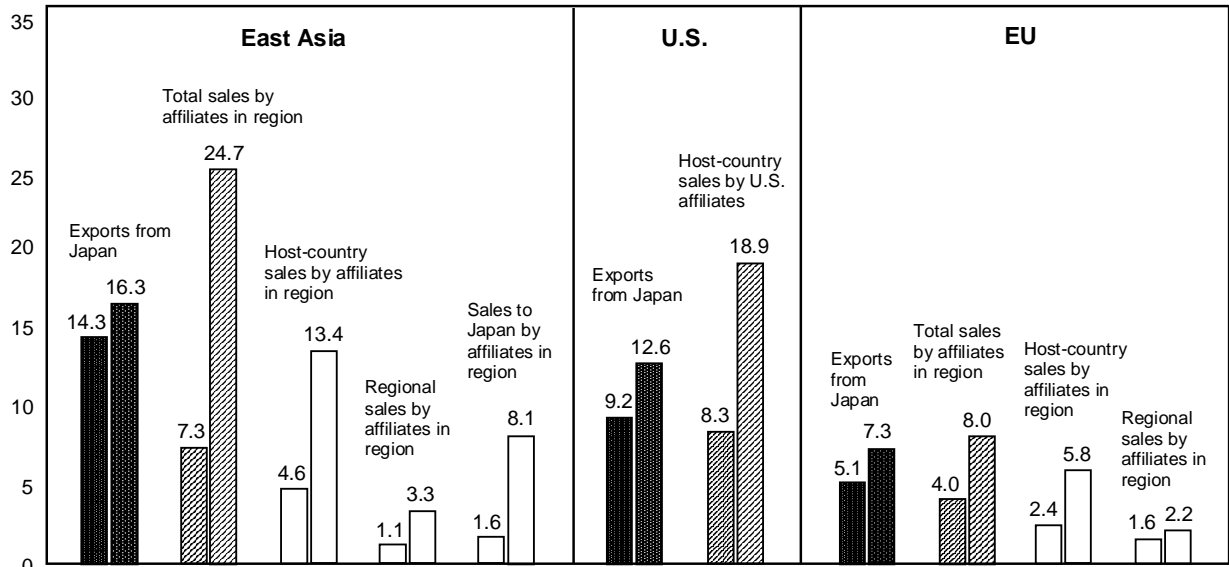
Industry	Japanese company	Operation in Taiwan	Comments on Taiwanese operation
Automobiles	Nissan Motor	Yulon Motor	Yulon Motor added an R&D center in 1998 to develop models for the Asian market. In China, Yulon established Aeolus Automobile (see below), a joint venture with Dongfeng Motor that produces Bluebird passenger cars under license from Nissan.
		Joint venture (planned, with details to be determined by end 2003)	Yulon and Nissan will set up a joint venture in Taiwan to handle all non-production activities regarding the Nissan brand in Taiwan. In addition, as part of supporting Nissan's operations in China, the new company will absorb Aeolus Automobile's related operations in China.
	Mitsubishi Motors	China Motors	China Motors added an R&D center in 1999 to develop models for the Asian market. The company's Frica commercial vehicle is produced and distributed by Chinese affiliate Fuzhou Motor, a joint venture between China Motors and South-East Motor of China.
	Toyota Motor	Kuozui Motors (production)	Kuozui Motors added an R&D center in 2002 to develop models for the Asian market. Kuozui also supports the development of small vehicles sold by Chinese subsidiary Tianjin Toyota (according to press reports in Taiwan).
Hotai Motor (distribution)		According to the Taiwanese media, Hotai established an office in Beijing in 2003 to handle sales and after-sales services for Toyota in China, with plans to expand from 70 sales outlets to 300 in two years.	
Publishing	Kadokawa Shoten Publishing	Kadokawa Media (Taiwan)	Translates information on art and fashion, etc. from Japanese to Chinese and sells this information to Chinese-language markets (China, Hong Kong, Singapore, etc.). Following the successful launch of <i>Taipei Walker</i> in Taiwan in 1999, considering publication of similar magazines in neighboring countries.
¥100 shops	Daiso Sangyo	Daiso (Taiwan)	Following success in Taiwan, Daiso Sangyo set up branches in the R.O.K. and Singapore.
	Sanyo Agency (now Seria)	Chai Yo Guan	Following success in Taiwan, Sanyo set up branches in China, the Philippines and Cambodia.
Delivery services	Sagawa Express	Hsinchu Transportation (business alliance)	Following success in Taiwan, Chinese joint ventures were established in Beijing and Shanghai for the launch of delivery services in 2002.

