



Japan External Trade Organization

2013 JETRO Global Trade and Investment Report

-Revitalizing Japan through global business-

Overview

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Overseas Research Department, JETRO

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Chapter 1

The world economy, trade and direct investment

World economic growth stagnates, concerns of future slowdown

In July 2013, the IMF revised downward its estimate of the world's real GDP growth for 2013 by 0.2 points to 3.1%, over the estimate in April 2013. Compared to 2012, the estimate showed a stagnation in the world economy. Initially, growth had been expected to accelerate. However, weak recovery of the European economy as well as the harsh view toward growth in emerging and developing economies such as China, India, Russia and South Africa, gave rise to concerns of a further slowdown. Amongst developed economies, Japan is estimated to achieve remarkably high growth.

Figure I-1: GDP growth and contribution by country and region

(Unit: %)

	2011		2012		2013 (Projections)			2014 (Projections)		
	Percent change	Contribution	Percent change	Contribution	Percent change	Difference from April projections	Contribution	Percent change	Difference from April projections	Contribution
World	3.9	3.9	3.1	3.1	3.1	Δ 0.2	3.1	3.8	Δ 0.2	3.8
Advanced economies	1.7	0.9	1.2	0.6	1.2	Δ 0.1	0.6	2.1	Δ 0.2	1.0
United States	1.8	0.3	2.2	0.4	1.7	Δ 0.2	0.3	2.7	Δ 0.2	0.5
Euro Area	1.5	0.2	Δ 0.6	Δ 0.1	Δ 0.6	Δ 0.2	Δ 0.1	0.9	Δ 0.1	0.1
Germany	3.1	0.1	0.9	0.0	0.3	Δ 0.3	0.0	1.3	Δ 0.1	0.0
France	2.0	0.1	0.0	0.0	Δ 0.2	Δ 0.1	Δ 0.0	0.8	0.0	0.0
Italy	0.4	0.0	Δ 2.4	Δ 0.1	Δ 1.8	Δ 0.3	Δ 0.0	0.7	0.2	0.0
Spain	0.4	0.0	Δ 1.4	Δ 0.0	Δ 1.6	0.0	Δ 0.0	0.0	Δ 0.7	0.0
Japan	Δ 0.6	Δ 0.0	1.9	0.1	2.0	0.5	0.1	1.2	Δ 0.3	0.1
United Kingdom	1.0	0.0	0.3	0.0	0.9	0.3	0.0	1.5	0.0	0.0
Emerging and developing economies	6.2	3.0	4.9	2.4	5.0	Δ 0.3	2.5	5.4	Δ 0.3	2.7
Central and Eastern Europe	5.4	0.2	1.4	0.0	2.2	0.0	0.1	2.8	0.0	0.1
Commonwealth of Independent States	4.8	0.2	3.4	0.1	2.8	Δ 0.6	0.1	3.6	Δ 0.4	0.2
Russia	4.3	0.1	3.4	0.1	2.5	Δ 0.9	0.1	3.3	Δ 0.5	0.1
Asia	7.8	1.8	6.5	1.6	6.9	Δ 0.3	1.7	7.0	Δ 0.3	1.8
China	9.3	1.3	7.8	1.1	7.8	Δ 0.3	1.2	7.7	Δ 0.6	1.2
India	6.3	0.3	3.2	0.2	5.6	Δ 0.2	0.3	6.3	Δ 0.1	0.4
ASEAN 5	4.5	0.2	6.1	0.2	5.6	Δ 0.3	0.2	5.7	0.2	0.2
Latin America and the Caribbean	4.6	0.4	3.0	0.3	3.0	Δ 0.4	0.3	3.4	Δ 0.5	0.3
Brazil	2.7	0.1	0.9	0.0	2.5	Δ 0.5	0.1	3.2	Δ 0.8	0.1
Middle East and North Africa	4.0	0.2	4.5	0.2	3.0	Δ 0.1	0.2	3.7	0.1	0.2
Sub-Saharan Africa	5.4	0.1	4.9	0.1	5.1	Δ 0.4	0.1	5.9	Δ 0.2	0.2
South Africa	3.5	0.0	2.5	0.0	2.0	Δ 0.8	0.0	2.9	Δ 0.4	0.0
(Reference) EU	1.7	0.3	Δ 0.2	Δ 0.0	Δ 0.1	Δ 0.1	Δ 0.0	1.2	Δ 0.1	0.2

Notes: (1) The definitions of advanced economies and emerging and developing economies follow the World Economic Outlook (IMF). The ASEAN 5 refers to Indonesia, Malaysia, Philippines, Thailand, and Vietnam.

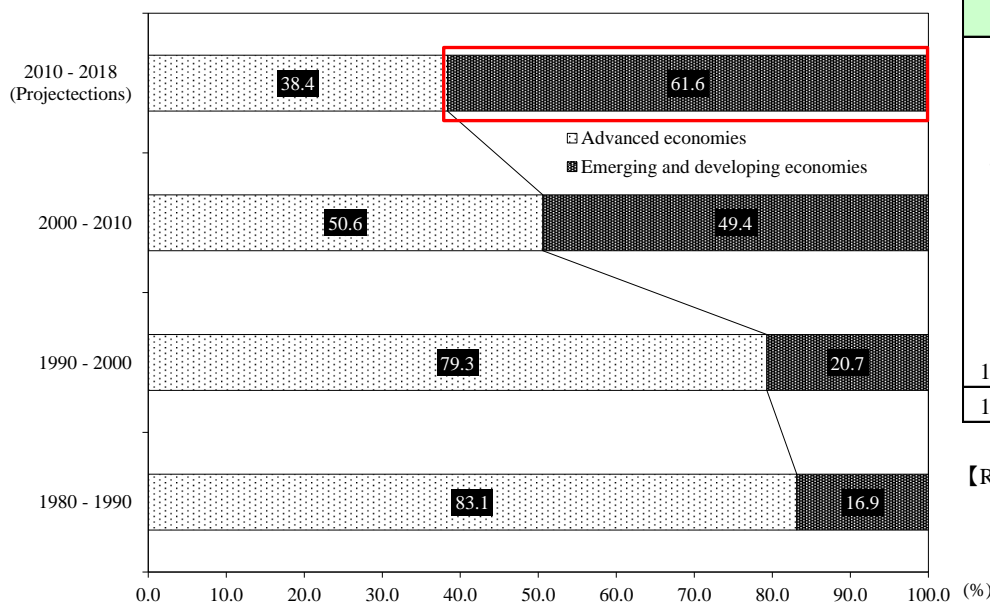
(2) Contributions by country and region are calculated using the weighted PPP (Purchasing Power Parity) for 2012, based on "WEO, April 2013."

Source: "WEO, July 2013" (IMF).

Emerging and developing economies continue to lead world economy

- Emerging and developing economies, including China and India, are estimated to contribute more than 60% to world economic growth from 2010 to 2018. In contrast, the contribution rate of developed economies for the same period is expected to decline to less than 40%.
- In recent years, China has achieved the greatest growth to lead the world economy. With the exclusion of Australia, which has strengthened its national power through the high price of natural resources, emerging and developing economies occupied the top 10 economies which contributed to the world economic growth. (Japan's contribution rate has been on the decline as follows: 1980-1990: 17.6%; 1990-2000: 16.1%; 2000-2010: 2.5%; 2010-2018: 1.3% [IMF figures prior to the announcement of the Growth Strategy].)

Figure I-2: Contribution to world economic growth by emerging and developing economies



Source: "WEO, April 2013"(IMF).

Figure I-3: Ranking of contribution to the world economic growth (Unit: %)

1980-2000		2000-2018		Difference between the two periods		
1	United States	33.1	China	21.1	China	16.4
2	Japan	16.9	United States	17.1	India	2.5
3	Germany	4.9	Russia	4.5	Brazil	1.9
4	China	4.6	Brazil	4.2	Indonesia	1.7
5	United Kingdom	4.3	India	3.8	Australia	1.1
6	France	3.0	Germany	3.2	Saudi Arabia	0.9
7	Italy	2.9	France	2.7	Turkey	0.7
8	Brazil	2.3	United Kingdom	2.3	Nigeria	0.6
9	South Korea	2.2	Canada	2.2	Iran	0.6
10	Canada	2.2	Australia	2.2	Colombia	0.4
12			Japan	1.8	Japan	Δ 15.1

【Reference: By region】

1980-2000		2000-2018		Difference between the two periods	
EU	22.4	EU	17.2	EU	Δ 5.2
ASEAN5	1.3	ASEAN5	4.2	ASEAN5	2.9
Central and South America	6.0	Central and South America	9.0	Central and South America	3.0
Central and East Europe	-	Central and East Europe	6.0	Central and East Europe	-
Middle East and North Africa	1.3	Middle East and North Africa	5.0	Middle East and North Africa	3.6
Sub-Saharan Africa	0.2	Sub-Saharan Africa	2.4	Sub-Saharan Africa	2.1

Source: "WEO, April 2013" (IMF).

World trade levels off in 2012

JETRO estimated that world trade for 2012, based on merchandise trade and nominal exports, rose by 0.02% to US\$17,977 trillion year-on-year. The drop in trade prices had the effect of curbing the overall amount of trade. Real growth rate grew 2.5% in comparison with the previous year, indicating that the actual flow of goods was also sluggish. Data could be obtained for the most recent period of the first quarter of 2013. During this period, the growth of export value for the main 23 countries and regions was down 0.2% as compared to the same period last year.

Figure I-4: World trade indices

	2008	2009	2010	2011	2012	
World merchandise trade, export basis (US\$ billion)	16,006	12,382	15,107	17,974	17,977	
Nominal percent change(%)	15.3	Δ 22.6	22.0	19.4	0.0	
Real percent change(%)	4.7	Δ 11.9	16.9	8.2	2.5	
Price percent change(%)	10.6	Δ 10.7	5.1	11.2	Δ 2.5	
World merchandise trade, import basis (US\$ billion)	16,320	12,551	15,234	18,575	18,664	
Nominal percent change(%)	15.5	Δ 23.1	21.4	19.2	0.5	
Real percent change(%)	3.2	Δ 10.2	15.4	5.7	1.5	
Price percent change(%)	12.3	Δ 12.9	6.0	13.6	Δ 1.0	
World real GDP growth(%)	2.8	Δ 0.6	5.2	3.9	3.1	
Industrial production index growth (Advanced economies, %)	Δ 2.3	Δ 12.9	6.7	2.2	0.5	
Crude oil	Average price(\$/barrel)	97.0	61.8	79.0	104.0	105.0
	Quantity of demand(million bbl/day)	86.1	85.1	87.8	88.9	89.8

Notes: (1) 2011 and 2012 trade values and 2012 nominal growth rates are JETRO estimates.

(2) Real percent change = Nominal percent change - Price percent change

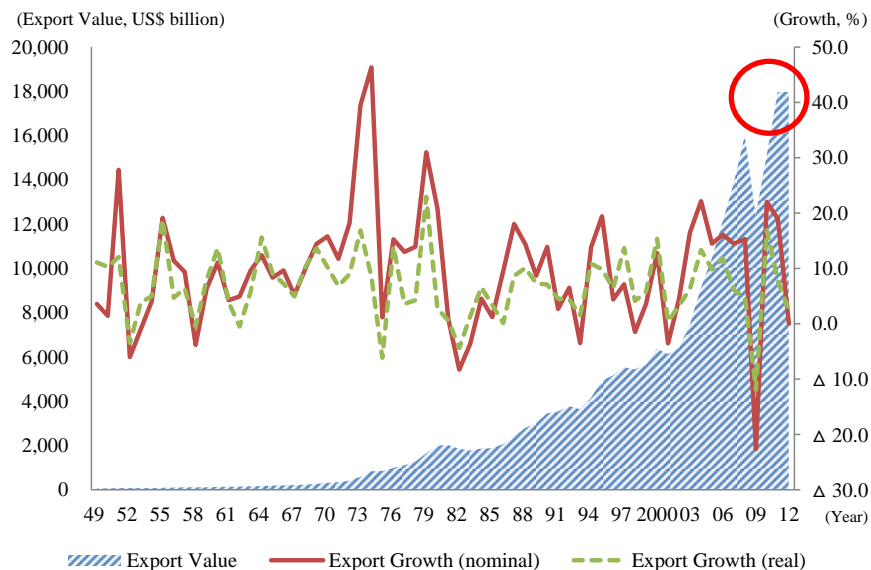
(3) Real GDP growth based on purchasing power parity.

Figures for 2008 - 2010 are those released in April, and figures for 2011-2012 are those revised in July.

(4) Definition of advanced economies follows IFS classification.

Sources: "IFS, May 2013"(IMF), WEO, April 2013"(IMF), WEO, July 2013(IMF), WTO, BP plc., and statistics from individual countries/regions.

Figure I-5: Long-term trends in world trade (exports) (1949-2012)



Note: 2011 and 2012 trade values and 2012 nominal growth rates are JETRO estimates.
Source: "IFS, May 2013" (IMF).

EU trade declines

Exports (including exports within the region) for the 27 EU member countries (EU27) fell by 4.4% year-on-year, while imports (including imports within the region) fell by 5.7%. The decline in imports for EU, which is the largest import market in the world, has curbed the growth of exports among other countries. Looking at individual export products, exports of chemicals and steel have declined. Due to factors such as the economic sanctions imposed by the United States and EU on Iran, crude oil prices are on the rise and maintaining their positive growth.

Figure I-6: World trade by country and region (2012)

(US\$million, %)

	Exports				Imports			
	Value	Growth Rate	Share	Contribution	Value	Growth Rate	Share	Contribution
NAFTA	2,371,289	3.9	13.2	0.5	3,108,418	3.3	16.7	0.5
U.S.	1,545,709	4.4	8.6	0.4	2,275,320	3.0	12.2	0.4
Canada	454,691	0.5	2.5	0.0	462,352	2.4	2.5	0.1
Mexico	370,890	6.1	2.1	0.1	370,746	5.7	2.0	0.1
EU27	5,814,257	Δ 4.4	32.3	Δ 1.5	5,886,800	Δ 5.7	31.5	Δ 1.9
Germany	1,408,462	Δ 4.5	7.8	Δ 0.4	1,168,601	Δ 6.9	6.3	Δ 0.5
The Netherlands	656,607	Δ 1.6	3.7	Δ 0.1	591,914	Δ 1.2	3.2	Δ 0.0
France	569,721	Δ 4.5	3.2	Δ 0.1	674,804	Δ 6.3	3.6	Δ 0.2
Italy	501,274	Δ 4.3	2.8	Δ 0.1	487,454	Δ 12.8	2.6	Δ 0.4
UK	483,388	Δ 5.7	2.7	Δ 0.2	692,523	3.3	3.7	0.1
Belgium	447,194	Δ 6.1	2.5	Δ 0.2	437,889	Δ 6.2	2.3	Δ 0.2
Japan	801,335	Δ 2.4	4.5	Δ 0.1	888,584	4.2	4.8	0.2
East Asia	4,595,825	4.3	25.6	1.0	4,355,634	4.0	23.3	0.9
China	2,048,935	7.9	11.4	0.8	1,817,826	4.3	9.7	0.4
South Korea	547,870	Δ 1.4	3.0	Δ 0.0	519,584	Δ 0.9	2.8	Δ 0.0
Hong Kong	493,366	8.3	2.7	0.2	554,225	8.4	3.0	0.2
Taiwan	284,412	Δ 2.4	1.6	Δ 0.0	270,565	Δ 3.7	1.4	Δ 0.1
ASEAN6	1,221,242	1.2	6.8	0.1	1,193,434	5.9	6.4	0.4
Singapore	408,621	Δ 0.3	2.3	Δ 0.0	379,935	3.8	2.0	0.1
Thailand	228,407	3.6	1.3	0.0	249,487	8.8	1.3	0.1
Malaysia	227,617	Δ 0.3	1.3	Δ 0.0	196,814	4.9	1.1	0.0
Indonesia	190,032	Δ 6.6	1.1	Δ 0.1	191,691	8.0	1.0	0.1
Russia	352,536	Δ 6.9	2.0	Δ 0.1	290,406	4.2	1.6	0.1
India	296,111	Δ 3.6	1.6	Δ 0.1	489,319	5.2	2.6	0.1
Australia	256,789	Δ 5.1	1.4	Δ 0.1	250,712	6.9	1.3	0.1
Brazil	242,580	Δ 5.3	1.3	Δ 0.1	223,149	Δ 1.4	1.2	Δ 0.0
South Africa	87,264	Δ 9.8	0.5	Δ 0.1	101,558	1.5	0.5	0.0
World trade (estimate)	17,977,031	0.0	100.0	0.0	18,664,441	0.5	100.0	0.5
Advanced economies	10,681,261	Δ 1.9	59.4	Δ 1.2	11,430,781	Δ 1.5	61.2	Δ 1.0
Emerging and developing economies	7,295,771	3.0	40.6	1.2	7,233,660	3.8	38.8	1.4
BRICs	2,940,161	3.5	16.4	0.6	2,820,700	4.0	15.1	0.6

Notes: (1) Data for the world, EU27, advanced economies, emerging and developing economies follow JETRO estimates.

(2) EU27 includes internal trade.

(3) ASEAN6 in this chart stands for the following six countries: Singapore, Thailand, Malaysia, Indonesia, the Philippines, and Vietnam

(4) East Asia in this chart are the following 10 countries/regions: China, South Korea, Hong Kong, Taiwan and ASEAN6.

(5) Definitions of advanced economies, emerging and developing economies follow WEO (IMF) standards

Source: Statistics from individual countries/regions.

Figure I-7: World trade by product: exports (2012)

(US\$million, %)

	Value	Growth Rate	Share	Contribution
Total	17,977,031	0.0	100.0	0.0
Machinery and equipment	6,603,028	0.8	36.7	0.3
General equipment	2,061,511	Δ 0.3	11.5	Δ 0.0
Electrical equipment	2,164,973	1.0	12.0	0.1
Transport equipment	1,774,836	0.8	9.9	0.1
Precision equipment	601,707	4.2	3.3	0.1
Chemicals	2,321,878	Δ 2.2	12.9	Δ 0.3
Chemical industrial products	1,561,479	Δ 2.0	8.7	Δ 0.2
Pharmaceuticals and medical supplies	468,982	Δ 0.4	2.6	Δ 0.0
Plastics and rubber	760,399	Δ 2.8	4.2	Δ 0.1
Food	1,162,286	Δ 0.2	6.5	Δ 0.0
Seafood	93,042	Δ 3.3	0.5	Δ 0.0
Coffee	31,815	Δ 11.5	0.2	Δ 0.0
Grains	111,890	1.2	0.6	0.0
Processed food products	514,095	1.6	2.9	0.0
Oils and fats, and other animal and plant products	207,278	6.1	1.2	0.1
Miscellaneous manufactured products	520,955	7.8	2.9	0.2
Iron ore	125,250	Δ 17.2	0.7	Δ 0.1
Mineral fuels, etc.	3,111,346	3.7	17.3	0.6
Mineral fuels	2,925,850	3.0	16.3	0.5
Coal	130,802	Δ 7.5	0.7	Δ 0.1
LNG	146,625	10.5	0.8	0.1
Petroleum and petroleum products	2,413,870	3.4	13.4	0.4
Crude oil	1,459,445	3.5	8.1	0.3
Textiles and textile products	730,130	Δ 2.7	4.1	Δ 0.1
Synthetic fibers and textiles	85,063	Δ 7.0	0.5	Δ 0.0
Clothing	402,750	Δ 1.0	2.2	Δ 0.0
Base metals and base metal products	1,237,521	Δ 7.3	6.9	Δ 0.5
Steel	714,823	Δ 6.7	4.0	Δ 0.3
Primary products of steel	416,047	Δ 11.5	2.3	Δ 0.3
Steel products	298,775	0.8	1.7	0.0
Copper ingots	68,805	Δ 9.8	0.4	Δ 0.0
Nickel ingots	14,918	Δ 1.9	0.1	Δ 0.0
Aluminum ingots	50,607	Δ 13.9	0.3	Δ 0.0
Lead ingots	5,452	Δ 18.2	0.0	Δ 0.0

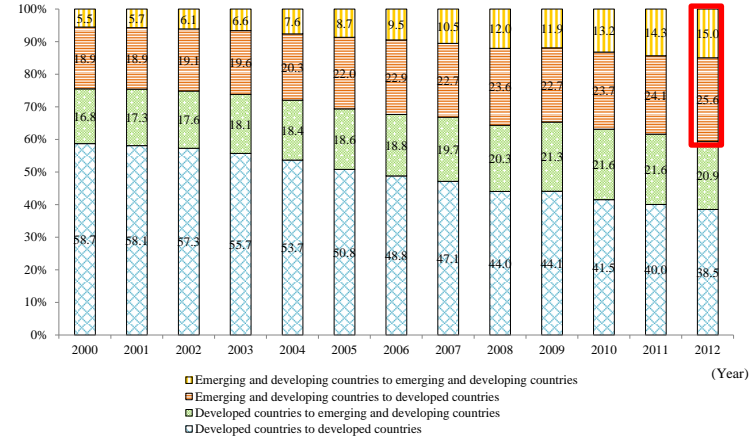
Notes: Total value for 2012 and total growth rate follow JETRO estimates.

Source: Statistics from individual countries/regions.

Larger share for both exporters and importers in emerging and developing countries

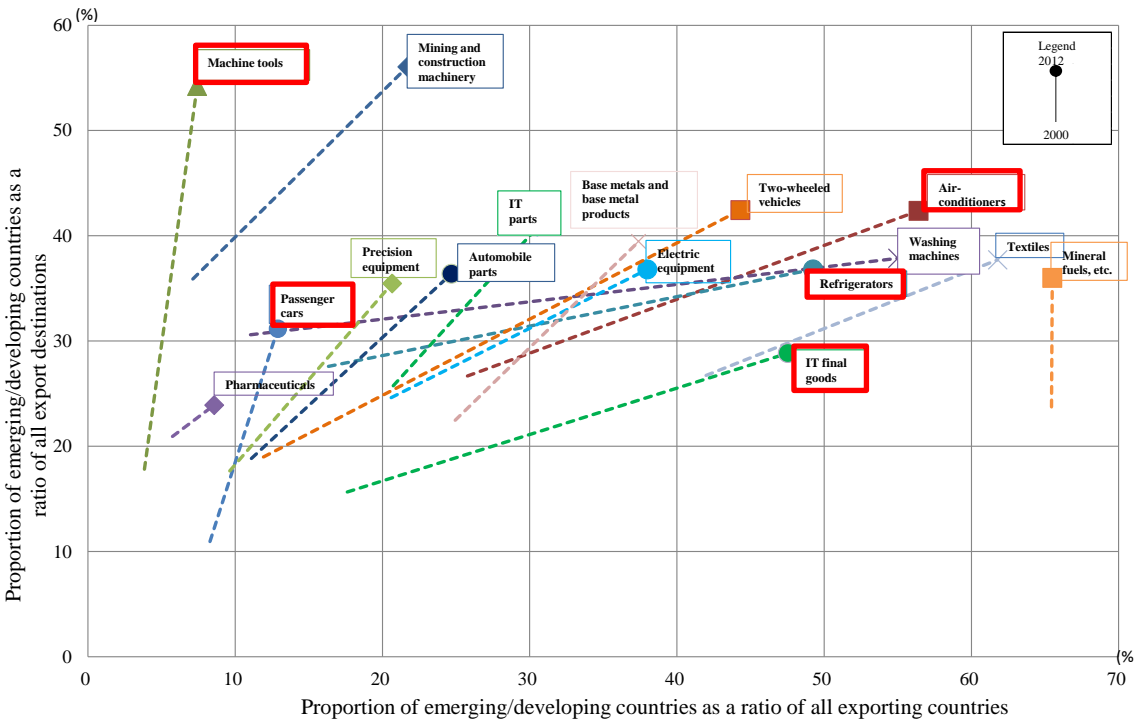
With regard to the share of total world trade that emerging and developing countries contribute to, exports grew from 24.4% in 2000 to 40.6% in 2012, while imports increased from 22.4% to 38.8%. The ratio of exports from emerging and developing countries grew significantly for “white goods” such as air-conditioners and refrigerators, and IT final goods such as computers. While developed countries continue to make up the larger share for exports such as machine tools as well as passenger cars, the ratio of export destinations to emerging and developing countries is on the rise.

Figure I-8: Changes in the percentage of world trade (export) for developed/emerging and developing countries



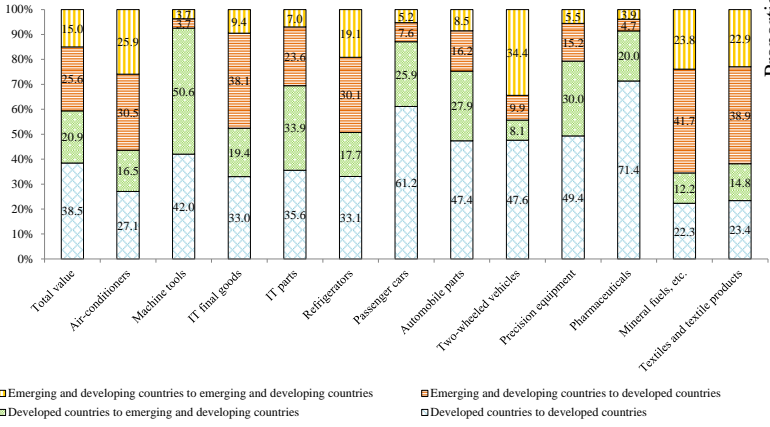
Source: Statistics from individual countries/regions.

Figure I-10: Changes in exporters and export destinations over time (by product, from 2000-2012)



Source: Statistics from individual countries/regions.

Figure I-9: Comparison of exports by product for developed/emerging and developing countries (2012)

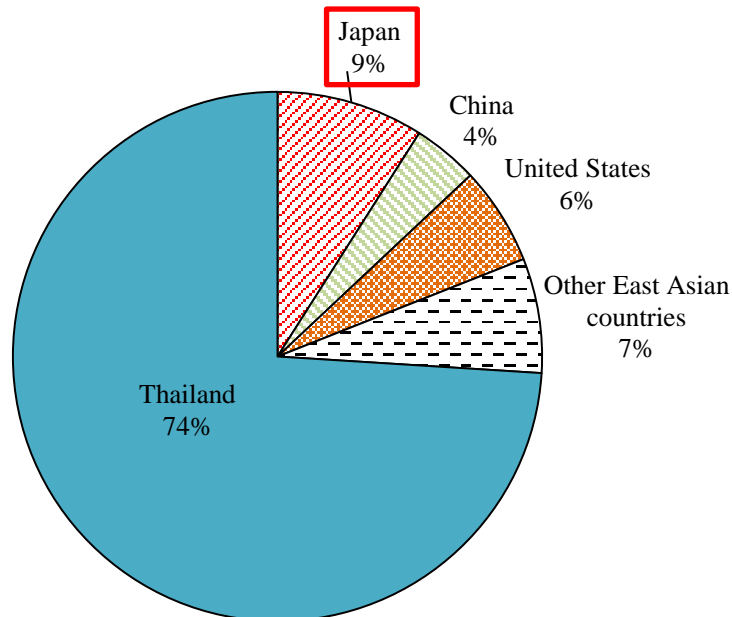


Source: Statistics from individual countries/regions.

Analysis by “trade in value added” method spreads

Trade in value added differs from conventional trade statistics that are based on the movement of “things.” Rather, it is an analytical method that captures international trade based on the value that is added during the production process. It is possible to extract value added of other countries as a proportion of the total exports of the countries in question, enabling analysis that corresponds to the actual situation of production activities in our era, which has achieved advancements in the international division of labor. In June 2011, WTO and IDE-JETRO released the research results for trade in value added, which were based on the use of international input-output tables. Consequently, the release of this data contributed to an acceleration in analysis and the development of data by other international institutions.

Figure I-11: Sources of value added included in US bound exports for **Thai** industrial products (2005)



Source: International Input-Output Table for Asia, 2005

Figure I-12: Contents pertaining to trade in value added, published by international institutions

Organization	Contents	Date of publication
World Trade Organization (WTO), IDE-JETRO	Trade in value added was measured and analyzed based on International Input-Output Table for Asia, drawn up by IDE-JETRO. The result of joint research was published in English and Japanese in a report "Trade patterns and global value chains in East Asia: From trade in goods to trade in tasks."	June 2011
European Union (EU)	Disclosure of the database for International Input-Output Tables for 40 countries including EU member states(WIOD). Time series data over the long-term, from 1995 to 2009, can be obtained.	April 2012
Organisation for Economic Co-operation and Development (OECD), WTO	In January 2013, OECD began to distribute its indices for trade in value added, drawn up using its International Input-Output Tables. Data for 18 types of industries, for the years 1995, 2000, 2005, 2008, and 2009 are available. Data analysis results are available on the website.	January 2013 (Release of latest data in June 2013)
United Nations Conference on Trade and Development (UNCTAD)	"World Investment Report 2013" contained the analysis results for trade in value added, with a focus on developing countries. It is based on data from the Eora Project (The University of Sydney), which has expanded its coverage by drawing connections with existing International Input-Output Tables.	June 2013

Source: Publications from the respective institutions.

World trade in services

- There was little growth in world trade in services for 2012 associated with goods trading and direct investment. With regard to individual service categories, "other business services" are expanding year after year.
- The balance of payments structure for services in major economies has not changed significantly in the past five years. For the most part, there are limitations with respect to the ability to capture only a portion of trade in services as a part of the balance of payments.

Figure I-13: World services exports

(Unit: US\$ million)

	2011	2012	2012		
			Share	Growth rate	Contribution
Value of world's services exports	4,353,400	4,423,200	100.0	1.6	1.6
Transportation	873,900	887,400	20.1	1.5	0.3
Travel	1,067,900	1,106,300	25.0	3.6	0.9
Other services	2,403,500	2,425,400	54.8	0.9	0.5

Note: The total of the 3 items in the "value of world's services exports" may not tally as the figures follow WTO's own estimates.

Source: Figures I-13,14 and 15 are based on WTO.

Figure I-14: Changes in world services exports, by service category

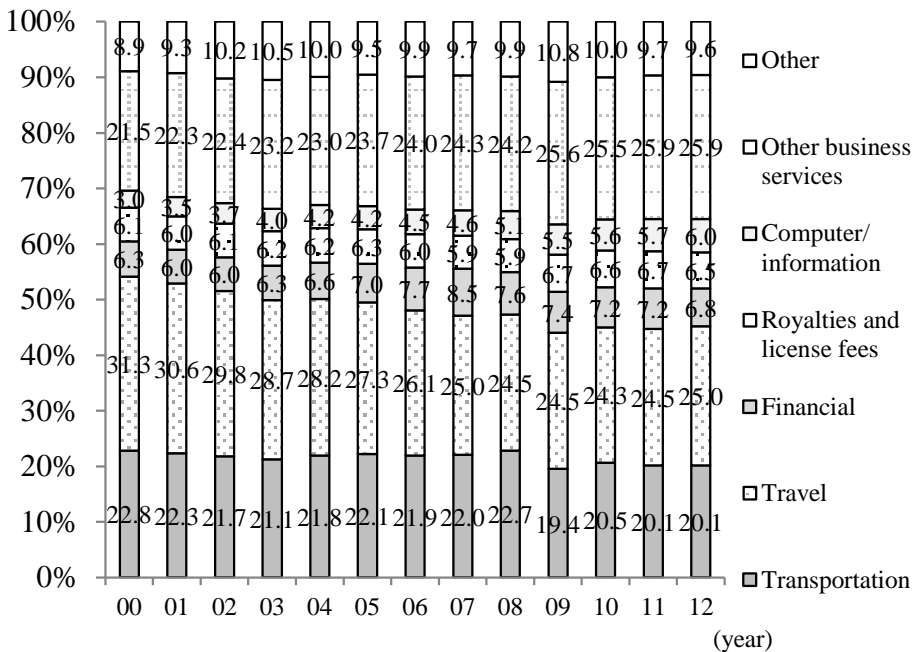


Figure I-15: Trade balance for services and breakdown for major economies (2012)
(+: surplus, -: deficit)

	Balance of payments for services								
		Trans- portation	Travel	Other services					
				Construction	Financial	Computer/ information	Royalties and license fees	Other business services	
United States	+	-	+	+	+	+	-	+	+
EU27	+	+	+	+	+	+	+	-	+
United Kingdom	+	+	-	+	+	+	+	+	+
Germany	-	-	-	+	+	+	+	+	+
France	+	-	+	+	+	+	-	+	+
Spain	+	+	+	+	+	-	+	-	+
Italy	-	-	+	-	+	-	-	-	+
Japan	-	-	-	-	+	+	-	+	-
South Korea	+	+	-	-	+	+	-	-	-
China	-	-	-	+	+	+	+	-	+
India	+	-	+	+	-	-	+	-	+
Russia	-	+	-	-	-	-	-	-	-
Brazil	-	-	-	-	+	+	-	-	-

Notes: (1) Cells highlighted in grey are items which the balance of trade in services reversed between 2008 - 2012.
(2) Cells in bold frames are the top 2 items contributing to balance of trade in services for each country in 2012.

Figure I-16: Trade in services for the United States (2010)

		Service recipients	
		U.S. residents	Non-U.S. residents
Service providers	U.S. residents	(Provision of services in United States by subsidiaries of foreign companies based in the United States) 696,023	(Provision of services by companies based in the United States to other countries = Service exports) 537,740
	Non-U.S. residents	(Provision of services to U.S. residents by companies located overseas = Service imports) 368,044	(Provision of services overseas by subsidiaries of U.S. companies based overseas) 1,130,505

Note: Transactions between residents and between non-residents are not included in the international balance of payments.

Source: The U.S. Department of Commerce Copyright (C) 2013 JETRO. All rights reserved.

Japan incurs trade deficit for the second consecutive year

- In trade on a customs clearance basis in 2012, Japan exported US\$801.3 billion, down 2.4% from the previous year, and imported US\$888.6 billion, up 4.2%. Japan incurred a trade deficit for the second consecutive year, with a trade balance in the red by US\$87.3 billion.
- In the current account balance for 2012, despite an expansion in the income balance surplus, the current account surplus shrank significantly due to the impact of an increase in the trade deficit.

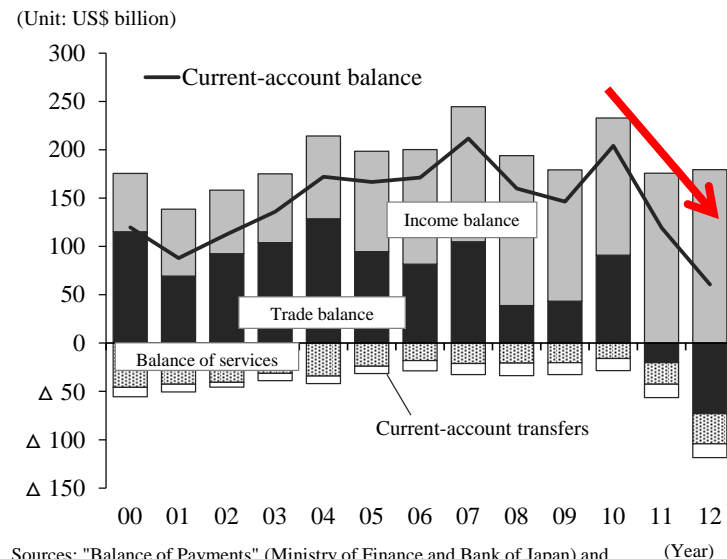
Figure I-17: Japan's trade (2011 – June 2013)

				(Unit: US\$ million, billion yen, %)						
		2011	2012	2013						
				Jan-June	Jan	Feb	Mar	Apr	May	Jun
Dollar-based	Total exports	820,793	801,335	358,085	54,866	57,651	66,592	60,179	57,986	60,811
	(Percent change)	7.0	Δ 2.4	Δ 12.6	Δ 6.2	Δ 18.3	Δ 12.9	Δ 11.0	Δ 11.1	Δ 14.5
	Total imports	853,070	888,584	410,782	73,864	66,293	70,556	69,462	68,098	62,509
	(Percent change)	23.4	Δ 4.2	Δ 7.9	Δ 4.9	Δ 5.6	Δ 9.0	Δ 5.9	Δ 10.9	Δ 11.3
Trade balance	(Year-on-year difference)	Δ 32,277	Δ 87,250	Δ 52,697	Δ 18,999	Δ 8,642	Δ 3,964	Δ 9,283	Δ 10,112	Δ 1,698
		Δ 107,854	Δ 54,973	Δ 16,085	187	Δ 8,969	Δ 2,917	Δ 3,089	1,089	Δ 2,387
Yen-based	Total exports	65,546	63,748	33,957	4,799	5,283	6,271	5,777	5,767	6,061
	(Percent change)	Δ 2.7	Δ 2.7	Δ 4.2	6.3	Δ 2.9	1.1	3.8	10.1	7.4
	Total imports	68,111	70,689	38,804	6,432	6,064	6,638	6,661	6,765	6,243
	(Percent change)	12.1	3.8	9.2	7.1	12.0	5.6	9.5	10.1	11.8
Trade balance	(Year-on-year difference)	Δ 2,565	Δ 6,941	Δ 4,847	Δ 1,634	Δ 781	Δ 367	Δ 885	Δ 998	Δ 182
		Δ 9,199	Δ 4,376	Δ 1,930	Δ 143	Δ 807	Δ 285	Δ 366	Δ 90	Δ 238
Export volume index		98.4	93.9	88.1	75.7	82.1	97.4	92.3	88.2	93.0
(Percent change)		Δ 2.9	Δ 4.6	Δ 8.3	Δ 5.9	Δ 15.8	Δ 9.8	Δ 5.3	Δ 4.8	Δ 7.3
Import volume index		103.7	105.9	102.2	108.7	96.0	102.8	105.1	105.2	96.0
(Percent change)		3.2	2.2	Δ 2.2	Δ 1.1	Δ 0.1	Δ 5.5	2.0	Δ 2.4	Δ 5.3
Crude oil import price		108.7	114.8	110.5	111.9	113.2	115.6	111.3	106.5	104.6
(\$/barrel, percent change)		37.3	5.6	Δ 7.6	Δ 1.2	Δ 2.7	Δ 4.7	Δ 12.3	Δ 14.4	Δ 9.3
Exchange rate (yen/dollar)		79.8	79.8	95.6	89.2	93.2	94.8	97.7	101.1	97.4
(yen appreciation, %)		10.0	0.0	Δ 16.6	Δ 13.7	Δ 15.8	Δ 13.0	Δ 16.6	Δ 21.2	Δ 18.6

Notes: (1) The dollar conversion rate was calculated based on rates posted by Japan Customs, using the method announced by the Ministry of Finance until March 1996. (2) For volume indices, year 2005=100. (3) The exchange rates are interbank rate averages for each period. (4) Percent change for quarterly and monthly data are year-on-year comparisons. (5) Figures of imports in June are nine-digit provisional.

Sources: "Trade Statistics" (Ministry of Finance) and "Foreign Exchange Rates" (Bank of Japan).

Figure I-18: Japan's balance of payments

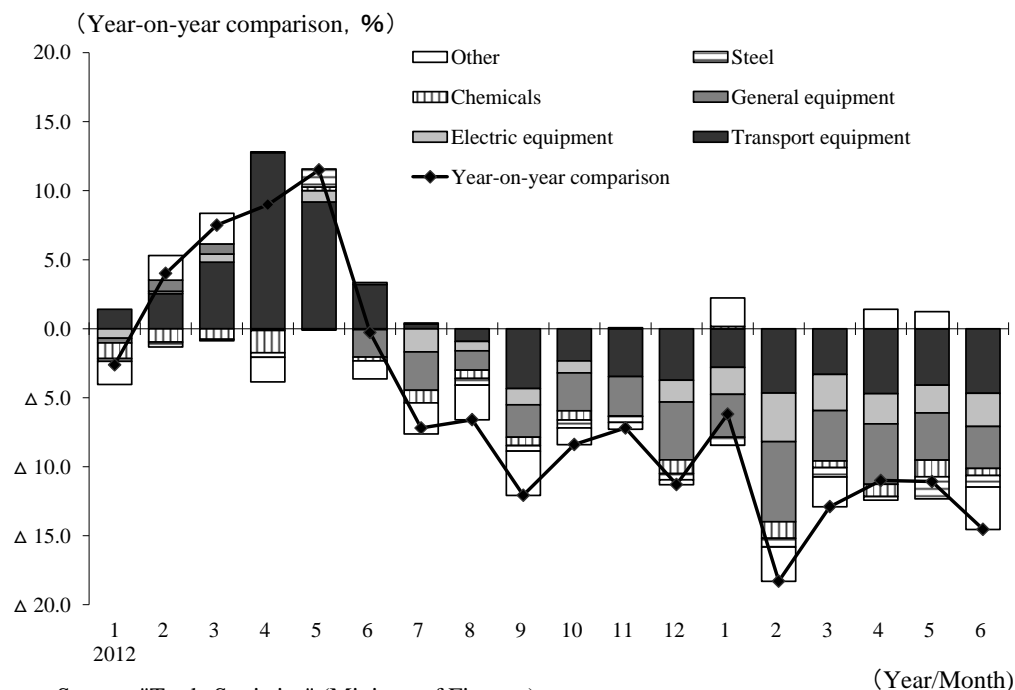


Sources: "Balance of Payments" (Ministry of Finance and Bank of Japan) and "Foreign Exchange Rates" (Bank of Japan).