Sources: Prepared from JETRO research, press releases issued by each company and press reports.

Fig. 3-14 Japanese merchandise sales in East Asia, U.S. and EU

¥ trillion

Left: FY1995, Right: FY2000



Notes: Manufacturing excludes food, wood/paper and pulp, and coal/petroleum. Exports from Japan comprise chemicals and their products, metals, and textiles. Machinery includes general machinery, electrical machinery, transport machinery, household goods, home electrical equipment, passenger cars, motorcycles and bicycles.

Sources: Prepared from *Survey of Overseas Business Activities* (Ministry of Economy, Trade and Industry) and *Trade Statistics* (Ministry of Finance).

IV. Japan needs more inward FDI and globalized corporate activity

Ending the Japanese economy's protracted slump depends on stimulating the domestic economy by revitalizing industry and creating new industries. Japanese companies must adopt strategies for adding value to global resources in capital, business know-how, human resources and markets. The low level of inward FDI in Japan indicates that global resources are not being utilized on a sufficient level, and that Japan must develop the type of domestic environment that attracts foreign capital and human resources.

With the domestic market stuck in the doldrums, the search for revenue streams from overseas markets is spreading from export-dependent industries, such as the electrical and automobile industries, to industries oriented more toward domestic demand, such as the food and textile industries, and service industries such as the content (movies, software, etc.) industry. This trend is also spreading from large enterprises to small and medium-sized enterprises. As the importance of new foreign markets grows, companies will benefit from increased opportunities, such as trade fairs, for new business creation overseas.

A downside to economic globalization is its potential to weaken Japan's domestic production base as manufacturers set up plants overseas, taking human resources and technologies with them. Globalization must be pursued in conjunction with maintaining and strengthening domestic manufacturing infrastructure, which requires the development of higher value-added products and core parts, the prevention of unintended technology leaks and the prevention of core production technologies flowing to other countries.

To keep pace with the increasing competitiveness of Chinese and other Asian firms, Japanese firms need to make maximum use of brand strength and other intangible assets, and to leverage proprietary intellectual property in R&D and business strategies. This requires, however, addressing a number of issues. In the content industry, for example, which is becoming an increasingly important export industry for Japan, many firms' unfamiliarity with contracts means that they frequently enter disadvantageous agreements. And despite the high profile of Japanese animation (anime) overseas, Japanese firms are not always compensated adequately for their work, so they need to carefully review the legal ramifications of contracts. At the same time, measures are needed to strengthen anti-piracy and to support the development of the content industry.

A. FDI can help to revitalize the Japanese economy

Greater inward investment is the main prerequisite for revitalizing the Japanese economy, which means Japan must develop a more attractive environment for foreign capital and human resources. In most industrialized countries, M&A have become a vital means of attracting foreign capital. In Japan, however, a variety of impediments to M&A exist, particularly the deep-rooted antipathy toward foreign capital. But foreign investment gives birth to new culture in host countries and companies, so Japan could stimulate its economy with the new ways of thinking and new business techniques introduced through M&A. Attracting foreign investment is therefore of great value to Japan.

More FDI could be encouraged by introducing legislation that would allow cross-border share swaps and by heads of local government taking a more active role in regional investment promotion. In line with the Japan Investment Council's call for a one-stop center to provide investment information, JETRO established the Invest Japan Business Support Center in May 2003. The center handled 126 cases in the first quarter of fiscal 2003, resulting in 16 investments in fields such as IT and pharmaceuticals.

According to a JETRO study, an increasing number of foreign affiliates in Japan feel that the local business environment is improving. In a comparison of investment conditions in 15 categories of nine economies in East Asia, Japan was named best in six categories (such as infrastructure and human resources) and replaced China as having the best overall conditions (Fig. 4-1). Promotional activities are thus required to make foreign investors more aware that the Japanese market, the most affluent in East Asia, offers value-added markets and is an attractive target for foreign investment.

Fig. 4-1 Comparative images of business environments in top East Asian economies

(N = 449)	First	Responses	Response rate	Second	Responses	Response rate	Third	Responses	Response rate
		No. of companies	(%)		No. of companies	(%)		No. of companies	(%)
1) Market for products and services	China	278	61.9	Japan	238	53.0	R.O.K.	88	19.6
2) Transport infrastructure (airports, seaports, railways, etc.)	China	121	26.9	Singapore	114	25.4	Japan	106	23.6
3) Industrial infrastructure (electricity, gas, communications, etc.)	Japan	130	29.0	China	129	28.7	Singapore	58	12.9
4) IT environment	Japan	166	37.0	R.O.K.	130	29.0	Singapore	126	28.1
5) Superiority as logistics hub	Singapore	152	33.9	Hong Kong	123	27.4	China	76	16.9
6) Business costs (e.g. land prices and rents)	China	244	54.3	Thailand	104	23.2	Malaysia	98	21.8
7) Clustering of related businesses (e.g. subcontractors and parts suppliers)	China	151	33.6	Japan	96	21.4	Taiwan	82	18.3
8) Cheap skilled labor force	China	222	49.4	Thailand	86	19.2	Malaysia	57	12.7
9) Access to skilled/specialist human resources	Japan	182	40.5	Singapore	115	25.6	China	82	18.3
10) University and research facilities and support for technology tie-ups	Japan	151	33.6	Singapore	71	15.8	China	44	9.8
11) Financing	Japan	103	22.9	Hong Kong	96	21.4	Singapore	92	20.5
12) Public support (grants and subsidies, etc.)	Japan	77	17.1	Singapore	37	8.2	China	30	6.7
13) Low tax burden (corporation tax, income tax, etc.)	Singapore	90	20.0	Hong Kong	70	15.6	China	36	8.0
14) Transparency of laws and procedures	Singapore	116	25.8	Japan	75	16.7	Hong Kong	32	7.1
15) Living environment for foreigners (residential environment, education, medical services, etc.)	Singapore	196	43.7	Japan	113	25.2	Hong Kong	101	22.5

Source: *Eighth Survey on Foreign Firms in Japan* (JETRO).

B. Trade fairs, interregional exchanges and exports by smaller firms

Japan also needs to create more opportunities for overseas business development. This includes 1) increased organization of trade fairs, 2) more support for inter-regional business exchanges and 3) strategic promotion of exports by small and medium-size enterprises (SMEs).

1. Trade fairs

Trade fairs provide opportunities for attracting new business, so industrialized countries place considerable importance on them. For example, the knock-on economic effects of trade fairs in Germany is said to be equivalent to 1.1% of GDP (Fig. 4-2). Japanese trade fairs, faced with intensified competition from Hong Kong, Shanghai and Beijing, as well as Singapore and the R.O.K., are entering a difficult period and must respond by offering more value. To develop Japan's trade fair business in support of economic revitalization, the following steps must be taken:

- Develop standardized and internationalized exhibition data to provide overseas exhibitors with more accurate information.
- Establish organizations to promote exhibitions and study their economic benefits.
- Hold world-class exhibitions in Japan and eventually take them overseas.
- Develop human resources capable of guiding international exhibitions to success.

2. Interregional exchanges

In Kita-Kyushu City, the local government and private-sector entities have initiated exchanges with the sister cities of Incheon and Pusan through reciprocal business missions, seminars and business-matching gatherings, as well as reciprocal participation in exhibitions and trade fairs. JETRO, which has been providing support for such interregional business through its Region-to-Region Initiatives program, plans to increase support by providing strategic assistance for the overseas activities, particularly technology exchange, of companies evaluated as having strong potential for foreign business. The firms will be chosen from among 4,000 companies participating in any of 19 government-organized industrial clusters throughout Japan.