Sluggish export activities except for automobiles

- Automobile exports grew in tandem with the recovery of the US economy, and exports to ASEAN countries also rose steadily. For other exports, growth was recorded for general equipment to Thailand on the back of demand related to reconstruction after flood damages. On the other hand, sluggish growth in China and the European debt crisis contributed to a decline in demand, which in turn led to sluggish activities for exports on the whole.
- In 2012, the prices of resources stayed high, and mineral fuels continued to boost the amount of imports. There was an urgent need to secure liquefied natural gas (LNG) as fuel for thermal power plants, resulting in an increase in imports from Qatar, as well as Africa and Europe. There was thus greater diversification in the sources of LNG supply.

Figure I-19: Japan's exports by product (contribution as compared to the previous year, US\$)



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

Figure I-20: Share of LNG imports to Japan by supplier (volume)

(Unit: %)

	2000	2010	2011	2012
Asia	64.5	46.5	39.0	30.6
Malaysia	20.4	19.9	19.1	16.7
Indonesia	33.5	18.3	11.9	7.1
Brunei	10.6	8.4	8.1	6.8
Australia	13.5	19.0	17.8	18.2
Middle East	19.7	22.5	27.3	29.2
Qatar	10.9	10.9	15.1	17.9
UAE	8.7	7.4	7.0	6.3
Africa	-	2.4	5.4	10.1
Nigeria	-	0.9	2.5	5.5
Europe	-	8.6	9.3	10.4
Russia	-	8.6	9.1	9.5
United States	2.3	0.8	0.4	0.3
Central & South America	-	0.2	0.9	1.3
World	100.0	100.0	100.0	100.0

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

Trade balance for capital goods and parts worsens in 2012

- In Japan's trade balance, deficits in raw materials and consumer goods were compensated for by surpluses in parts and capital goods. The greatest deficit was recorded for raw materials such as fuels.
- The deterioration in trade balance in 2011 was mainly brought about by the steep rise in prices of resources and energy-related factors such as the rapid growth in LNG imports. In 2012, in addition to energy-related factors, the trade balance for capital goods and parts worsened. The fall in the balance for capital goods was particularly large for East Asian countries including China, South Korea, and Taiwan, as well as for European countries including Germany and the United Kingdom. With respect to parts, China had a significant impact.

Figure I-21: Changes in Japan's trade balance by type of goods

(Unit: US\$ billion)

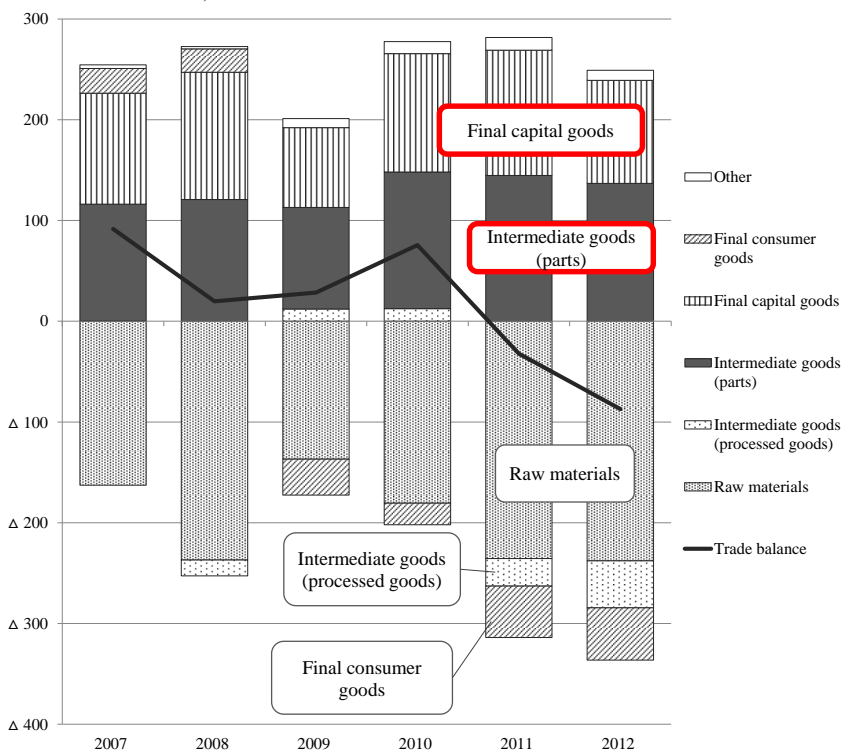


Figure I-22: Trade balance for 2011 and 2012 by type of goods

(Unit: US\$ billion, %)

	2011			2012			Countries with the largest decline in the trade balance for each type of goods (figure in brackets is the amount of decline)
	Trade balance	Year-on-year difference	Ratio to year-on-year difference of total trade balance (%)	Trade balance	Year-on-year difference	Ratio to year-on-year difference of total trade balance (%)	
Total trade balance	△ 32.3	△ 107.9	100.0	△ 87.2	△ 55.0	100.0	China (△22.3)
Raw materials	△ 235.6	△ 54.9	50.9	△ 237.8	△ 2.2	4.0	Saudi Arabia (△3.4)
Fuels and lubricants (primary)	△ 173.1	△ 43.2	40.1	△ 182.1	△ 9.0	16.4	Saudi Arabia (△3.4)
Intermediate goods	117.3	△ 30.8	28.6	90.2	△ 27.2	49.4	China (△9.2)
Processed goods	△ 27.4	△ 39.9	37.0	△ 46.8	△ 19.4	35.2	Qatar (△4.4)
Fuels and lubricants (processed)	△ 83.8	△ 29.1	27.0	△ 105.3	△ 21.5	39.1	Qatar (△4.4)
Parts	144.7	9.1	8.4	136.9	△ 7.8	14.1	China (△8.5)
Final goods	73.4	△ 22.7	21.0	50.4	△ 23.0	41.8	China (△14.0)
Capital goods	124.4	6.9	6.4	102.1	△ 22.3	40.5	China (△12.0)
Consumer goods	△ 51.0	△ 29.6	27.5	△ 51.8	△ 0.7	1.3	China (△2.0)
Passenger cars	78.7	△ 5.1	4.8	86.4	7.7	△ 14.0	Germany (△1.1)
Consumer durables	△ 12.2	△ 2.8	2.6	△ 11.1	1.1	△ 2.0	Hong Kong (△0.5)
Semi-durables	△ 47.3	△ 7.1	6.6	△ 51.3	△ 4.0	7.2	China (△2.7)
Non-durables	△ 29.0	△ 6.8	6.3	△ 32.9	△ 3.8	7.0	United States (△0.7)

Notes: (1) Refer to Figure I-21 for classification of goods. (2) Trade balance includes "Other."

(3) Highlighted cells are middle classification with ratios of more than 10% for year-on-year difference of total trade balance.

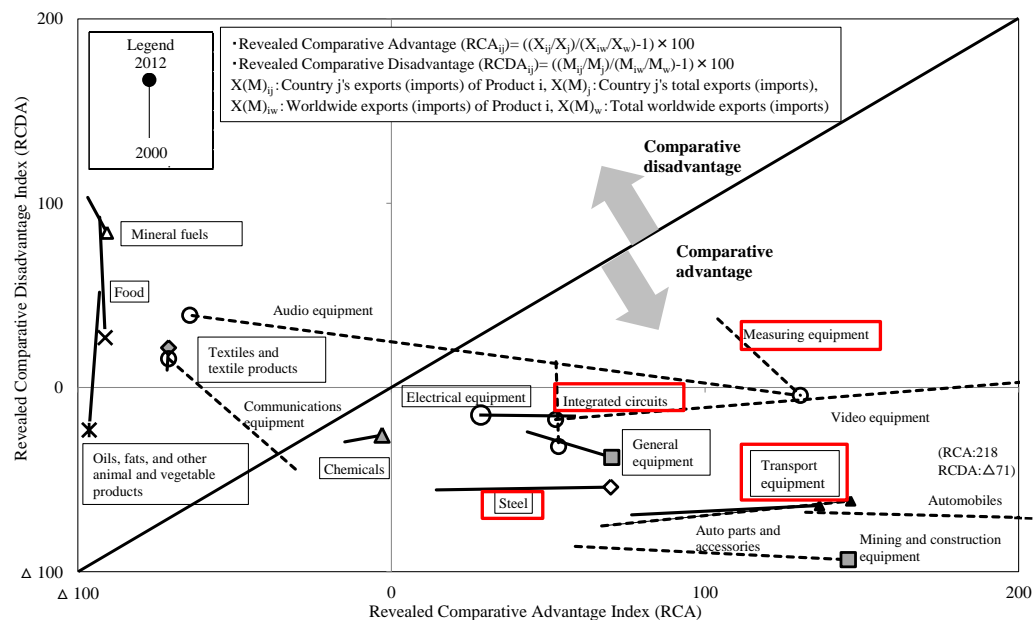
Source: "Trade Statistics" (Ministry of Finance).

Notes: (1) The classification of goods is based on Broad Economic Categories (BEC) from RIETI-TID. (2) "Other" includes items not included in the above classifications (such as special goods). Source: "Trade Statistics" (Ministry of Finance).

Japan shows its underlying strength in export

- A large number of Japanese manufacturing industries enjoy a comparative advantage in exports. In particular, transport equipment, general machinery, and iron and steel are highly competitive. While some electric equipment are becoming less competitive as a result of generalization, Japan has retained its competitiveness in the areas such as integrated circuits and measuring instrument and meters.
- With the depreciation of the yen in the second half of 2012, export volumes grew for approximately 30% of all exports, reflecting the advantages of a cheaper yen. Specific products include passenger cars, parts and peripherals such as printers and storage devices (RAM, ROM, etc.), and shovel loaders.

Figure I-23: Japanese export competitiveness by product (2000 to 2012)



Notes: (1) The definition of products follows JETRO classification. (2) The solid line indicates broad categories, while the dotted line indicates individual products included under the broad categories. Classifications are distinguished by the shape of the marks.
Source: Trade statistics of each country.

Figure I-24: Products with increased exports under yen depreciation

(Unit: US\$ million, %)

	Value of exports (Accumulated total from Sep '12 to Mar '13)		Main products
	Increase in value of exports under yen depreciation (1)	Share of export value for each product	
Total export	439,850	123,064	28.0
Raw materials	6,136	3,291	53.6
Intermediate goods	245,705	79,330	32.3
Parts	125,430	37,997	30.3
Final goods	175,438	40,442	23.1
Capital goods	102,014	28,944	28.4
Consumer goods	73,424	11,499	15.7
Passenger cars	52,423	6,981	13.3

Scrap iron such as stainless steel, scrap gold, scrap plastic
Unprocessed gold such as ingots, flat-hot-rolled iron products (width above 600mm, thickness below 3mm), electronics industry elements (silicon, etc.), printer parts and accessories, memory (RAM, ROM, etc.) IC parts
Shovel loader, dump trucks, horizontal lathe (numerical controls), passenger cars (<3000cc, and >2500cc for diesel engine cars), outboard engine motors for ships, motorbikes (>800cc)

Notes: (1) Of the products with exports exceeding US\$10 million in 2012 (products for which data is consolidated for value and quantity based on 6-digit HS codes), products that satisfy the following criteria when exports for Sep '12 and Mar '13 were compared. i) Unit price in yen remained the same or increased, ii) Unit price in US\$ fell, iii) Export volume increased.

(2) Refer to Figure I-21 for classification of goods. Total value of exports includes other goods.
Source: Trade Statistics (Ministry of Finance).

Japanese consumer goods penetrate the global market

- Japanese consumer good exports are performing well with the exception of passenger cars. These range from expensive products such as leisure boats, to relatively cheap products such as ballpoint pens, playing cards, and fishing rods. Many of these are products that stand out for their superior quality, functionality, or design.
- Expensive products are doing well among exports to the US. Exports to China include educational and leisure goods such as upright pianos, and daily necessities, while exports to ASEAN have grown in areas such as passenger cars, digital cameras, cosmetics, and food products including flavoring such as miso (ranked 11) and rice sweets such as *arare* (ranked 17). These trends reflect the diversity of consumption.

Figure I-25: Popular exports of Japanese consumer goods

	HS Code	Product	Top 3 export destinations (2012, volume basis)		
1	300490	Pharmaceutical products, not containing antibiotics and hormones	South Korea	Hong Kong	China
2	960810	Ball point pens	U.S.	Mexico	France
3	030799	Sea urchin, jellyfish, sea cucumber, frozen, dried or salted	China	Vietnam	U.S.
4	481151	Paper & paperboard coated with plastic, wt>150g/m ²	Netherlands	U.S.	China
5	890399	Yachts, etc. for pleasure or sports, except sailboats or motorboats	U.S.	Russia	China
6	920110	Upright pianos	China	Vietnam	U.S.
7	950440	Playing cards	Macau	Singapore	Hong Kong
8	340590	Polishes and creams, except for footwear, furniture, and cars	Taiwan	U.S.	Malaysia
9	630790	Made-up textile articles, except articles for indoor home products, for packaging, and for outdoor products	China	Belgium	U.S.
10	950710	Fishing rods	China	Hong Kong	U.S.
11	340220	Preparation detergents put up for retail sale	Australia	China	Hong Kong
12	210410	Soups and broths and preparations therefor	U.S.	South Korea	Taiwan
13	220300	Beer made from malt	South Korea	Taiwan	U.S.
14	030341	Albacore or long-finned tuna, frozen	Thailand	Vietnam	American Samoa
15	330410	Lip make-up preparations	Hong Kong	Taiwan	Germany

Notes: (1) Refer to Figure I-21 for classifications of consumer goods. These include only products that have been exported since 2010 at the HS 6-digit code level.

(2) Of the products with growth in export volumes in 2011 and 2012 consecutively (including some products with the same export volume), the top-ranking products in 2012 in terms of export value.

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

**Figure I-26:
Top 10 consumer goods with growth in export volume**

United States	Outboard motors of marine propulsion engines
	Motorcycles, cylinder capacity >50cc, ≤ 250cc
	Yachts, etc. for pleasure or sports, except sailboats or motorboats
	Ball point pens
	Motorcycles, cylinder capacity >250cc, ≤ 5000cc
	Color television
	Sea urchin, jellyfish, sea cucumber, frozen, dried or salted
	Paper, paperboard, cellulose wadding and webs of cellulose fibres, except coated and thermal paper
	Semi or semi-precious stones
	Printed books, except dictionaries and encyclopaedia
China	Sea urchin, jellyfish, sea cucumber, frozen, dried or salted
	Glues or adhesives, put up for retail sale, not exceeding a net weight of 1 kg
	Upright pianos
	Compression-type refrigerators, household type
	Parts and accessories of musical instruments, except parts for strings, piano, string instruments, and electric instruments
	Fishing rods
	Polishes and creams, except for footwear, furniture, and cars
	Watches with opto-electronic display only, battery operated
	Fungicides
	Preparation detergents put up for retail sale
ASEAN	Passenger motor vehicles, cylinder capacity >1000 cc, ≤ 1500 cc
	Digital cameras
	Articles of plastics, except for office use, accessories attached to apparel, furniture and cars
	Passenger motor vehicles, cylinder capacity >3000 cc
	Passenger motor vehicles, with diesel engine, cylinder capacity >2500 cc)
	Beauty & skin care preparation, not compressed
	Pharmaceutical products, not containing antibiotics and hormones
	Motorcycles, cylinder capacity >800cc
	Sea urchin, jellyfish, sea cucumber, frozen, dried or salted
	Albacore or long-finned tuna, frozen

Notes and sources are the same as for Figure I-25.

World FDI drops for the first time in three years

- In 2012, global inward FDI declined by 18.2% to US\$1.351 trillion. This was the first decline recorded in three years, resulting from the economic downturn in developed economies.
- Investment in developed economies dropped significantly by 31.6% to US\$561 billion. On the other hand, investment to emerging/developing economies remained at about the same level as 2011 with a 5.0% fall to US\$790 billion. As a result, investment in emerging/developing economies as a proportion of world investments reached a record high of 58.5%.

Figure I-27: FDI for major countries/regions (balance of payments basis, net flows)
(Unit: US\$ million, %)

	Inward FDI			Outward FDI		
	Value	Percent change	Share	Value	Percent change	Share
United States	167,620	Δ 26.1	12.4	328,869	Δ 17.1	23.6
Canada	45,375	9.6	3.4	53,939	8.2	3.9
EU27	258,514	Δ 41.5	19.1	323,131	Δ 39.8	23.2
United Kingdom	62,351	21.9	4.6	71,415	Δ 33.1	5.1
Ireland	29,318	155.7	2.2	18,966	-	1.4
Luxembourg	27,878	25.8	2.1	17,273	88.4	1.2
Spain	27,750	3.5	2.1	Δ 4,869	-	-
France	25,093	Δ 34.9	1.9	37,197	Δ 37.5	2.7
Australia	56,959	Δ 12.8	4.2	16,141	13.0	1.2
Japan	1,731	-	0.1	122,551	13.9	8.8
East Asia	320,067	Δ 5.1	23.7	274,806	1.3	19.8
China	121,080	Δ 2.3	9.0	84,220	12.8	6.1
Hong Kong	74,584	Δ 22.4	5.5	83,985	Δ 12.4	6.0
South Korea	9,904	Δ 3.3	0.7	32,978	13.7	2.4
Taiwan	3,205	-	0.2	13,031	2.1	0.9
ASEAN	111,294	2.1	8.2	60,592	2.8	4.4
Singapore	56,651	1.3	4.2	23,080	Δ 12.1	1.7
Indonesia	19,853	3.2	1.5	5,423	Δ 29.7	0.4
Malaysia	10,074	Δ 17.4	0.7	17,115	12.2	1.2
Thailand	8,607	10.7	0.6	11,911	45.0	0.9
India	25,543	Δ 29.4	1.9	8,583	Δ 31.1	0.6
Central and South America	166,136	4.3	12.3	49,072	17.1	3.5
Brazil	65,272	Δ 2.1	4.8	Δ 2,821	-	-
Chile	30,323	32.2	2.2	21,090	3.5	1.5
Colombia	15,823	17.8	1.2	Δ 248	-	-
Mexico	12,659	Δ 41.1	0.9	25,597	110.9	1.8
CIS	82,281	Δ 6.5	6.1	55,174	Δ 23.8	4.0
Russia	51,416	Δ 6.7	3.8	51,058	Δ 23.6	3.7
Middle East	47,119	Δ 4.0	3.5	23,941	Δ 8.6	1.7
Turkey	12,419	Δ 22.6	0.9	4,073	73.4	0.3
Africa	50,041	5.1	3.7	14,296	165.9	1.0
38 developed economies	560,718	Δ 31.6	41.5	909,383	Δ 23.1	65.4
Emerging/developing economies	790,208	Δ 5.0	58.5	481,573	Δ 2.7	34.6
World	1,350,926	Δ 18.2	100.0	1,390,956	Δ 17.1	100.0

Notes: (1) The definition of developed economies follows UNCTAD. The figures for emerging/developing economies are obtained by subtracting the developed economies from the total.
 (2) East Asia figures are the sum of China, South Korea, Taiwan, Hong Kong, and ASEAN.
 (3) Figures for Japan are based on UNCTAD and thus do not correspond to the "Japan's FDI" presented later.
 (4) "-" denotes figures that could not be calculated.
 Source: UNCTAD.