3. Exports by smaller firms

In fiscal 2003 (ending March 31, 2004), JETRO began providing strategic support for exports by small and medium-sized enterprises (SMEs) in the selected fields of machinery and parts, textiles, traditional products, food, IT and content, the environment, and medical services and welfare (Fig. 4-3). In the textile industry, the Japan Chamber of Commerce and Industry and a variety of other bodies have begun to take positive action in support of increased exports by SMEs. In the food industry, the Agriculture, Forestry, Fisheries Japan-Brand Export Promotion Prefectures Advisory Council was established with the backing of local governments in 25 prefectures to promote food exports primarily to East Asian markets. In July 2003, JETRO established a committee to develop strategies for exports of rice, fresh fruit, vegetables, livestock, marine products and forestry products. In the content field, the Agency for Cultural Affairs and Ministry of Economy, Trade and Industry supported the formation of the Offshore Content Distribution Promotion Organization, led by 16 bodies, such as the Recording Industry Association of Japan, and 15 companies, such as Shogakukan, in 2002. The organization aims to eliminate pirating and promote the distribution of legitimate content, as well prosecute and expose cases of pirating. Although activities have been limited to Japan so far, from fiscal 2004 it aims to use organizations such as JETRO to support content distribution in Asia, particularly China where pirating is rife and the resulting losses enormous.

Fig. 4-2 Knock-on economic effects of trade fairs in Germany

	2001 (estimated)
Direct expenditure on trade fairs	10,500 mil. euros
Exhibitor spending	6,500 mil. euros
Visitor spending	3,500 mil. euros
Investment in venue facilities	500 mil. euros
Indirect effects	12,500 mil. euros
Economic knock-on effects (direct expenditure + indirect effects)	23,000 mil. euros
Employment effect	250,000 jobs
Economic knock-on effect (percentage of GDP)	1.1%

Note: Research was conducted by the IFO Institute for Economic Research (Munich) and Institut für Markt- und Wirtschaftsforschung GmbH (Berlin), and commissioned by the Association of the German Trade Fair Industry (AUMA).

Sources: AUMA Dokumentation (Nr. 2/22 March 1999) and AUMA website.

Fig. 4-3 Priority export industries receiving JETRO support

Field	Characteristics
Machinery and parts	Despite the hollowing out of Japan's domestic industrial base, the country remains competitive in this field. Numerous companies among clusters of machinery and parts makers are the only ones of their kind in Japan. Support will be provided to help them to expand their markets.
Textiles	Japan's share of global exports is low and imports are growing rapidly. Support will be provided to help manufacturers expand overseas markets for well-known, high-quality Japanese products.
Traditional products	Traditional products made by skilled craftsmen will be introduced to the world. Support will help companies find openings to overseas markets.
Food	Responding to the increasing global interest in Japanese food, support will be provided for the development of overseas markets.
IT and content	Products in culture and information-related industries, such as films, TV programs, animated films, music and game software, will be introduced to world markets.
Environment, healthcare and social welfare	With increased demand anticipated because of global environmental problems and population aging, support will be provided for solutions that apply Japanese products and technology.

Source: Prepared by JETRO.

C. Keeping core production technologies in Japan

The key to revitalizing the Japanese economy is protection of Japan's domestic production technologies. The transfer of manufacturing operations overseas carries with it the risk of weakening Japan's competitiveness by leaking production technologies overseas. In the electrical machinery and electronics industries, companies are taking steps to prevent such leaks while shoring up manufacturing in Japan. If a company's manufacturing activities are based overseas, for example, this can interrupt the flow of ideas leading to fresh R&D. In order for a company to strengthen its production technologies, therefore, it needs to maintain close ties between its R&D operations and the manufacturing shop floor. These are some of the reasons why Japanese companies have incentives to keep production in Japan if at all possible.

Unintentional leaks overseas often result from technology licensing and technological assistance, provision of parts, materials and mechanical equipment required for manufacturing, and sharing of plans and know-how. To prevent such leaks, it is important to build strong relations with employees and business partners, take special care when entering into agreements, maintain close control of technologies after agreements have been signed, and in some cases adopt the strategy of keeping manufacturing processes in a "black box."

Case study: Keeping proprietary technology in Japan

In May 2003, Sharp Electronics Corporation announced that it would begin producing system LCDs at a plant in Taki, Mie Prefecture, in addition to building a plant for end-to-end production of large LCD television sets at an investment of ¥100 billion in Mie, the latter scheduled to come fully on stream in 2004.

Sharp's decision to manufacture in Japan was motivated by the need for close links between its R&D and manufacturing personnel to maintain and strengthen production technology. Moving these manufacturing operations overseas could have hindered the inflow of new ideas that could possibly lead to fresh R&D. The development of a system LCD manufacturing process was quite difficult, but having everything based in Japan enabled Sharp to overcome these challenges and pave the way to commercial operation.

To prevent proprietary manufacturing technology from leaking to other parties, Sharp distinguishes between technologies that it discloses through patents and those that it keeps concealed behind closed doors. Applying for a patent ensures the bearer holds the rights, but it also reveals the details of the technology to the public, which is why Sharp believes that protecting technologies through patents alone is insufficient. A further disadvantage is having to prove a rights violation has occurred in the case of alleged infringement. While not to the extent of American companies, Japanese companies also maintain exclusive control of their manufacturing technologies by concealing them more assiduously than product technologies.

D. Protecting and leveraging intellectual property

The fourth key to Japan's economic revitalization is for companies to develop business models that incorporate strategies for protecting and using intellectual property. The importance of intellectual property in business is coming increasingly under the spotlight. Companies could enhance their competitiveness by giving greater weight in their R&D and business plans to the creation of intellectual property, then using the resulting "intellectual assets" to competitive advantage when developing their business.

Intellectual property is easier to copy than tangible objects, and there are limits as to how much protection a company can realize independently, so the protection of intellectual property rights depends greatly on national governments.

In industrialized economies such as the R.O.K. and Taiwan, there is a strong focus on exporting content such as films, published works and TV programs. This is because exports of such content lead to the export of that country's lifestyles. Support for the fledgling U.S. film industry in the 1920s, for example, was born of a belief that trade would follow. Despite the fact that Japan is almost unique among industrialized countries in that its central government has had practically no involvement in the export of content, Japan dominates the world's game and animation markets. More than 60% of the animated TV programs broadcast around the world are estimated to have been made in Japan. But the Japanese content industry lacks organized backup, such as government measures to combat piracy and support for exhibiting at trade fairs, and does not have a powerful industry association. A further problem is that advances in digital technology have made it very easy to copy content, which has led to increased pirating of CDs and DVDs. In China, for example, 90% of the CDs are estimated to have been pirated. A number of challenges thus must be overcome to enable the content industry to expand globally.

V. Rebuilding Japan's global competitiveness within East Asia

The global economy is expected to pick up in the latter half of 2003 as conditions in the U.S. recover. If the global economy is to really recover, however, the U.S. economy must overcome downside pressures and return to the growth path. At the same time, the slowly growing Japanese and European economies must also recover. Germany, the engine of the European economy, and Japan, the core of the East Asian economy, must break the grips of deflation and revitalize their economies through structural reform.

Since the collapse of Japan's asset-inflated bubble economy in the early 1990s, Japan has been undertaking structural economic reforms and taking measures to revitalize its domestic industry, while also dealing with the crucial challenges of eliminating non-performing loans and fighting deflation. In the mid to long term, the Japanese economy requires expanded domestic demand through deregulation and structural reform, and the rebuilding of Japanese industrial competitiveness in the global economy, but particularly in East Asia. Efforts to eliminate non-performing loans have been prolonged by creeping deflation, but the problem can be put off no longer. Tax reforms aimed at sustained economic revitalization have already been introduced, and advance cuts in national and local government taxes worth approximately ¥1,800 billion began to go into effect in fiscal 2003. These are built around cuts in taxes on R&D investment (¥547.0 billion), capital investment (¥527.0 billion), inheritance and gifting (¥103.0 billion), and financial support for SMEs (¥230.0 billion). Other measures include spending of ¥3,000 billion on accelerated reforms (such as establishment of a social safety net), measures to stimulate demand through the creation of deregulated zones (Special Zones for Structural Reform), and the establishment of the Industrial Revitalization Corporation of Japan. In addition, it is hoped that anti-deflation measures and financial and industrial revitalization programs announced at the end of 2002 will be implemented swiftly.

The rebuilding of Japanese industrial competitiveness must be pursued within a large, integrated business bloc combining Japan and the rest of East Asia. Because of the very slow rates of growth in Japan, firms are expanding their profits in East Asia. Profits and returns on investment in East Asia rival those in the North American market. Sales by Japanese manufacturing affiliates in East Asia in fiscal 2000 were approximately equal to those in the American market, and the value of Japanese exports to East Asia exceeded those to the United States. Moreover, exports to Japan by Japanese firms in East Asia continued to grow. The Japanese economy until the 1980s grew by producing domestically competitive products and then finding new markets in the rest of the world. Since the appreciation of the yen in the mid-1980s, however, Japanese firms have been shifting production to East Asia. Japanese production networks developed in East Asia have become an integral component of the Japanese economy.