Figure I-28: Global inward foreign direct investment

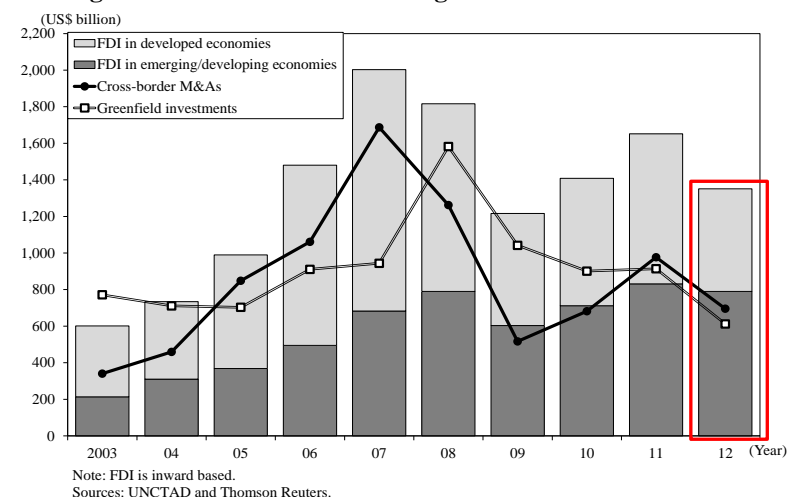
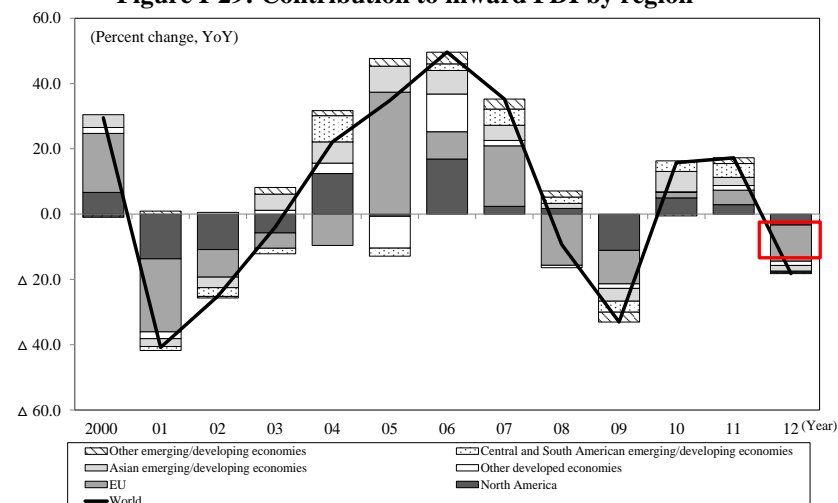


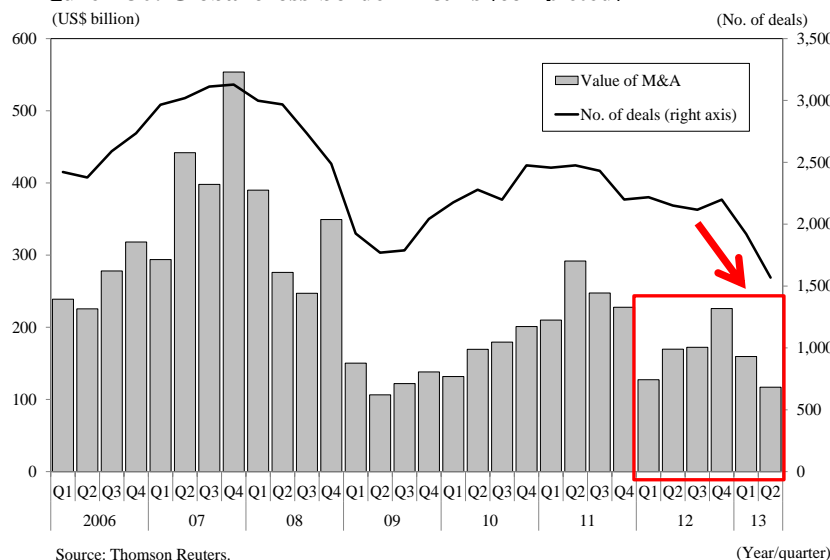
Figure I-29: Contribution to inward FDI by region



Global cross-border M&A drops 30%; slowdown in acquisition by companies in developed economies

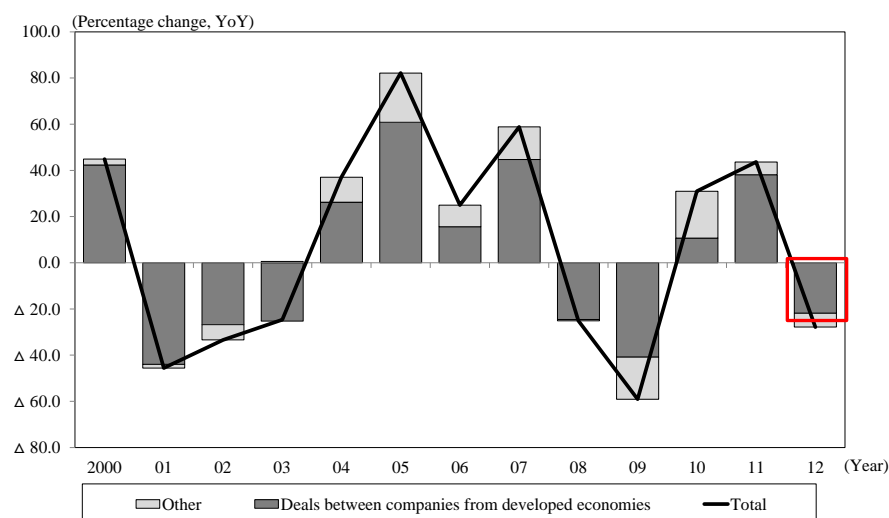
- The value of global cross-border M&A for 2012 fell 28.8% over the previous year to US\$696 billion. There was also little momentum for M&A in the first half of 2013, which fell by 7.0% to US\$276 billion. This was brought about chiefly by a slowdown in activities among companies in developed economies which make up the core of M&A.
- By industry, the ratio for the resource sector, which had grown after 2005, declined. On the other hand, there was a growth in the share for the manufacturing industry, such as machinery and equipment, and for the service industry, such as commerce.

Figure I-30: Global cross-border M&As (completed)



Source: Thomson Reuters.

Figure I-31: Inter-regional contribution to cross-border M&As



Note: Definition for developed economies follows UNCTAD.

Source: Thomson Reuters.

Figure I-28: Top 10 cross-border M&A deals (2012)

(Unit: US\$ million, %)

	Acquiring company			Acquired company			Value	Ownship % after transaction
	Country	Industry	Country	Industry	Country	Industry		
Jun	GDF Suez SA	France	Electricity, gas and water	International Power PLC	U.K.	Electricity, gas and water	12,856	100.0
Nov	Eaton Corp	U.S.	General equipment	Cooper Industries PLC	Ireland	General equipment	12,240	100.0
Nov	Nestle SA	Switzerland	Food products	Pfizer Nutrition	U.S.	Food products	11,850	100.0
Dec	Glencore International PLC	Switzerland	Wholesale	Viterra Inc	Canada	Agricultural, forestry and fishery	7,362	30.0
Aug	Walgreen Co	U.S.	Retail	Alliance Boots GmbH	Switzerland	Retail	6,665	100.0
Nov	Investor Group	Canada	Investment	Cequel Communications LLC	U.S.	Broadcasting	6,579	100.0
Jun	LAN Airlines SA	Chile	Transportation	TAM SA	Brazil	Transportation	6,502	100.0
Oct	Watson Pharmaceuticals Inc	U.S.	Pharmaceuticals	Actavis Group	Switzerland	Pharmaceuticals	6,003	100.0
Dec	Petronas Carigali Canada Ltd	Malaysia	Oil and natural gas	Progress Energy Resources Corp	Canada	Oil and natural gas	5,866	100.0
Aug	Ageas SA/NV	Belgium	Insurance	Ageas NV	Netherlands	Insurance	5,566	45.0

Notes: (1) Month indicates that when the deal was completed. (2) Country of the acquirer is that of its ultimate parent company.

(3) The definition of M&A follows Thomson Reuters. (4) The ranking is based on the value of a single deal.

Source: Thomson Reuters.

Sput in greenfield investments by companies from emerging/developing economies

- Inward FDI from emerging/developing economies grew with the increasing diversity of their destinations. In contrast with M&As led by companies in developed economies, we can see a gradual strengthening in the presence of emerging/developing economies in greenfield investments.
- The proportion of resource-related investment shrank, while investment in the manufacturing and service industries grew. In particular, the share of the service industry has been on the rise after 2010. In addition to the expansion of production bases, investments to meet local demands are also believed to be on the rise.

Figure I-33: Source countries/regions of greenfield investment

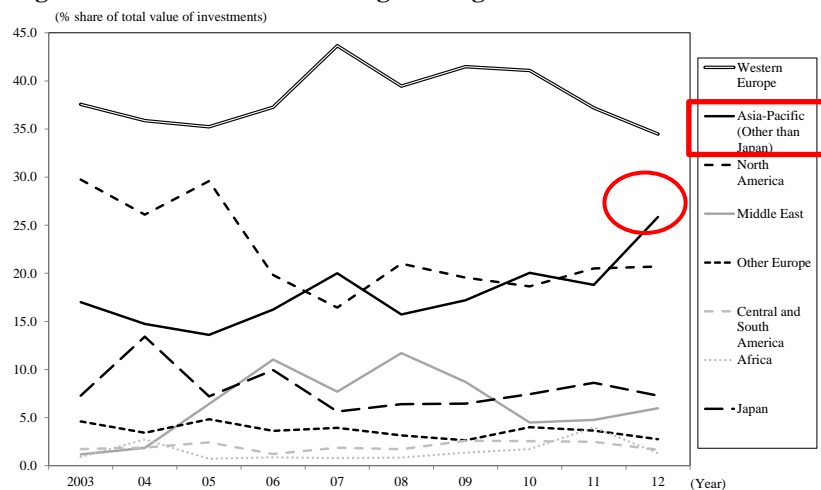


Figure I-34: Greenfield investments in the world, share by industry

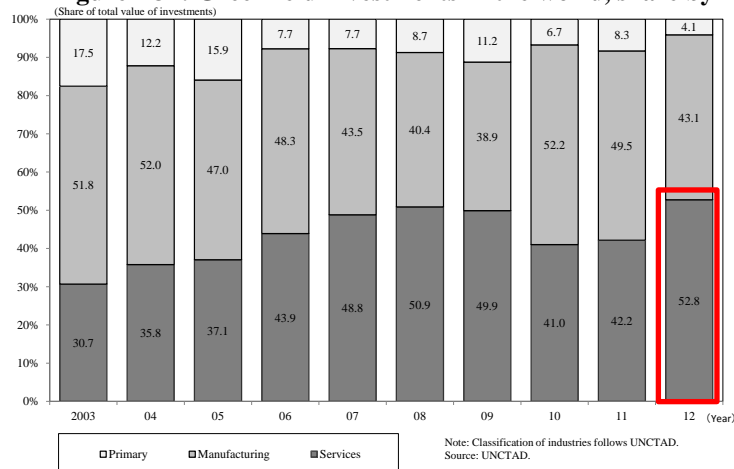


Figure I-35: Greenfield investments by major industry (2012)

(Unit: US\$ million)

Industry	Month	Investor	Country	Destinations	Value
Real estate	Jul	Sime Darby	Malaysia	U.K.	12,652
	Sep	CapitaLand	Singapore	China	3,356
	Aug	DreamWorks Animation	U.S.	China	3,148
Oil and natural gas	Jul	Adani Enterprises Ltd (AEL)	India	Australia	4,500
	Sep	Qatar Petroleum International	Qatar	Egypt	3,600
Renewable energy	Jul	Esso Exploration Angola	U.S.	Angola	2,500
	May	United Energy Group	Hong Kong	Pakistan	3,000
	Feb	Beijing DQY Agriculture Technology	China	U.S.	1,800
Metals	Aug	Filasa International	France	Romania	1,762
	Nov	Qatar Steel Company (QSC)	Qatar	Algeria	2,000
	May	Pohang Iron & Steel (POSCO)	South Korea	India	1,500
Transport equipment	Mar	Essar Global	India	Zimbabwe	1,500
	Mar	Fiat	Italy	Brazil	3,071
	Sep	DaimlerChrysler Automotive	Germany	China	2,384
Chemicals	Aug	General Motors (GM)	U.S.	Russia	1,000
	Jan	Korea Gas Corporation (KOGAS)	South Korea	Uzbekistan	4,000
	Jan	Samsung Total Petrochemicals	France	South Korea	1,800
	Feb	Formosa Plastics Corporation	Taiwan	U.S.	1,700

Source: "FDI Markets" (FT).

Japan's outward FDI for 2012 registers growth for second consecutive year

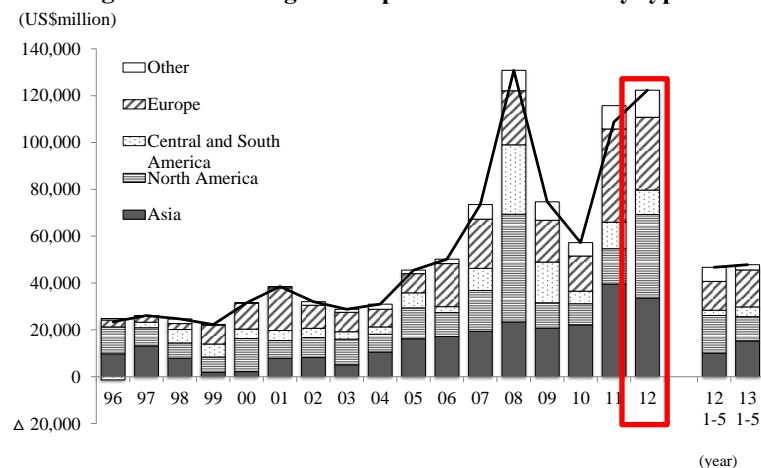
■ Clear recovery of outward FDI

Japan's outward FDI for 2012 (balance of payments basis, net flows) rose by 12.5% to US\$122.4 billion year-on-year. This was the second consecutive year that it had registered a growth in outward FDI, and ranked second after the historical high achieved in 2008 (US\$130.8 billion). The trend toward recovery from the lowest point in 2010 became even clearer in 2012. A key reason behind the growth was an expansion in reinvested earnings.

■ Investment in the US double

Looking at Japan's outward FDI by country, we can see that investment in the US grew 2.2 times year-on-year to US\$32 billion. This made the US the largest investment partner for Japan for the third consecutive year. The growth was led by service industries (including telecommunications, wholesale/retail, finance/insurance, etc.), which made up more than 60% of Japan's investments in the US. Investment in China exceeded US\$10 billion mark for the second consecutive year. There was also an increase in investment in the mining industry in Australia. Investment in ASEAN fell significantly as a result of the impact of floods in Thailand, and investment in Europe also declined as a result of the economic crisis.

Figure I-37: Changes in Japan's outward FDI by type



Note: (1) The yen-based value is converted to dollars by quarter, using the average quarterly Bank of Japan interbank rate, and then the annual total is calculated. (2) Figures for Jan.-May 2013 are preliminary.
Source: "Balance of Payment Statistics" (Ministry of Finance, Bank of Japan).

Figure I-36: Japan's outward FDI by country and region (balance of payments basis, net flows)

(Unit: US\$ million, %)

	2010	2011	2012	2012		2013 Jan~May	2013	
				Share	Percent change		Share	Percent change
Asia	22,131	39,492	33,477	27.4	Δ 15.2	15,232	31.9	52.5
China	7,252	12,649	13,479	11.0	6.6	4,215	8.8	Δ 25.3
ASEAN	8,930	19,645	10,675	8.7	Δ 45.7	8,249	17.3	604.0
India	2,864	2,326	2,802	2.3	20.5	763	1.6	34.0
North America	9,016	15,166	35,768	29.2	135.8	10,377	21.7	Δ 35.7
United States	9,193	14,730	31,974	26.1	117.1	9,429	19.7	Δ 35.6
Central and South America	5,346	11,287	10,454	8.5	Δ 7.4	4,140	8.7	85.2
Brazil	4,316	8,290	4,113	3.4	Δ 50.4	1,811	3.8	0.2
Oceania	6,407	8,767	11,075	9.1	26.3	2,800	5.9	Δ 48.6
Australia	6,371	8,149	10,890	8.9	33.6	2,678	5.6	Δ 50.4
Europe	15,043	39,841	31,017	25.3	Δ 22.1	15,803	33.1	28.3
EU	8,359	36,052	29,023	23.7	Δ 19.5	14,296	29.9	27.4
World	57,223	108,807	122,355	100.0	12.5	47,791	100.0	2.4

Notes: (1) The yen-based quarterly value is converted to dollars, using the average quarterly Bank of Japan interbank rate

(2) Some Data for January-May 2013 are provisional.

Source: "Balance of Payments Statistics" (Ministry of Finance, Bank of Japan).

Figure I-38: Japan's top outward Greenfield investment deals (2012)

(Unit: US\$ million)

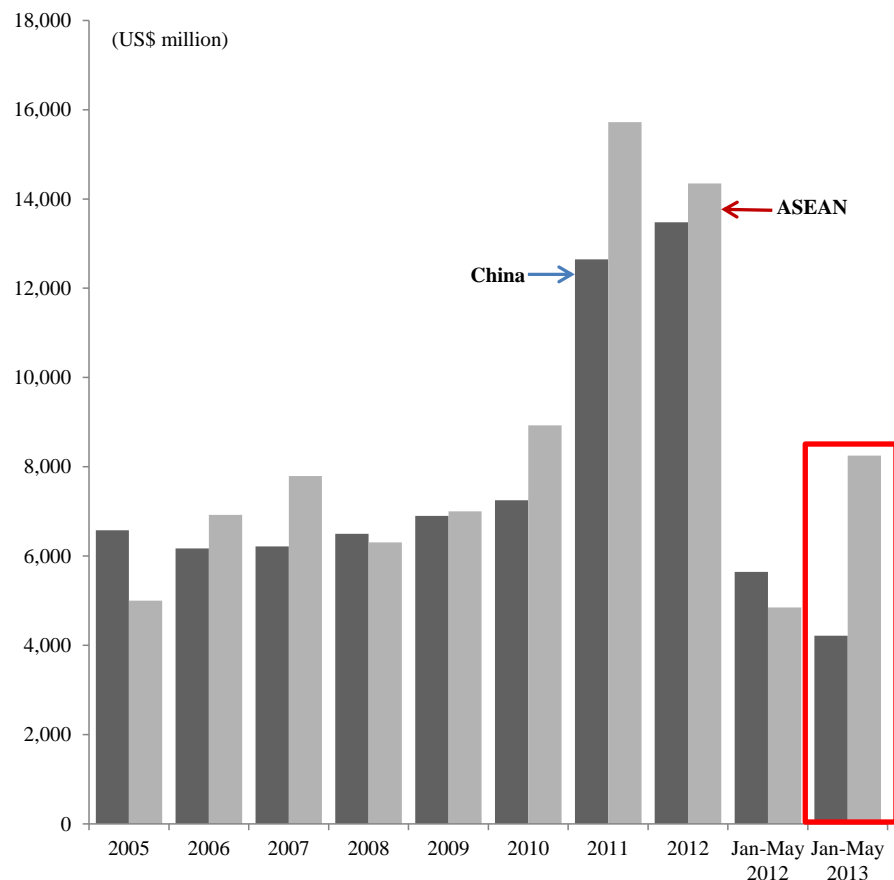
Period	Investor	Recipient country	Value	Description
Oct-12	Marubeni	Indonesia	850	Construction of a 660MW coal-fired power plant in Cirebon district in the west part of Java island.
Aug-12	J-POWER	China	760	Construction of ultra-supercritical coal-fired power plant (2 million KW) in Hezhou, Guangxi Province
Nov-12	Mitsubishi Estate	United Kingdom	722	Development of office building of area 22,295 m ² in London
Jul-12	Suzuki	India	717	Establishment of new plant for four-wheel vehicles, with annual production of 250,000 units, in Gujarat
Mar-12	Bridgestone	Thailand	614	Construction of new tire plant for construction and mining vehicles in Rayong Province
Aug-12	DOWA Holdings	Indonesia	558	Construction of heat processing plant in Karawang Province, West Java
Mar-12	Sumitomo Electric Industries	Indonesia	543	Construction of new plant for the production of wire harnesses for automobiles, in Purwakarta, West Java
Oct-12	Toyota Motor Corporation	Thailand	504	Enhancement of diesel engine plant in Chonburi Province
Aug-12	Toyota Motor Corporation	Brazil	495	Construction of engine plant with an annual production of approximately 200,000 units, in Porto Feliz, San Paolo
Apr-12	Mitsubishi Corporation	Nigeria	462	Construction of production plant for ammonia, urea, and other chemical products in On'ne, Rivers State

Source: fDi Markets (Financial Times), website of respective companies.

Japanese investment in ASEAN accelerates in 2013

- Against the backdrop of rising Chinese country risk, investment in ASEAN countries by Japanese companies picked up speed at the beginning in 2013. There was a clear gap between the value of investment for ASEAN and China.
- In light of the hike in personnel costs in China, a trend in re-shoring of production bases from China were also observed in the US.

Figure I-39: Japan's outward FDI – Comparison between China and ASEAN (net flows)



Note: Figures exclude investment in Thailand in the finance and insurance sector due to the floods in the country (Q4, 2011: US\$3,924 million. Q1, 2012: ΔUS\$3,674 million)

Source: "Balance of payments" (Ministry of Finance, Bank of Japan).

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Figure I-40: Examples of companies re-shoring from China

U.S. company	Description
Peerless Industries	In 2009, it consolidated all its AV system production in the state of Illinois, and switched from production in China to domestic production. Its aims were to: (1) Reduce lead time from development to production and sale; (2) Strengthen integrated management of its production processes; (3) Focus on manufacturing in an efficient facility; and (4) Strengthen its countermeasures against counterfeit products.
NCR	In October 2009, it decided to transfer the production of ATM from China, India, and Hungary to its plant in Columbus, Georgia. In March 2012, the company announced its plans to expand this plant, and the number of employees is expected to increase from the existing 500 employees to 870 staff by 2014.
Farouk Systems	In July 2009, it transferred the production of hair care products, such as hair-dryers, from China and Korea to Texas. Furthermore, it expanded its facility in 2011. Its aims were to: (1) Strengthen management of production and transportation processes, which had weakened during offshoring; and (2) Reduce costs of taking measures against counterfeit products, which had cost an annual US\$6 million. It is expected to employ 4,000 people in the next three to four years.
The Outdoor Greatroom Company	In 2010, it moved a part of its manufacturing processes for camping stoves and outdoor tents from China back to the United States. When placing orders with Chinese corporations, it had to place orders nine months earlier than when it manufactures in the United States. This caused problems with inventory management.
Sleek Audio	In 2010, it moved the production of its high sensitivity headphones from China to its plant in Manatee County, Florida. The company had faced problems with the poor quality of products produced by its sub-contractor in Dongguan, Guangdong Province since 2007.
Neutex Advanced Energy Group	In February 2011, the company demolished its plant in Shanghai, China, and began to construct a Neutex Lighting plant for the production of LED. It remodeled an old hospital in northern Houston, consolidating its headquarter functions, R&D facilities, and production facilities.
Suarez Corporation Industries	In May 2011, the company announced its plans to transfer the production of home heaters from China to North Canton, Ohio. In the fall of 2011, it entered a peak period in its production activities, and employed more than 400 people in the state of Ohio.
Ford	In October 2011, it concluded a new labor collective agreement with United Auto Workers (UAW), effective till 2015. Based on the agreement, the company is expected to employ more than 12,000 man-hours worth of labor in the United States by 2015. A part of the employees are expected to be transferred from Mexico and China. The production of medium-sized trucks, which the company had been producing in Mexico, will be moved to a plant in Avon Lake, Ohio.
GE	In February 2012, the company established a new manufacturing plant for a new water-heater model, in Louisville, Kentucky. The previous model had been manufactured in China. In 2009, the company laid out the plan of investing US\$1 billion and creating employment for more than 1,300 in the United States by 2014. This investment in the new plant and product, costing in excess of US\$38 million, is a part of this plan.

Sources: Website of respective companies, White House documents, and various reports.

Largest number of outward M&A deals ever recorded

■ Year-on-year fall in the value of M&A deals

The number of outward M&A deals by Japanese companies in 2012 was 485, which was the largest number ever recorded. The total value of these deals fell 24.4% year-on-year to US\$50.6 billion. The high value of outward M&A deals, following the same trend from the previous year, could be attributed to the expansion in the scale of acquisition deals. From 2012 to the first half of 2013, there was a spate of large-scale M&A deals exceeding US\$2 billion, such as Dentsu and Daikin Industries. Looking at Japan's outward M&A by the nationality of the companies acquired, the largest acquisition value was in the US (US\$22.6 billion). This was followed by the United Kingdom, Australia, Canada, and France. With respect to industry, oil and natural gas ranked top at US\$7.1 billion, followed by pharmaceuticals, insurance, and precision equipment. The momentum for M&A slowed down in the first half of 2013 with an M&A value of US\$16.8 billion. This was a 29.4% drop from the same period in the previous year. In July, Softbank acquired major US mobile phone company Sprint Nextel at approximately US\$21.6 billion.

Figure I-41: Value of Japan's outward M&A, and number of deals

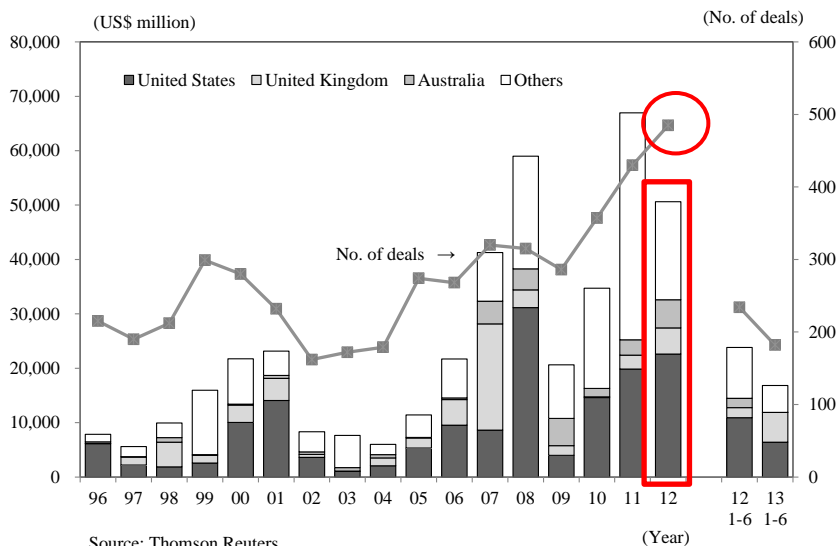


Figure I-42: Top deals for Japan's outward M&A, ranked by value (2012-June 2013)

Deal completed	Acquiring company	Industry	Acquired company			Value (US\$ million)	Ownership % after transaction
			Company	Country	Industry		
Mar-13	Dentsu	Advertising agency	Aegis Group	United Kingdom	Other advertising	4,311	100
Nov-12	Daikin Industries	General equipment (air-conditioning)	Goodman	United States	General equipment (air-conditioning)	3,700	100
May-12	Tokio Marine Holdings	Insurance	Delphi Financial Group	United States	Insurance	2,648	100
Apr-12	Dainippon Sumitomo Pharma	Pharmaceuticals	Boston Biomedical	United States	Pharmaceuticals	2,630	100
Dec-12	Toyota Tsusho	Trading	CFAO	France	Trading	2,288	97.8
Apr-12	Asahi Kasei	Chemicals	ZOLL medical	United States	Medical equipment	2,122	100
Sep-12	Mitsui & CO., Ltd., Mitsubishi Corporation	Petroleum and natural gas	Interests in the Browse LNG project operated by Woodside (approx. 14.7%)	Australia	Petroleum and natural gas	2,000	14.7
Apr-13	ITOCHU Corporation	Wholesale of other consumer durables	Dole Food Company	United States	Other food manufacturing	1,685	100
Oct-12	Toshiba	Electronic/electrical equipment	Westinghouse Electric	United States	Electronic/electrical equipment	1,589	87.0
Dec-12	The Bank of Tokyo-Mitsubishi UFJ	Banking	Pacific Capital Bancorp	United States	Banking	1,515	100

Notes: (1) Year and month indicate the completion date of the deal. (2) The definition of M&A follows Thomson Reuters. (3) Ranking is based on the value of a single deal.

Source: Thomson Reuters.

Total outward FDI stock exceeds US\$1 trillion

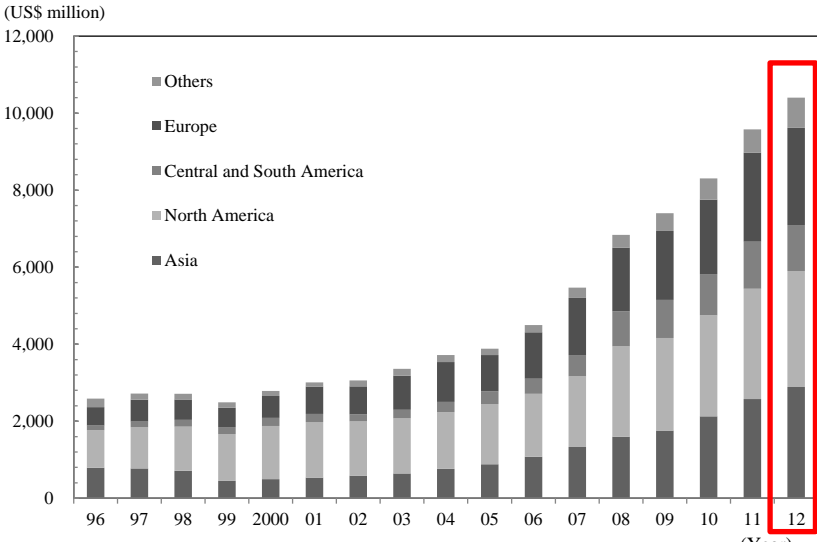
■ Increase in share of the Asia Pacific region

Japan's outward FDI stock (assets) as of the end of 2012 increased 8.6% year-on-year to US\$1.0405 trillion. This was the first time it had exceeded the US\$1 trillion mark. The proportion of outward FDI stock by industry was 47.2% for manufacturing industries, and 52.8% for non-manufacturing industries. Since the end of 2008, non-manufacturing industries (including finance/insurance, wholesale/retail, etc.) have outperformed manufacturing industries. This trend became even stronger in 2012. In outward FDI stock by region, the share for North America and Europe shrank, while that for the Asia and the Pacific regions grew. Significant growth was recorded for transport equipment in Asia, and the mining industry in the Pacific region.

■ Rate of return on outward FDI at 6.6%

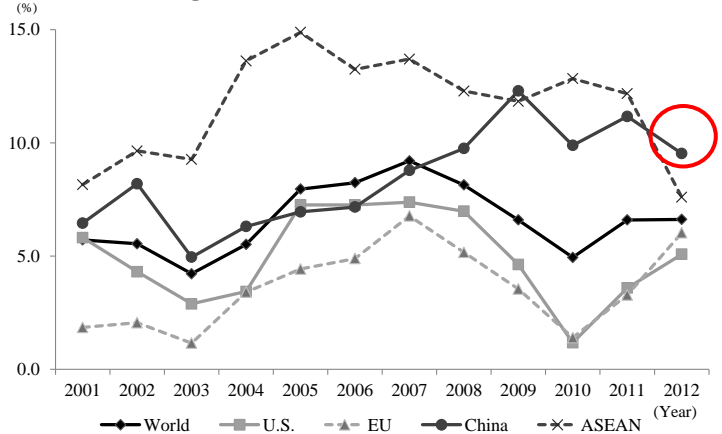
The rate of return on Japan's outward FDI for 2012 remained at the same level as the previous year, at 6.6%. The rate of return by investment destination showed a high level in China and ASEAN over that for Europe and America. In ASEAN, the rate of return declined due to the major impact of floods in Thailand. The rate of return in Europe and America showed signs of recovery from the lowest point registered in 2010. Comparing Japan's rate of return on outward FDI with that for other major economies, Japan attained an average of 6.8% for 2006 to 2011, coming after the US (9.5%), United Kingdom (9.1%), and China (7.1%). By achieving comparable rates of return with the US, outward FDI could contribute to the expansion of gross national income (GNI) in Japan.

Figure I-43: Changes in Japan's outward FDI stock



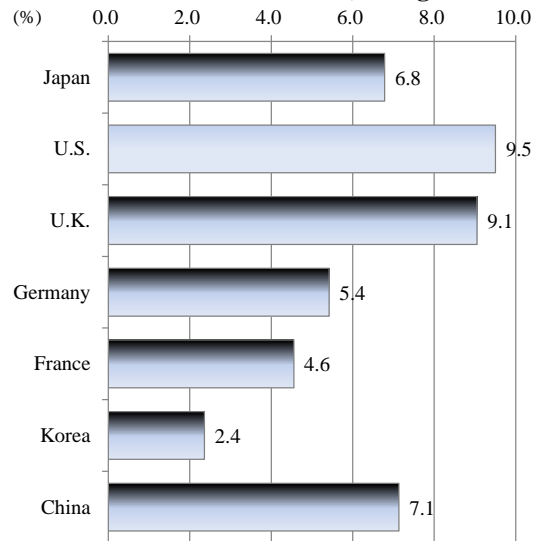
Source: "Balance of Payments Statistics" (Ministry of Finance, Bank of Japan).

Figure I-44: Japan's outward FDI rate of return by major countries and regions



Notes: (1) Rate of return on outward FDI = FDI earnings in the term / Average of outward FDI balances at the start and the end of the term x 100 (%).
 (2) The EU comprised 15 countries by 2003, 25 countries in 2004-2006, and 27 countries in 2007 onward.
 Source: "Balance of Payment Statistics" (Ministry of Finance, Bank of Japan).

Figure I-45: Comparison of Japan's rate of return on outward FDI with other countries (averages for 2006-2011)



Source: "BOP" (IMF).

Overseas sales ratio increases to almost 60%

- The ratio of overseas sales for the top 50 Japanese companies in the processing manufacturing industry (transportation equipment, electrical equipment, machinery, precision equipment), ranked by sales, rose from 56.2% in FY2011 to 58.8% in FY2012.
- In the overseas sales ratio by industry, the ratio was 65.3% for transportation equipment (19 companies), 50.8% for electrical equipment (20 companies). The overseas sales ratio for the sale of transportation equipment to the Americas was high (25.2%), while that for the sale of electrical equipment to the Asia Pacific region was high (20.1%). For the period ending March 2013, the seven major automobile companies showed a stronger tendency toward gaining earnings in Asia, with an overseas operating profit of 49.2% for Asia and 35.5% for North America.

Figure I-46: Overseas sales by region for the Japanese manufacturing industry

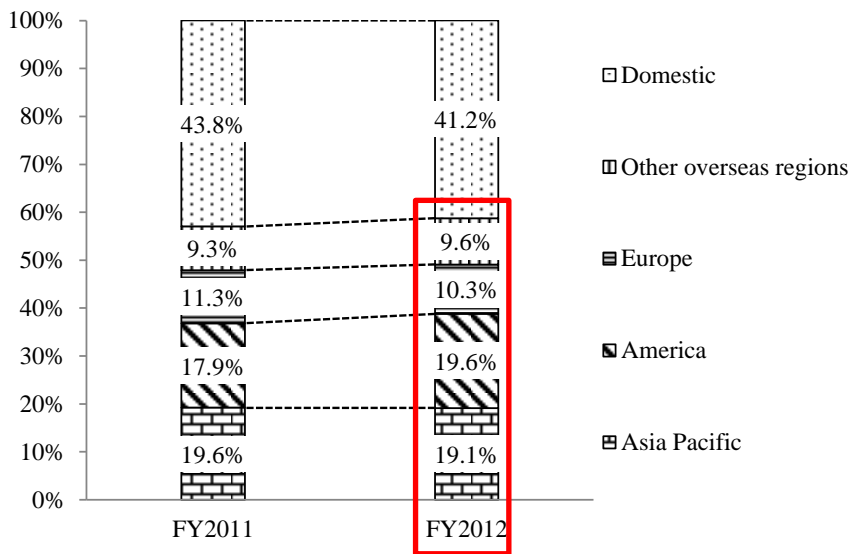
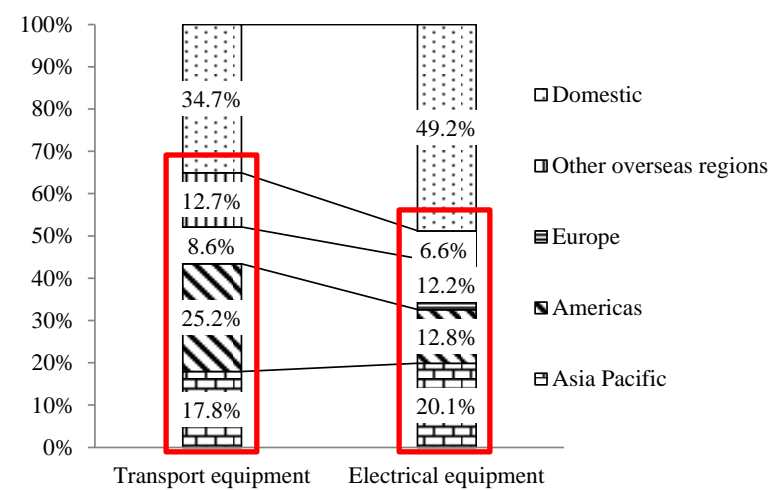


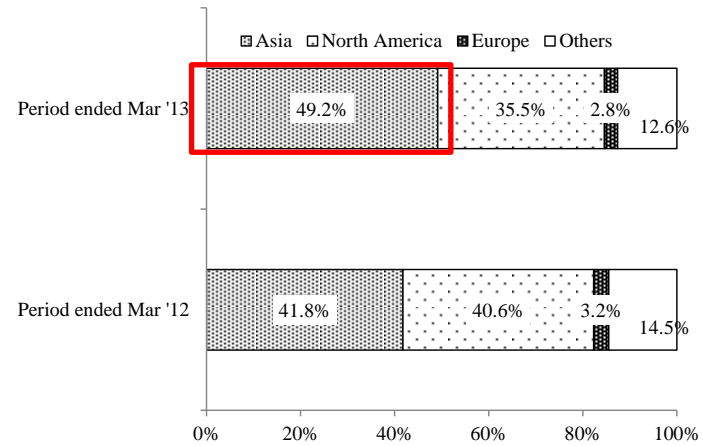
Figure I-47: Overseas sales by region for transportation and electrical equipment



Note: The computation method is the same as for Figure I-46. Sales coverage rate for the top 19 transport equipment companies was 88.5%, and that for electrical equipment companies was 76.6%.
Source: Same as for Figure I-46.

Note: A total of 610 companies from the processing manufacturing sector (equipment and machinery, electrical equipment, transport equipment, and precision equipment industries) were extracted from listed Japanese companies that had released their operating results for fiscal 2012 by June 19, 2013. The consolidated sales for each region for the top 50 companies (sales coverage rate of 77.5% of all processing manufacturers) was aggregated.
Source: Aggregates were drawn up based on the summary of financial results and financial reports of each company.

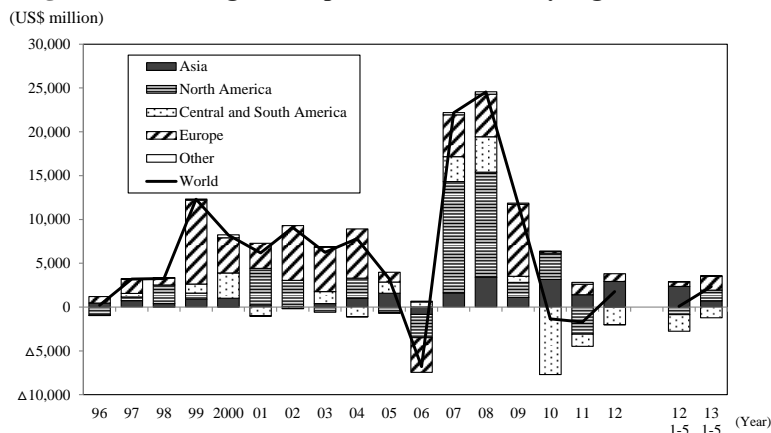
Figure I-48: Operating profit of 7 major automobile companies by region



Japan's inward FDI registers net inflow for the first time in three years

Japan's inward FDI (balance of payments basis, net flows) registered a net inflow of US\$1.761 billion in 2012. Following a two-year net outflow lasting until the previous year, this was the first reversal toward a net inflow in three years, although the margin of inflow was small. With respect to countries and regions, net inflows from Asia have been recorded continuously after 2007. For 2012, it increased 2.1 times over the previous year to US\$2.9 billion. Inward FDI stock grew marginally by 1.5% to ¥17.8079 trillion. The ratio of inward FDI stock to nominal GDP remained unchanged at 3.7%. Investments from Asia were significant in the tourism, pharmaceuticals, IT, electrical equipment, and real estate industries.

Figure I-49: Changes in Japan's inward FDI by region



Note: The yen-based value is converted to dollars by quarter, using the average quarterly Bank of Japan interbank rate, and then the annual total is calculated.

Source: "Balance of Payment Statistics" (Ministry of Finance, Bank of Japan).

Figure I-50: Japan's top inward Greenfield investment deals (2012)

(Unit: US\$ million)

Period	Investor	Industry		Value	Classification
		Country	(medium category)		
Sep-12	Goodman Group	Australia	Real estate	395	New
Apr-12	Simon Property Group	United States	Real estate	372	New
Mar-12	Canadian Solar	Canada	Renewable energy	284	New
Oct-12	Gestamp Group	Spain	Renewable energy	281	New
Jun-12	Goodyear	United States	Rubber	250	Expansion
Jul-12	Seminole Tribe of Florida	United States	Hotel, tourism	206	New
May-12	Yingli Green Energy Holding	China	Electrical equipment	180	New
Feb-12	Intelligent Energy	United Kingdom	Electrical equipment	180	New
Mar-12	Rosatom	Russia	Coal, petroleum, natural gas	156	New
Nov-12	Realtime System Group (RTS)	Germany	Telecommunications	128	New

Source: "fDi Markets" (Financial Times).