While production in Japan and East Asia is becoming increasingly integrated, East Asia is also developing into a consumer market for Japanese firms, assisted by the growth of the Chinese market since the early 1990s. Although the ASEAN market experienced a severe slump in consumption as a result of the Asian financial crisis, recovery is underway. At the same time, the Chinese consumer market is growing rapidly. Looking at automobile sales volume in 2002, for example, the ASEAN4 recovered to 1.25 million units, or 86% of the pre-crisis 1996 level, while sales in China grew from 1.46 million in 1996 to 3.25 million in 2002. Income levels in East Asia are expected to rise in conjunction with high economic growth, creating a new class of affluent consumers concentrated in urban areas, thereby fueling rapid growth of the region's consumer market. Recognizing this potential, European and North American firms have adopted long-term plans for expansion in the region, meaning that Japanese companies now face competition not only from Korean and Chinese firms, but also European and American rivals as well.

Given these developments, Japanese firms need to develop strategies that treat East Asia as a single business bloc. This means producing and procuring parts and materials from the most advantageous

locations in the region. The key zone for production and consumption is coastal Asia, extending from the Japanese archipelago, the R.O.K., northeast China, Shanghai and the rest of the Chang Jiang Delta region, the Pearl Delta including Shenzhen and Hong Kong, Taiwan and the ASEAN countries. If Japanese firms are to expand their operations in the strategic zone of coastal Asia, it is crucial that a free business bloc be created through free trade agreements (FTAs) and other economic alliances. Efforts are already underway to accelerate regional cooperation in East Asia through the proposed Initiative for Japan–ASEAN Comprehensive Economic Partnership and talks aimed at establishing frameworks for negotiating FTAs between Japan and the R.O.K. and between China and ASEAN.

The ASEAN region is becoming a major battleground for the countries of Europe, North America and elsewhere, which are seeking to reap the benefits of strengthened cooperation with the region. Having signed an FTA with Singapore, Japan is now in preparatory negotiations with ASEAN, aiming to set up an FTA negotiation framework in October 2003. China, meanwhile, as part of its FTA negotiations with ASEAN, plans to start reducing tariffs on agricultural products from Thailand ahead of schedule in October 2003. Japan has been criticized in some quarters for being slow off the blocks compared with China, and indeed any such slowness could not only imperil its successes to date and derail efforts to revitalize the Japanese economy.

For Japan to maintain its competitiveness and continue to display leadership in an East Asian free business bloc, it must develop and maintain a leading presence in value-added, cutting-edge fields by strengthening its R&D capabilities, forming industrial clusters and providing startup support for business ventures. Secondly, it needs to attract the best capital, technologies, know-how and minds from around the world. Thirdly, the Japanese service sector needs to be given a boost through deregulation and other reforms. The sector's contribution to the Japanese economy in terms of production and employment is increasing, as seen in the 1990s when it picked up the slack created by slumping employment in manufacturing. Jobs growth has been, and will continue to be, particularly strong in miscellaneous services (temporary employment services, etc.), social insurance and welfare (welfare services for the elderly and children, etc.), medical services, and information services and research (software industry, etc.). Fourthly, exports by SMEs and venture businesses need to be promoted to help revitalize Japan's regional economies. There are numerous categories of products made by such firms with promising export potential, such as traditional products made by skilled craftspeople, content such as animations and computer games, and high-quality Japanese foods with healthful qualities. Fifthly, it is important to strengthen Japan's international competitiveness through better protection and use of intellectual property rights.

At the same time, Japan must push ahead with structural reforms to become a country that is truly open to the world. This, combined with efforts to ensure Japanese technologies reach the global marketplace, is essential to Japan's economic revitalization.