Figure I-51: Noteworthy investments by Asian companies in Japan for 2012

Country	Company	Industry	Form of investment	Description
China	Haier	Electric equipment	Establishment of base	Established R&D base for "white goods" in Kumagaya, Saitama. Together with its existing base, this brings its technological development department to a scale of 300 employees.
	Shanghai Spring International Travel Services*	Tourism	Establishment of company	Major travel agency with an airlines arm. Established a company in Tokyo that specializes in "local arrangements," such as accommodations and transportation for Chinese travellers visiting Japan.
	Juneyao Airlines*	Tourism	Establishment of branch office	Established first Japanese branch office in Okinawa. Undertaking preparations to launch a regular route between Shanghai and Naha.
	Huawei Technologies*	Information and communications	Establishment of base	Scheduled to establish an R&D base for smartphones and communication facilities in Japan
Korea	Samsung Electro-Mechanics	Electric equipment	M&A	Announced the acquisition of HDD motor manufacturer Alphana Technology, in Fujieda, Shizuoka, for 147.2 billion won (approx. 11 billion yen).
	Tway Airlines*	Tourism	Establishment of branch office	First budget carrier (LCC) established in Korea. In tandem with the launch of flights from Fukuoka, it established a branch office in Fukuoka.
	POSCO	Steel	Establishment of company	Established a new company in Yokkaichi, Mie, to undertake the processing automobile parts. It invested 650 million yen into the facilities, which are scheduled to commence operation at the beginning of 2014.
	Hyundai Pharmaceutical Company	Pharmaceuticals	Establishment of company	Establish a Japanese company in Osaka, in order to find a Japanese partner company and expand its business.
Singapore	Global Logistics Properties	Logistics	M&A	Together with Chinese government-related fund, it acquired 15 logistics facilities in Japan (US\$1,570 million), owned by a U.S. real estate investment company.
	CapitaMalls Asia	Real estate	M&A	Acquired a large-scale shopping facility in Kinshi-cho at US\$300 million.
	Mapletree	Real estate	M&A	Acquired seven logistics facilities from Australia's Goodman Japan at approximately US \$200 million.
India	Infosys*	IT consulting, software development	Establishment of branch office	Established a branch office in Nagoya in order to provide support to existing customers in the Chubu region, and to further expand its customer base.
	Tata Consultancy Services	IT consulting, software development	Establishment of company	Established a joint venture company with Mitsubishi Corporation to engage in the business of IT services, such as information systems and software development.
	Synoverge Technologies*	IT consulting, software development	Establishment of company	Established its first overseas base in Tokyo in order to expand services to Japanese customers and explore new customer bases.
	Zyodus Pharma	Pharmaceuticals	Expansion	Doubled the capacity of its generic drug packaging plant for the Japanese market in Ome, Tokyo. Generic drugs manufactured at its Ahmadabad plant in India are packaged and shipped from the Tokyo plant.
	Lupin Pharmaceuticals	Pharmaceuticals	Expansion	Its subsidiary, Kyowa Pharmaceutical Industry, completed the construction of additional facilities for an existing plant in Sanda, Hyogo.

Note: Companies denoted by an asterisk * receive support from JETRO.

Source: various reports, news articles.

Value of M&A deals in Japan remains at same level as previous year

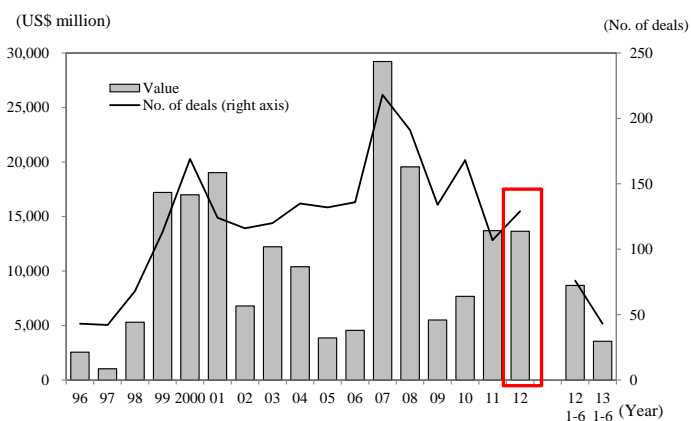
■ Increase in number of M&A deals

M&A deals in Japan for 2012 fell 0.5% to US\$13.6 billion, maintaining the same level as that for the previous year. The number of deals increased year-on-year to 129 (107 deals last year). Looking at the industries, the value of acquisitions was the highest for the commercial sector (wholesale, retails, restaurants, etc.), making up 57% (US\$7.764 billion) of the total value of acquisitions. In addition, the value of acquisitions in the machinery and equipment sector, such as electronic and electrical equipment, as well as the transportation sector, was high. There were 43 M&A deals in Japan for the first half of 2013, valued at a total of US\$3.6 billion.

■ Highest value and largest number of deals from the US

Ranking M&A deals in Japan by country, the US came out on top for both value (US\$7.6 billion) and number of deals (37). TonenGeneral's acquisition of an Exxon Mobil subsidiary contributed to this result. M&A deals by Asian companies were characterized by (1) investment in the manufacturing industry by Taiwanese companies, and (2) real estate investment by Singaporean companies.

Figure I-52: Changes in value of M&A deals in Japan



Source: Thomson Reuters (data as of July 1, 2013).

Figure I-53: Top M&A deals in Japan (2012-June 2013)

Deal completed	Acquired company	Industry	Acquiring company		Value (US\$ million)	Ownership % after transaction
			Country	Industry		
Jun-12	ExxonMobil	Petroleum and natural gas	TonenGeneral Group	United States	4,966	99
Feb-12	LaSalle Investment Management	Real estate investment	China Investment Corporation (CIC), Global Logistics Properties (GLP)	China, Singapore	1,572	100.0
Sep-12	Akindo Sushiro	Restaurants	Permira	United Kingdom	1,151	100.0
Jul-12	Jupiter Shop Channel	Other services	Bain Capital Partners	United States	1,089	50.0
Jul-12	Sharp Display Products (Operations company for Sakai Plant, the main base for the production of Sharp's LCD)	Electronic and electrical equipment	Hon Hai	Taiwan	793	46.5
Oct-12	gloops	Software (mobile game development)	NEXON	South Korea	468	100.0
Apr-12	Caterpillar Japan	General equipment (construction equipment)	Caterpillar	United States	450	100.0
Feb-13	Prologis Park Ichikawa 1	Building management (excluding residential buildings)	Nippon ProLogis REIT	United States	381	100.0
Nov-12	Diversey	Chemicals (industrial detergents ,etc.)	Carlyle Japan Partners II	United States	377	100.0
Feb-13	Prologis Park Zama 1	Building management (excluding residential buildings)	Nippon ProLogis REIT	United States	314	100.0

Notes: (1) Industries are classified according to Thomson Reuters classification. (2) The name of acquiring company are the final parent company of the acquiring company.

(3) Ranking for a single transaction.

(4) The Exxon Mobil/Tonen General deal is the acquisition of 99% of the Exxon Mobil Corporation holding stocks by Tonen General from the parent company Exxon Mobil in the United States.

Source: Thomson Reuters.

Chapter 2

Trends in the development of world trade rules

Doha Round enters crucial stage towards WTO 9th Ministerial Conference; Progress made in plurilateral negotiations

- At the WTO Doha Round, which have reached an impasse, delegates aim to come to a prior agreement in some areas (early harvest), ahead of the 9th Ministerial Conference scheduled for December 2013.
- Plurilateral negotiations are making steady progress. Negotiations to expand the scope of the Information Technology Agreement (ITA) are aimed to be completed before the Ministerial Conference. The Trade in Service Agreement (TISA) is also an important initiative for Japan in view of the significant potential for expanding service exports. Bringing in non-participating countries/regions to the talks remains a critical issue.

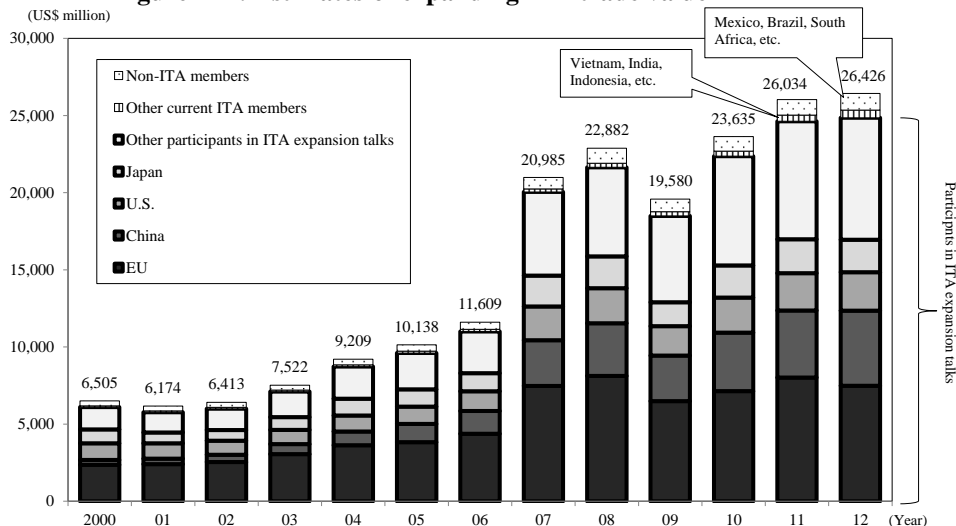
Figure II-1: Expected outcome at the 9th Ministerial Conference

Sector	Contents	Progress situation
Trade facilitation	Streamlining and speeding up customs procedures, related support to developing economies	Based on the 30page provisions with 20 articles, negotiations are carried out among relevant countries for each article. As of July, more than 500 brackets remain. Developing economies have declared their inability to fulfill the obligations without commitment to technological and financial assistance.
Agriculture issues	<ul style="list-style-type: none"> • G20 proposal (Brazil): Elimination of tariff quota (with exception for developing economies). • G33 proposal (India): Allowing developing countries to classify purchases of food stocks at subsidized prices to be classified as "green box" subsidies. • Reducing/eliminating export subsidies 	Developing economies have selected some issues from the current Chairperson's texts. While many countries are relatively positive with regard to G20 proposal, developed economies have criticized G33 proposal, as being a self-centered tool to increase developing economies' subsidy expenditure.
Trade and development	Prolonging the deadline for LDCs under the TRIPs agreement, implementation/enhancement of preferential treatment for developing economies, expanding dutyfree and quotatee for LDCs, reducing cotton subsidies, specific service waivers for LDCs.	WTO members agreed to extend until 2021 the deadline for LDCs to protect intellectual property under the TRIPs agreement (June 2013). With regard to the expansion of dutyfree and quotatee for LDCs and reduction of cotton subsidies, there are sensitive elements for developed countries.

Note: Agricultural negotiations include G20 group which comprises major developing economies, G33 group which is highly inclined to S&D, and the Cairns Group made up of food exporters.

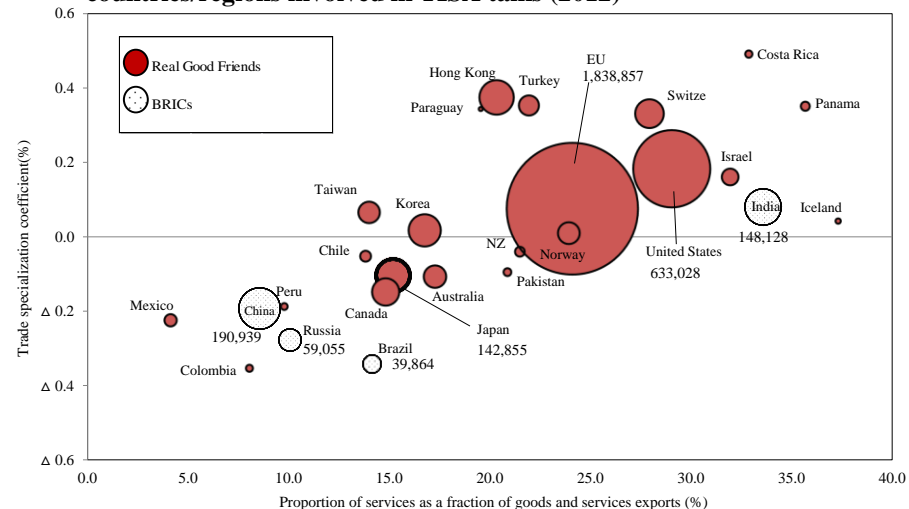
Sources: WTO Reporter (Bloomberg BNA), information from various seminars.

Figure II-2: Estimates of expanding ITA trade value



Notes: (1) The product definition of ITA expansion is based on the list of 357 items that were subject to consideration when negotiations commenced. (2) The figures are the total for 49 out of 51 countries/regions participating in negotiations for ITA expansion as of July (Australia, Canada, China, Costa Rica, El Salvador, EU, Guatemala, Hong Kong, Iceland, Israel, Japan, Malaysia, Mauritius, Montenegro, New Zealand, Norway, Philippines, Singapore, South Korea, Switzerland, Taiwan, Thailand, Turkey, United States) with the exception of Mauritius and Montenegro, for which data was unavailable. Source: Trade statistics of each country.

Figure II-3: Scale of service trade for major economies, including countries/regions involved in TISA talks (2012)



Notes: (1) Trade specialization coefficient = (Services exports - Services imports) / (Services exports + Services imports). (2) The size and numerical value of each bubble represents the value of services exports (in US\$ million). (3) Real Good Friends refers to Australia, Canada, Chile, Colombia, EU, Hong Kong, Costa Rica, Iceland, Israel, Japan, New Zealand, Norway, Mexico, Pakistan, Panama, Paraguay, Peru, South Korea, Switzerland, Taiwan, Turkey, and United States. Source: WTO.

Need to remain vigilant with regard to protectionist measures

- With the slowdown in world trade, concerns about protectionism are emerging once again. Tariff hikes and trade remedies were the often implemented after the end of 2012.
- The number of trade remedies increased by 26.7% in 2012 over the previous year. The developing economies are becoming active users of these measures.
- On the other hand, WTO dispute settlements have contributed to the prevention of protectionism. There was a sharp rise in the number of cases brought to the dispute settlement body in 2012. There has been a particular increase in the number of disputes between the US/EU and China, but WTO rules become more clarified through the accumulation of precedents.

Figure II-4: Protectionist measures by G20 countries, based on WTO reports

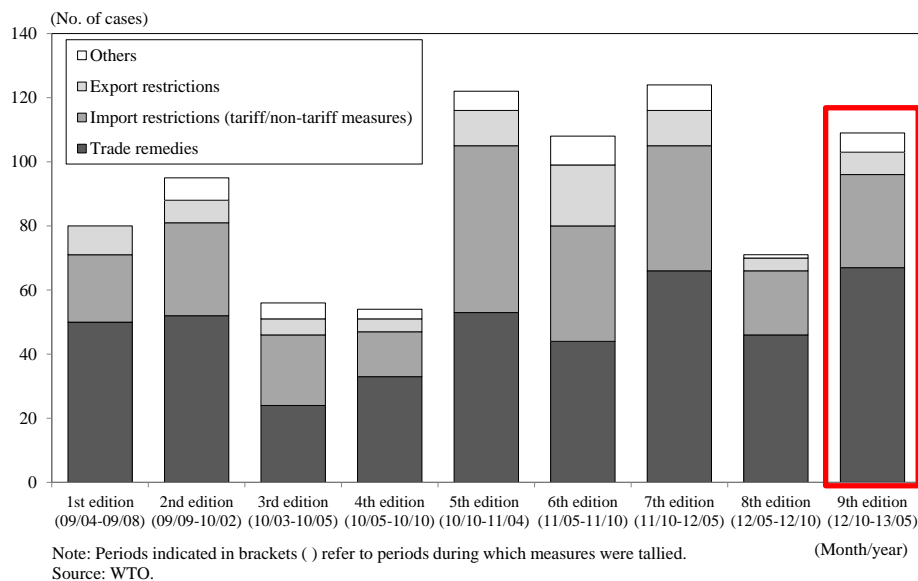


Figure II-5: Number of trade remedy investigation cases, and proportion of developing countries among all

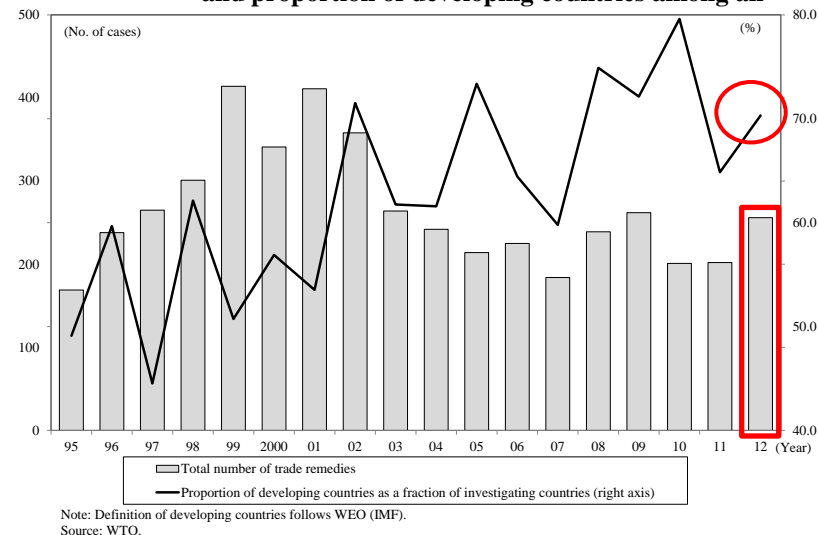
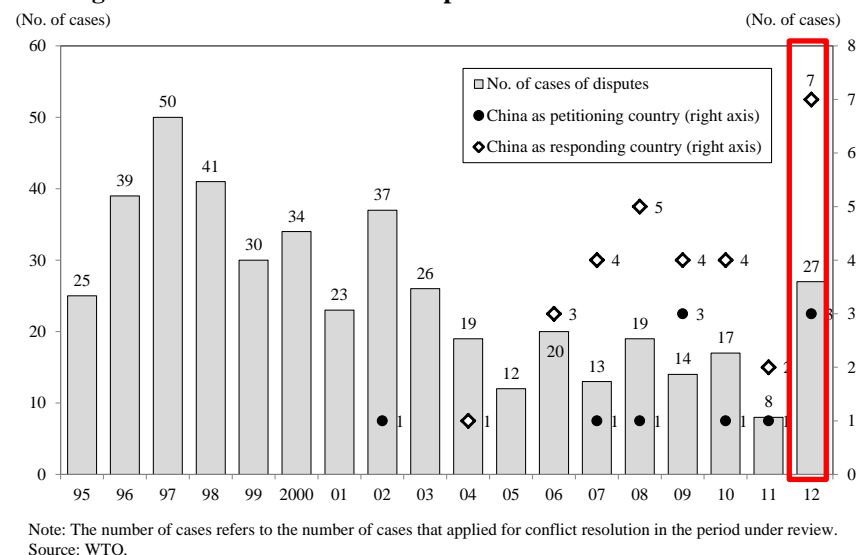


Figure II-6: Number of WTO disputes and China related cases



One year since Russia's accession to the WTO; growing number of WTO members

- While the reaction to Russia's entry into WTO was comparatively milder than the reaction during China's accession, there were also Japanese companies that pointed out problems in the implementation of WTO rules on Russia. On the other hand, reports from other Japanese companies have also pointed to signs of improvements in Russia's business environment in recent years, including smoother import clearance procedures.
- In 2013, Laos and Tajikistan became new members of the WTO. Among countries that have not entered the WTO, there are countries such as Iraq and Kazakhstan where there are significant business opportunities for Japanese companies. Accession to the WTO not only removes the barriers to trading with these countries, but is also expected to improve the stability of their business environments. As such, it would be ideal for these countries to enter the WTO as soon as possible.

Figure II-7: Problems with the implementation of WTO commitments on Russia

Sector	Measures	Overview/Issues
Tariffs	Applied tariff rate exceeding WTO bound rates	The mixed tax rate (selection of ad valorem tax/specific duty) applied to some products such as home refrigerators and meat is higher than the WTO bound rate.
	Raise in applied tariff rates	Raise in applied tariff rate within the range of bound tariff rate, for flat-screen TV. In addition to significant impact on business, transparency is an issue.
Internal taxes and fees	Automobile recycling fee	In practice, only imported cars are subject to the fees. National treatment is the major issue (toward revisions of law). The implementation of vehicle recycling system in the country is also an issue.
Standards/certification	Customs Union Technical Regulations	In making the transition from the conventional regulations (GOST-R) to a new common mandatory regulatory system for the three Customs Union member countries, there is a lack of transparency in implementation, delays in accreditation, and impact on customs procedures.
Intellectual property rights	Private recordings compensation system	(1) In addition to infringement with national treatment obligations, (2) There are also problems in implementation as home appliances without duplicating functions are also subject to the system.

Source: Based on the results of interviews.

Figure II-8: Comparison of WTO commitments between Russia and China

Key points	Russia	China
Need to revise domestic laws after WTO accession	By the mid-2000s, it has completed work on revising the main domestic laws to make them consistent with WTO regulations.	After membership, it has carried out reforms of its domestic systems, including opening up "trading rights."
Accreditation as non-market economy	No stipulations with regard to membership commitments.	As "a non-market economy" until the end of 2016, it faces disadvantageous treatment such as the imposition of anti-dumping measures.
Commitments on export restrictions	Binding commitment for export duties for approx. 700 items.	Commitment not to establish export taxes other than for the 84 items for which binding rate has been set for export duties.

Sources: Results of interviews, and WTO accession documents.

Figure II-9: Recent new entries into WTO; trade situation for major non-member states

Classification	Country	World exports (US\$ million)	Exports to Japan (US\$ million)	Imports from Japan (US\$ million)	Average tariff rate (%)	Population (Million people)	Per capita nominal GDP (US\$)
New WTO members	Russia	352,536	20,772	12,599	9.4	141.92	14,247
	Vanuatu *	251	58	77	15.5	0.25	3,125
	Montenegro	403	2	5	4.9	0.62	6,882
	Samoa *	158	0.35	15	21.1	0.18	3,727
	Laos *	3,444	123	137	18.8	6.38	1,446
	Tajikistan	1,030	11	7	7.8	7.96	953
Major non-member states	Iran	102,496	7,958	654	26.6	75.90	7,211
	Iraq	83,275	2,822	359	n.a.	33.70	6,305
	Libya	51,399	247	115	n.a.	6.41	12,778
	Syria	11,088	3	114	6.7	22.40	2,747
	Kazakhstan	63,465	582	542	9.6	16.68	11,773
	Belarus	45,955	21	39	9.8	9.39	6,739
	Uzbekistan	5,374	106	98	11.8	29.45	1,737
	Yemen	7,238	374	298	7.1	25.88	1,377
	Ethiopia *	2,169	62	131	17.3	86.77	483
	Serbia	11,055	48	29	7.4	7.57	4,943
Bosnia/Herzegovina	4,019	5	2	6.6	3.89	4,461	

Notes: (1) The asterisk * denotes least developed countries (LDC) based on UN definitions.

(2) Value of trade is for 2012. Exports to Japan are on the basis of Japanese imports, while imports from Japan are on the basis of Japanese exports.

(3) Average tariff rate is the simple average of applied tariff rate (based on bound tariff rate for Samoa and Laos).

Sources: DOT/WEO (IMF), Ministry of Finance trade statistics, WTO secretariat materials, World Bank database.

Cross-regional FTAs become the mainstream; the era of mega FTAs arrives

- The number of FTAs across the world stands at 252, as of July 1, 2013. After 2000, but with the exclusion of 2001, more than 10 FTAs have come into force every year. In 2013, FTAs between the following countries came into force: Malaysia and Australia, South Korea and Turkey, Canada and Panama, Peru and Costa Rica, EU and Colombia/Peru, Turkey and Mauritius, and Ukraine and Montenegro.
- As the WTO Doha Round entered a period of stagnation, four mega FTAs were initiated. These were the TPP, Regional Comprehensive Economic Partnership (RCEP), Japan-EU FTA/EPA, and Transatlantic Trade and Investment Partnership (TTIP) between the US and EU. Japan's participation in the TPP signaled the arrival of the mega FTA. The FTA between Japan-China-South Korea and Pacific Alliance are also in progress. States and regions that are presently not a part of the TPP, such as China, South Korea, Hong Kong, Taiwan, India and the EU, are also taking a proactive stance with regard to FTA initiatives (ECFA, South Korea-Turkey, EFTA-Hong Kong, EU-ASEAN, EU-India, etc.)

Figure II-10: Number of FTAs in force across the world, by period and region

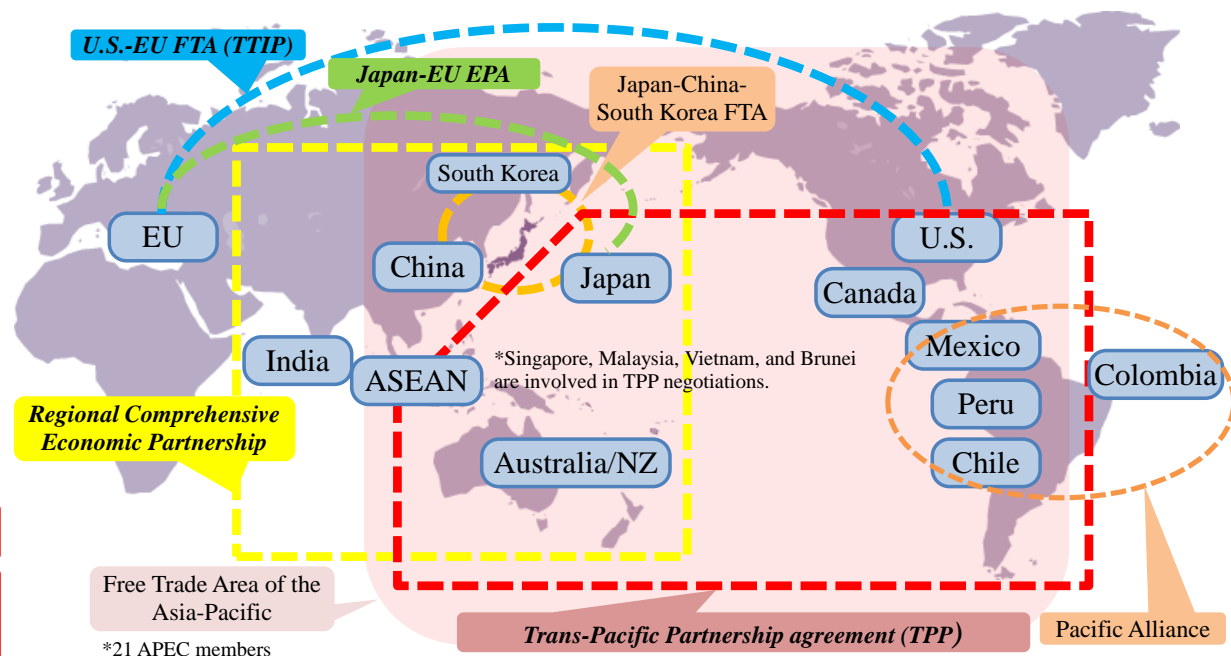
(Unit: No. of cases)

	Asia Pacific	Americas	Europe	Middle East and Africa	Russia and CIS	Cross-regional	Total
1955-59			1	1			2
60-64		1	1	1			3
65-69							0
70-74		1	1			2	4
75-79	2					1	3
80-84	2	1					3
85-89		2		1		2	5
90-94	3	1	5	1	4	2	16
95-99		4	3	8	16	6	37
2000-04	9	6	5	8	4	19	51
2005-09	20	10	4	4	2	33	73
2010-	10	9	8		2	22	51
Year of implementation of FTA unknown				4			4
Total	46	35	28	28	28	87	252

2000	1		1	3	1	5	11
2001	1	2		1	2	3	9
2002	1	2	2	2	1	2	10
2003	3	1	1	2		3	10
2004	3	1	1			6	11
2005	5	1		1	1	7	15
2006	4	1	1	2	1	9	18
2007	3			1		6	10
2008	6	1	2			4	13
2009	2	7	1			7	17
2010	6	1	6		1	2	16
2011	3	1				10	14
2012		5	1		1	7	14
2013	1	2	1			3	7

Sources: WTO, materials from individual governments.

Figure II-11: Mega FTAs in the world (negotiations underway)



Growing presence of Japan in mega FTAs; important role of the new quadrupole

- The TTIP is a prominent mega FTA with a global share of 45% based on economic scale. The TPP, RCEP, and Japan-EU accord each have approximately 30% of the global share respectively. In terms of population scale, the RCEP, which includes China and India, has an unparalleled global share of 49%. The TPP, Japan-EU accord, and TTIP each have about 10% of the global share in terms of population scale. Taking into consideration all three of the mega FTAs that Japan is a member of, the GDP share is 79.4%, while population share is 63.5%. Despite the low figure for existing FTAs, at 18.9%, total FTA coverage stands at 73.5%. Compared to the United States, China, and EU, Japan's presence in mega FTAs is growing by leaps and bounds.
- As mega FTAs become increasingly important, there is a need for the trade ministers in the new quadrupole (Japan, the US, the EU and China) to engage in active information exchanges and other initiatives in order to prevent confusion amongst the FTAs about investment and intellectual property rules, as well as the growing complexity of rules of origin.

Figure II-12: Economic and population scale in mega FTAs

	Economic scale		Population scale	
	Trillion dollars	%	100 million people	%
TPP	27.6	38.5	7.9	11.4
RCEP	21.2	29.6	34.0	49.0
Japan-EU	22.5	31.4	6.3	9.1
TTIP (U.S.-EU)	32.3	45.0	8.2	11.8
Mega FTAs that Japan is a member of (TPP + RCEP + Japan-EU)	56.9	79.4	44.1	63.5
Mega FTAs that the United States is a member of (TPP + TTIP)	44.1	61.5	12.9	18.6
Mega FTAs that the EU is a member of (Japan-EU + TTIP)	38.2	53.3	9.4	13.5
Mega FTAs that China is a member of (RCEP)	21.2	29.6	34.0	49.0
World	71.7	100.0	69.4	100.0

Source: WEO, April 2013(IMF).

Figure II-13: FTA coverage for major economies

(Unit: %)

	FTA coverage rate			Countries/Regions with FTA is in force (Exports + Imports)								
	Exports + Imports	Exports	Imports	1st			2nd			3rd		
Japan	18.9	19.8	18.2	ASEAN	15.3	India	1.0	Mexico	0.9			
United States	39.4	46.4	34.7	NAFTA	29.0	Korea	2.6	DR-CAFTA	1.6			
Canada	67.7	76.7	59.4	NAFTA	65.4	EFTA	1.2	Peru	0.5			
Mexico	81.3	91.4	71.1	NAFTA	66.6	EU	8.5	Japan	2.7			
Chile	90.9	89.3	92.8	China	20.6	United States	16.7	EU	15.0			
Peru	90.6	93.4	87.6	China	17.7	United States	16.0	EU	14.7			
EU27	Total trade	73.6	75.9	71.4	EU	63.3	Switzerland	2.6	EEA	1.6		
	External trade	26.9	29.8	24.2	Switzerland	6.8	EEA	3.9	Turkey	3.5		
Korea	35.3	38.1	32.2	ASEAN	12.3	United States	9.5	EU	9.3			
China	16.6	13.3	20.4	ASEAN	10.3	Taiwan	4.4	Chile	0.9			
India	18.3	22.2	15.9	ASEAN	9.7	Japan	2.5	Korea	2.3			
Singapore	62.2	64.4	60.9	ASEAN	23.0	China	10.3	United States	8.6			
ASEAN	59.7	59.4	60.0	ASEAN	24.5	China	13.3	Japan	10.6			
Australia	26.9	18.7	35.3	ASEAN	14.5	United States	7.6	New Zealand	3.0			
New Zealand	49.1	49.4	48.7	Australia	17.9	China	15.9	ASEAN	13.2			

Notes: (1) FTA coverage rate is the ratio of trade with countries/regions for which the FTA is in force (as of the end of June 2013), as a fraction of total trade.

The rate is based on trade statistics for 2012.

(2) The acronyms stand for: Dominican Republic - Central Agreement Free Trade Agreement (DR-CAFTA) European Economic Area (EEA).

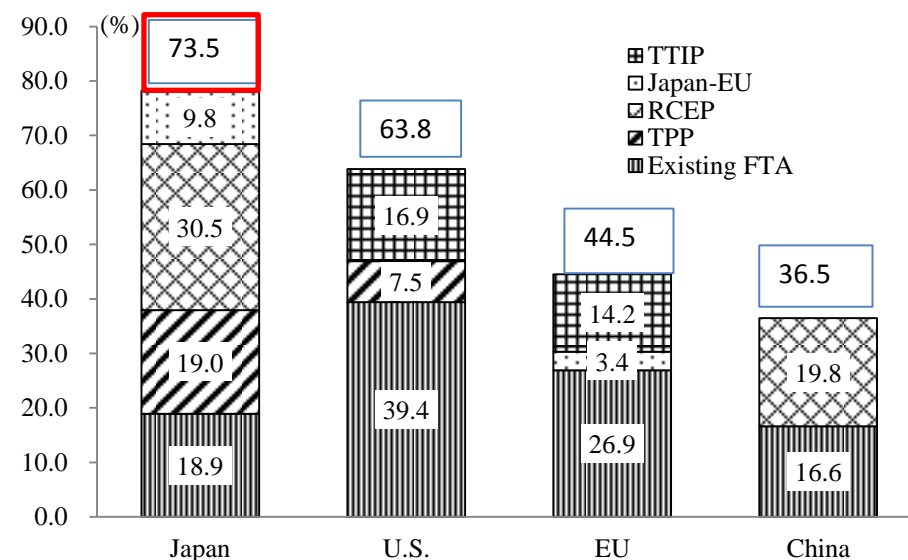
(3) Figures for China do not include Hong Kong (8.8%) and Macau (0.1%).

(4) There are countries in ASEAN for which the FTAs have not yet come into force. However, the amount of trade for all member states were taken into consideration.

(5) Figures for Canada, Singapore, and New Zealand are export statistics that exclude re-exports.

Sources: Materials from individual governments, DOT (IMF), trade statistics.

Figure II-14: FTA coverage after conclusion of mega FTAs



Note: FTA coverage as of the end of 2012 is based on two-way trade. Intra-regional trade is excluded for EU. Hong Kong and Macau are excluded for China. As Japan is included in both the TPP and RCEP, the total accumulated values for each FTA do not correspond.

Source: Statistics for the individual country/region.

Active utilization of US-Korea FTA; negotiations commence for notable US-EU FTA

- The US-Korea FTA came into force March 2012. The utilization rate of this FTA, with respect to imports from the US to South Korea, was 24.8% for the 2Q-4Q of 2012 and 22.9% for the first quarter of 2013. It is important for Japan to pay attention to the developments of this FTA due to the large number of products that are in competition with Japanese products.
- In July 2013, negotiations commenced on the US-EU FTA (TTIP). In addition to tariff reductions, adjustments between the differing regulatory systems in the US and EU have drawn significant attention. These include measures pertaining to automobiles, chemical products, and sanitary and phytosanitary measures.

Figure II-15: FTA utilization for US imports from South Korea

(Unit: US\$ million)

HS Code	Item	2012/2~4Q		2013/1Q		2013 applied average tariff rate for US-Korea FTA(%)	2012 MFN average tariff rate (%)
		Imports from South Korea	FTA utilization rate (%)	Imports from South Korea	FTA utilization rate (%)		
87	Automobiles/auto	11,405	19.1	4,014	18.9	0.8	4.5
85	Electrical equipment	9,483	12.6	3,487	10.8	0.1	3.5
84	General equipment	8,386	24.0	2,456	23.0	0.2	3.5
27	Mineral fuels	1,957	54.0	569	43.8	0.0	6.5
73	Articles of iron and steel	2,073	8.4	668	10.5	0.2	4.8
40	Rubber	1,609	78.9	471	80.1	0.1	3.8
72	Iron and steel	1,165	3.8	365	3.0	0.1	3.3
39	Plastic	1,115	80.2	381	79.7	2.5	5.2
29	Organic chemicals	1,006	16.3	303	24.1	0.5	5.7
90	Optical equipment	671	22.7	237	23.7	0.0	3.0
Total imports to Korea		44,163	24.8	15,019	22.9		

Sources: U.S. International Trade Commission (USITC) Trade Data Web and U.S. Department of Commerce website Export.gov.

【Reference】 Actual US imports from Japan (highlighted items are Korean products in competition with Japanese products)

(Unit: US\$ million)

HS Code	Item	2012	2013/1Q
		Imports from Japan	Imports from Japan
87	Automobiles/auto parts	51,381	12,087
84	General equipment	34,037	7,818
85	Electrical equipment	20,031	4,468
90	Optical equipment	6,856	1,695
88	Aircraft/aircraft parts	3,259	948
29	Organic chemicals	3,250	1,019
73	Articles of iron and steel	2,884	578
40	Rubber	2,712	637
98	Special categories	2,587	554
39	Plastic	2,319	546
Total imports to Japan		146,388	34,324

Source: U.S. Department of Commerce statistics.

Figure II-16: Key TTIP proposals from US and EU industries

Sector	Issues/Recommendations
Automobiles	Implementation as a pilot project for the mutual recognition of five standards agreed upon by both parties.
	Introduction of the mutual recognition of existing regulations, and exploring the potential for formulating joint processes aimed at shaping the foundations for new regulations.
Chemicals	Establishing cooperative mechanisms and inquiry into the establishment of new regulations aimed at adjusting approaches to regulations.
Medical equipment	Mutual recognition of auditing producer quality management systems.
	If the registration of medical equipment is acknowledged in member countries under EU laws, it should also be possible to sell the equipment in other member states. However, in actual fact, it is necessary for other member states to also register again. The system needs to be improved.
Pharmaceuticals	Mutual recognition of inspections for assessments for compliance with GMP and GCP.
Food products	Limits on the use of additives that are widely acknowledged globally, and easing obligations on the attachment of cautionary labels.
Sanitary and Phytosanitary Measures (SPS)	Imports of tallow, which is highly demanded as a biofuel, from third countries is prohibited.
	Pathogen reduction measures (PRT) for meat products are prohibited. Currently, acknowledgement procedures for PRT through lactic acid is being promoted. However, it is complicated and takes time.
Insurance services	Potential for mutual recognition of tolerance values for specified contaminants and standards for residual agricultural substances.
	EU prohibits the import of pork that uses ractopamine hydrochloride. To export to EU, it is necessary to participate in the Pork for the European Union Program to certify the non-use of ractopamine hydrochloride.
Insurance services	Permanent forum for discussing equivalence assessments, etc. (In addition to U.S./EU regulatory authorities, state authorities from the United States are also involved.)

Sources: Open call for feedback on U.S. and EU regulatory issues in October 2012, April 2013 Forum recommendations, and May 2013 public comments.

FTA negotiations in East Asia pick up speed

- The East Asian region has maintained a high intra-regional trade ratio that reflects intra-regional production network connections. Negotiations commenced on the Regional Comprehensive Economic Partnership (RCEP) for East Asia in May 2013. If realized, this partnership is expected to bring about further integration of economies in the region. The targeted date of conclusion for the partnership is at the end of 2015, corresponding with the anniversary of the founding of the ASEAN Community.
- Negotiations for a bilateral FTA between South Korea and China are taking place prior to negotiations for a trilateral FTA between Japan, China, and South Korea. To South Korea, the conclusion of an FTA with China represents a milestone in the proactive FTA measures that the country has been promoting since 2003. As the TPP gains strength and advancements are made in the ASEAN-led RCEP, China is searching for ways to secure a leadership foothold in Asia.

Figure II-17: Changes in intra-regional trade in Asia and major countries and regions

(Unit: %)

		1980	1990	2000	2005	2010	2011	2012	
Asia	RCEP	33.2	33.0	40.6	43.0	44.1	43.7	43.2	
	ASEAN	15.9	17.0	22.7	24.9	24.6	24.3	24.5	
	ASEAN-China	14.9	15.8	20.1	20.7	20.7	20.6	21.2	
	ASEAN-Korea	15.1	16.1	22.4	23.2	23.9	23.9	24.5	
	ASEAN-India	15.1	16.5	22.3	23.8	23.4	23.1	23.1	
	ASEAN-Japan	23.4	21.7	26.4	26.0	26.7	26.6	27.1	
	Japan-China-South Korea	10.3	12.3	20.3	23.7	22.1	21.3	20.2	
	Americas	NAFTA	33.2	37.2	46.8	43.0	40.0	39.9	40.2
	Europe	EU27	57.5	65.4	65.1	65.0	64.9	64.4	63.3
Japan-EU		52.6	61.4	59.8	60.5	59.2	58.8	57.4	
APEC		57.5	67.5	72.3	69.2	67.0	65.5	65.8	
TPP		44.0	50.8	53.9	47.0	41.9	41.3	42.0	
U.S.-EU		55.0	61.3	57.9	58.7	57.0	56.6	55.0	

Notes: (1) RCEP refers to ASEAN 10, Japan, China, South Korea, Australia, New Zealand, and India.

(2) TPP is based on 12 countries including Japan.

(3) Intra-regional trade ratio (two-way) is computed as follows:

$(\text{Value of intra-regional exports} + \text{Value of intra-regional imports}) / (\text{Value of world exports} + \text{Value of world imports}) \times 100$.

Sources: "DOT, May 2013" (IMF) and Trade Statistics of Taiwan.