Appended Table Trade (exports and imports) in main economies

(Units: US\$ million, %)

	Exports					Imports				
	2001	2002	(Growth rate)	(% contribution)	(Share)	2001	2002	(Growth rate)	(% contribution)	(Share)
U.S.	729,100	693,103	-4.9	-14.4	10.9	1,140,999	1,161,366	1.8	8.3	17.7
Canada	260,973	252,246	-3.3	-3.5	4.0	221,562	222,049	0.2	0.2	3.4
Japan	405,155	415,862	2.6	4.3	6.5	351,098	336,832	-4.1	-5.8	5.1
EU	2,285,208	2,415,993	5.7	52.4	38.0	2,238,317	2,317,604	3.5	32.4	35.3
France	294,009	303,924	3.4	4.0	4.8	298,649	303,003	1.5	1.8	4.6
Germany	571,394	609,917	6.7	15.4	9.6	486,001	494,022	1.7	3.3	7.5
Italy	240,779	251,348	4.4	4.2	4.0	232,701	243,104	4.5	4.3	3.7
U.K.	272,634	278,557	2.2	2.4	4.4	332,789	344,232	3.4	4.7	5.2
Switzerland	82,057	87,967	7.2	2.4	1.4	84,065	83,772	-0.3	-0.1	1.3
Australia	63,258	65,062	2.9	0.7	1.0	54,660	62,580	14.5	3.2	1.0
New Zealand	13,714	14,499	5.7	0.3	0.2	12,431	14,251	14.6	0.7	0.2
East Asia	1,092,530	1,198,102	9.7	42.3	18.8	1,005,184	1,093,070	8.7	35.9	16.6
Asian NIEs	584,891	618,205	5.7	13.4	9.7	565,336	588,640	4.1	9.5	9.0
R.O.K.	150,439	162,471	8.0	4.8	2.6	141,098	152,126	7.8	4.5	2.3
Taiwan	122,866	130,597	6.3	3.1	2.1	107,237	112,530	4.9	2.2	1.7
Hong Kong	189,901	200,094	5.4	4.1	3.1	201,083	207,647	3.3	2.7	3.2
Singapore	121,685	125,043	2.8	1.3	2.0	115,918	116,337	0.4	0.2	1.8
ASEAN4	241,541	254,332	5.3	5.1	4.0	196,295	209,228	6.6	5.3	3.2
Thailand	65,115	68,801	5.7	1.5	1.1	62,042	64,666	4.2	1.1	1.0
Malaysia	87,969	93,283	6.0	2.1	1.5	73,744	79,871	8.3	2.5	1.2
Indonesia	56,321	57,159	1.5	0.3	0.9	30,962	31,289	1.1	0.1	0.5
Philippines	32,136	35,089	9.2	1.2	0.6	29,546	33,403	13.1	1.6	0.5
China	266,098	325,565	22.3	23.8	5.1	243,553	295,203	21.2	21.1	4.5
India	43,314	49,299	13.8	2.4	0.8	45,129	51,094	13.2	2.4	0.8
Mexico	158,443	160,682	1.4	0.9	2.5	168,396	168,679	0.2	0.1	2.6
Brazil	58,223	60,362	3.7	0.9	0.9	55,579	47,232	-15.0	-3.4	0.7
Colombia	12,183	11,576	-5.0	-0.2	0.2	11,421	11,056	-3.2	-0.1	0.2
Chile	17,616	17,431	-1.1	-0.1	0.3	13,141	12,853	-2.2	-0.1	0.2
Argentina	26,610	25,340	-4.8	-0.5	0.4	18,289	8,094	-55.7	-4.2	0.1
Russia	99,970	106,154	6.2	2.5	1.7	41,881	46,153	10.2	1.7	0.7
Poland	36,092	41,010	13.6	2.0	0.6	45,248	49,601	9.6	1.8	0.8
Turkey	31,151	35,142	12.8	1.6	0.6	36,858	45,882	24.5	3.7	0.7
South Africa	26,827	27,031	0.8	0.1	0.4	25,127	26,205	4.3	0.4	0.4
Total global trade (estimated)	6,125,260	6,358,666	4.1	100.0	100.0	6,326,890	6,570,579	3.9	100.0	100.0

Note: Figures on the value of global trade in 2001 are from IMF sources. Figures on values, growth rates, percentage contributions and shares in 2002 are JETRO estimates.
Sources: Prepared by JETRO from national trade statistics and other sources.