Figure II-18: Status for trilateral FTA between Japan, China and South Korea

(Unit: %)

		Japan	Share of exports and imports	South Korea	Share of exports and imports	China	Share of exports and imports
Asia Pacific	ASEAN	In force (2008)	15.3	In force (2007)	12.3	In force (2005)	10.3
	India	In force (2011)	1.0	In force (2010)	1.8	(APTA member)	1.7
	Australia	Under negotiations	4.4	Under negotiations	3.0	Under negotiations	3.0
	New Zealand	—	0.3	Under negotiations	0.3	In force (2008)	0.3
	Mongolia	Under negotiations	0.0	—	0.0	—	0.2
	Japan	—	—	Negotiations suspended	9.7	—	8.5
	China	—	19.7	Under negotiations	20.2	—	—
	South Korea	Negotiations suspended	6.1	—	—	Under negotiations	6.6
	Japan/China/South Korea	Under negotiations	25.8	Under negotiations	29.8	Under negotiations	15.1
	RCEP	Under negotiations	46.9	Under negotiations	47.1	Under negotiations	30.4
	Taiwan	—	4.2	—	2.7	In force (2010)	4.4
	Pakistan	—	0.1	—	0.2	In force (2007)	0.3
	North, Central and South America	United States	—	12.8	In force (2012)	9.5	—
Canada		Under negotiations	1.4	Under negotiations	0.9	—	1.3
Mexico		In force (2005)	0.9	Under negotiations	1.1	—	0.9
Chile		In force (2007)	0.7	In force (2004)	0.7	In force (2006)	0.9
Peru		In force (2012)	0.2	In force (2011)	0.3	In force (2010)	0.4
Colombia		Under negotiations	0.1	Concluded	0.2	Joint research	0.2
Europe	Costa Rica	—	0.1	—	0.1	In force (2011)	0.2
	EU	Under negotiations	9.8	Provisionally in force (2011)	9.3	—	14.1
	EFTA	—	1.0	In force (2006)	0.9	—	0.8
	Switzerland	In force (2009)	0.7	In force (EFTA)	0.3	Signed	0.7
	Norway	—	0.2	In force (EFTA)	0.6	Under negotiations	0.2
	Iceland	—	0.0	In force (EFTA)	0.0	Under negotiations	0.0
Other	Turkey	Joint research	0.2	In force (2013)	0.5	—	0.5
	Trans-Pacific Partnership (TPP)	Under negotiations	27.5 (19.0)	—	32.4 (15.0)	—	33.2 (26.2)
	Gulf Cooperation Council (GCC)	Under negotiations	10.8	Under negotiations	11.6	Under negotiations	4.0
	FTA coverage	Total in force	18.9	Total in force	35.3	Total in force	16.6

Notes: (1) Rates are based on trade statistics for 2012. The upper part of TPP is the share for 12 countries, while the lower part is the share for partner countries for which the FTA has not yet come into force.

(2) The individual FTA with each ASEAN country has been omitted. China's FTA coverage rate does not include Hong Kong and Macau.

(3) The Asia Pacific Trade Agreement (APTA), a preferential trade agreement, is in force for China and India, but is excluded from the FTA coverage rates.

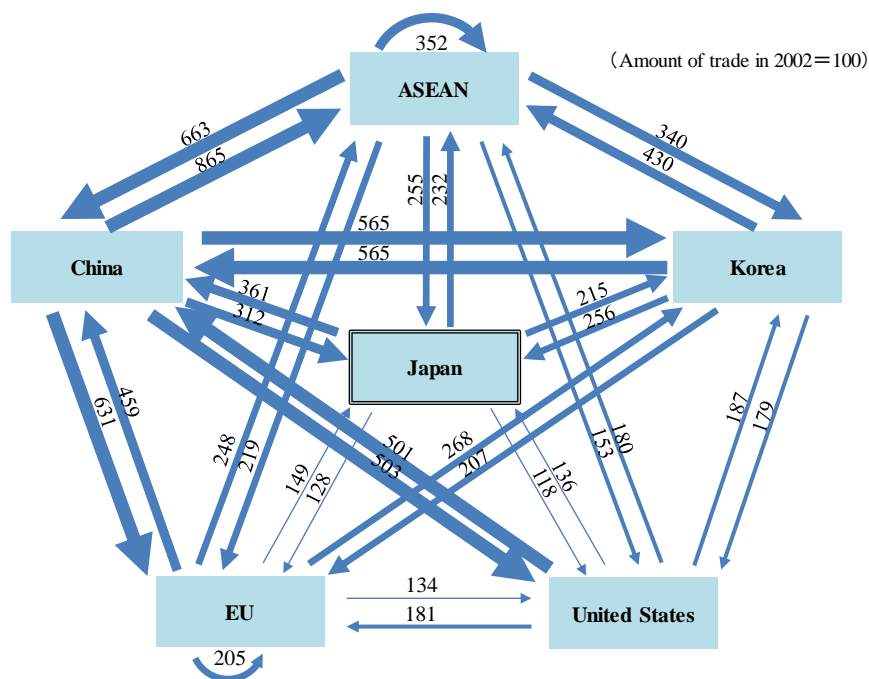
Source: Government materials and trade statistics for each country/region.

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Japan enters into successive negotiations for mega FTAs/EPAs

- At the beginning of 2013, Japan entered into negotiations for four large-scale FTAs: the Japan-China-South Korea FTA, Japan-EU FTA, RCEP, and TPP. It aims to strengthen trade relations not only with the growing Asia region, which it has enjoyed stronger trade relations with in the past 10 years, but also with the US and EU, which are Japan's main trade partners.
- If all the FTAs that are currently being negotiated come into force, Japan's FTA coverage will exceed 80% of its total trade. With regard to trends in FTA coverage by industry, individual characteristics can be seen for each FTA.

Figure II-19: Scale of exports for Japan's major FTA partner countries/regions in 2012 (Amount of trade in 2002 = 100)



Note: The figures are the amount of trade (index) for 2012, taking the amount of trade in 2002 as 100.
Source: "DOT, May 2013" (IMF).

Figure II-20: Share of trade among major target FTA countries/regions for main Japanese products

								(Unit: %)
Product		World (US\$ Million)	In force	China/South Korea	EU	RCEP	TPP	Total
Exports	Transport equipment	189,906	13.1	8.0	9.0	24.2	42.5	75.6
	General equipment	158,795	22.5	25.6	13.0	48.6	30.3	86.5
	Electrical equipment	125,871	21.4	30.8	10.7	51.2	26.1	79.4
	Chemicals	101,907	15.8	38.6	10.1	54.1	19.0	79.3
	Steel products	54,955	33.0	36.2	2.8	67.6	21.4	86.8
Total exports		798,447	19.8	25.8	10.2	45.8	29.6	80.5
Imports	Mineral fuels	301,018	16.7	3.6	0.3	31.6	23.4	85.7
	Machinery and equipment	220,012	16.8	47.0	14.2	61.6	21.9	92.7
	Chemicals	86,325	20.0	22.9	30.6	39.2	24.3	92.5
	Foods	81,876	20.3	16.3	12.6	39.0	44.7	85.8
	Textile products	41,529	14.6	74.9	5.0	89.6	8.2	96.1
Total imports		885,838	18.2	25.8	9.4	47.9	25.7	88.0
Two-way trade		1,684,285	18.9	25.8	9.8	46.9	27.5	84.4

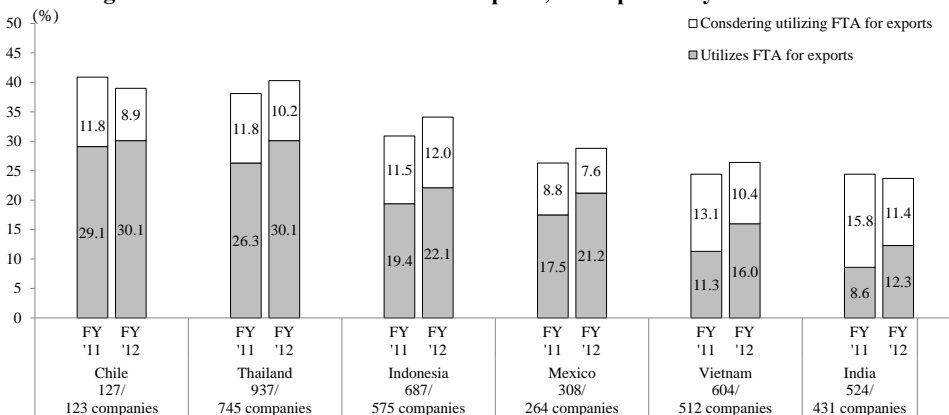
Notes: Transport equipment: HS86-89, general equipment: HS84, electrical equipment: HS85, chemicals: HS28-40, steel products: HS72-73, mineral fuels HS2701-2705, 2708-2713, 2715, machinery and equipment HS84-91, foods HS01-24, textile products HS50-63. The amount of trade for 2012 is used as the basis for these figures. The total includes bilateral FTA negotiations partners.

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

Increase in FTA utilization rate for exports from Japan

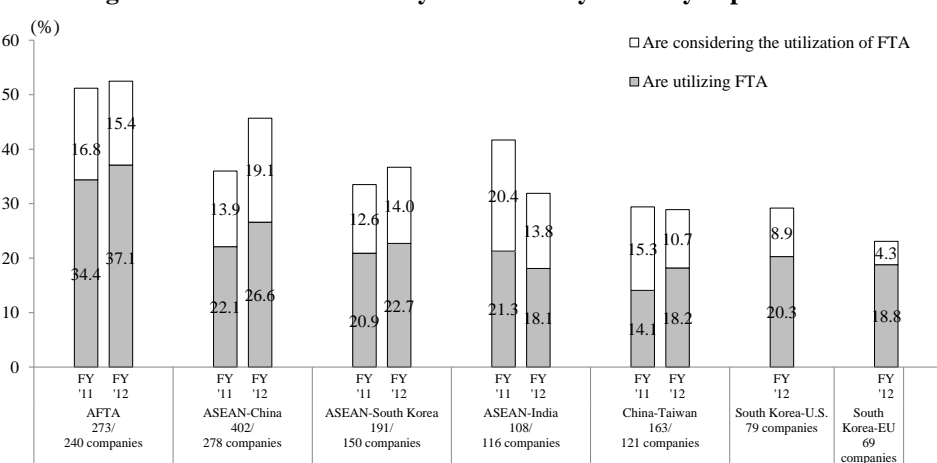
- Based on results of the latest JETRO survey, the utilization rate for exports for Japan's key FTAs that are in force is above the utilization rate for the previous survey. Tariffs are being reduced progressively, and the advantages of FTA utilization are growing year after year. An example is the abolishment of tariffs for 80 car part products in 2012, based on the Japan-Thailand FTA.
- Progress is also being achieved in the utilization of trilateral FTAs between third countries by Japanese-affiliated overseas companies. The range of such FTAs that can be utilized is expanding as FTAs between the US and South Korea, and the EU and South Korea, amongst others, have come into force.

Figure II-21: FTA utilization rate for exports, for Japan's key FTAs



Note: The number of companies is the number of companies that are exporting from Japan to each of the abovenamed countries (Total for 2012: 1,268 companies, 2013: 1,003 companies)
Source: "FY 2011/2012 Survey on the International Operations of Japanese Firms" (JETRO).

Figure II-22: Utilization of key third country FTAs by Japanese



Note: The number of companies is the number of companies with parent companies or subsidiaries that are engaged in trade in the respective countries and regions. South Korea-U.S. and South Korea-EU were only included in the survey of fiscal 2012.
Source: "FY 2011/2012 Survey on the International Operations of Japanese Firms" (JETRO).

Figure II-23: Japan's FTA utilization rate for exports (by capital scale)

Capital scale	No. of companies	No. of exporting companies	Utilization rate for export FTA	Considering utilization of FTA	Utilizing or considering utilization (excludes duplicate figures)
10 million yen or less	368	134	19.4	16.4	32.8
Above 10 million yen - 50 million yen	598	252	22.6	15.9	33.7
Above 50 million yen - 100 million yen	280	167	26.3	12.6	36.5
Above 100 million yen - 300 million yen	143	91	37.4	14.3	44.0
Above 300 million yen - 1,000 million yen	155	96	43.8	14.6	52.1
Above 1,000 million yen	413	263	41.4	16.3	49.0
Overall	1,957	1,003	31.1	15.3	40.8

Note: The number of companies is the number of companies that is engaged in import or export activities in more than one country/region from the 13 countries/regions that Japan has concluded FTAs for as of January 2013.

Source: "FY 2012 Survey on the International Operations of Japanese Firms" (March 2013, JETRO).

Figure II-24: Japanese companies that are strengthening trade ties between the US and South Korea and the EU and South Korea

Company	Outline
Toyota Motor	Exports "Camry" (Sedan) and "Venza" (SUV) produced at the Kentucky plant in the United States to South Korea.
Nissan Motor	Starting 2014, it will export products from its Pusan plant to 60 countries including EU and United States.
Honda Motor	Released "Civic" with EU specifications from the U.K. plant, and "Accord", from the Alabama plant, into the South Korean market.
Yamazaki Mazak	Sells NC lathe produced in its plant in Kentucky, United States, to the South Korean market.
Mori Seiki	According to reports, it will export industrial machinery produced in its California plant in the United States to South Korea after summer 2013.
Toray Industries	Exports carbon fiber produced in its new plant in Gyeongsangbuk-do, South Korea, to the United States and other markets.

Note: These do not necessarily reflect verification of FTA utilization.

Source: Press releases and reports.

Chapter 3

Revitalizing Japan through global business

Consumer markets in emerging and developing economies show great potential

- As of 2011, the size of consumer markets for all emerging and developing economies was 3.7 times that of Japan's. The total size for China and India was equivalent to that of Japan's, and the total size of China, India, and ASEAN was 1.4 times that of Japan's.
- The penetration rate for consumer durables remains low for emerging and developing economies. For instance, the rate for air-conditioners is approximately 90% for Japan, but remains low among these countries with the exception of Saudi Arabia, ranging from 1.6% (Nigeria) to 53.0% (China). The penetration rate for passenger cars is low even in Asia.

Figure III-1: Scale of household consumer expenditure (nominal) of emerging and developing economies

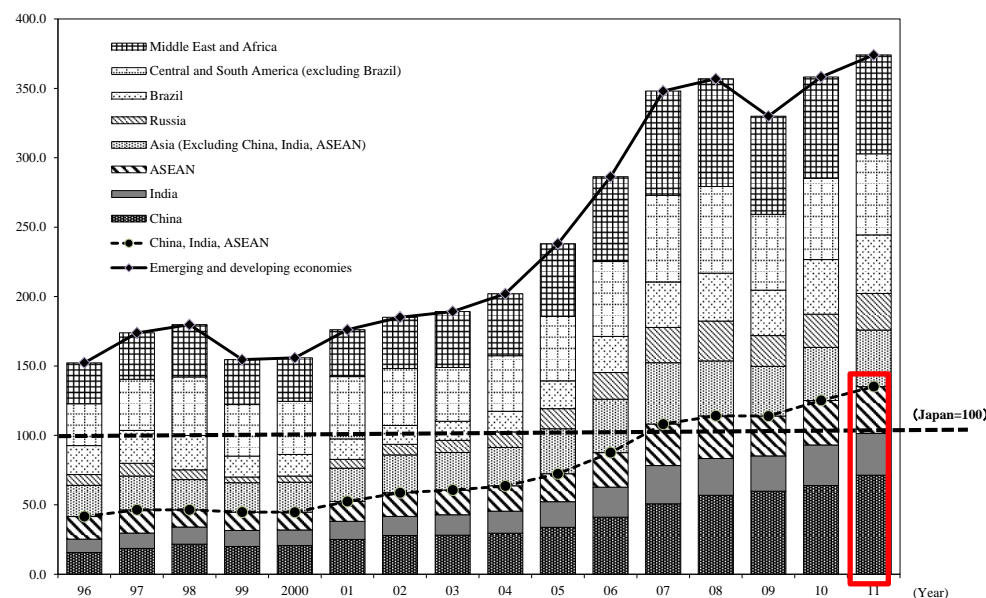


Figure III-2: Penetration rate of consumer durables in emerging and developing economies (2012)

(Unit : %)

Region	Country	Air-conditioner	Refrigerator	Washing machine	Mobile phone	Passenger car
Asia	China	53.0	77.0	73.2	92.2	6.1
	India	9.6	20.7	7.7	44.3	4.4
	Thailand	14.6	90.1	55.8	93.9	14.8
	Indonesia	7.6	30.6	30.5	80.7	7.4
	Vietnam	9.5	50.0	22.5	86.9	1.5
Central and South America	Brazil	13.3	95.9	48.7	82.5	36.8
	Mexico	16.7	82.5	67.5	75.1	45.8
	Chile	16.4	94.6	94.9	95.7	28.8
	Peru	9.1	39.6	22.2	60.5	21.3
CIS	Russia	8.5	96.9	97.3	97.5	49.8
	Uzbekistan	17.2	74.0	45.2	62.5	26.9
Middle East and Africa	Saudi Arabia	84.5	98.6	96.6	97.2	94.2
	Morocco	13.6	80.5	44.1	87.7	13.7
	Kenya	3.0	7.9	18.9	67.3	6.5
	Nigeria	1.6	18.3	14.8	66.5	8.5
	South Africa	17.4	68.2	31.1	90.0	28.3
Reference	Japan	89.6	98.9	99.6	96.3	83.9

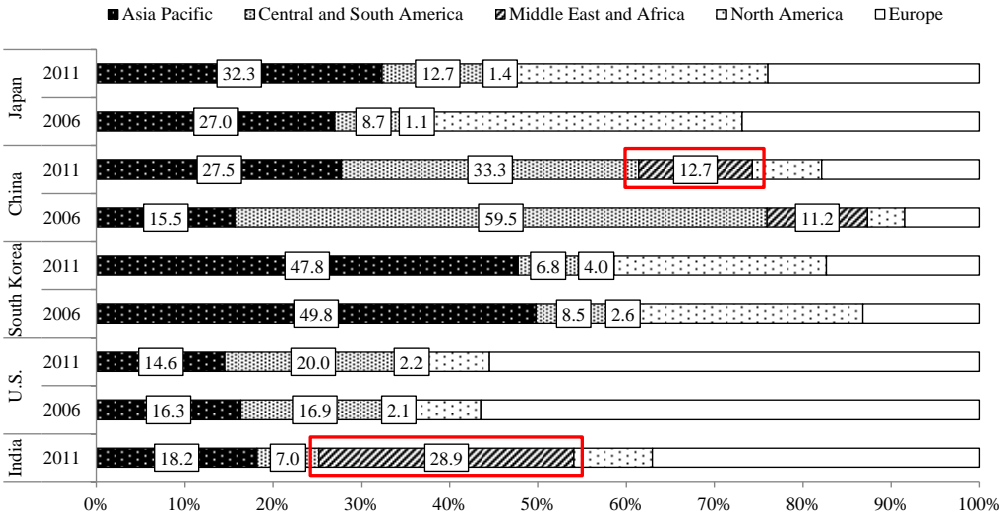
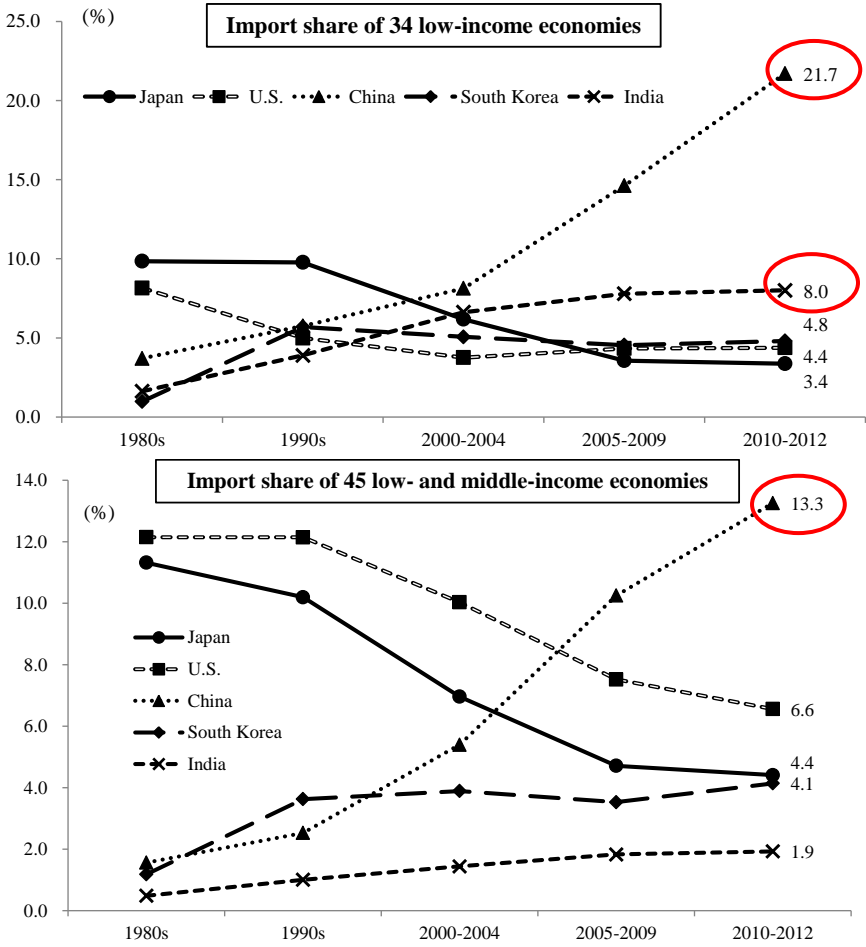
Source: "Consumers Markets" for each region (Euromonitor International).

Emerging and developing countries compete with Japanese companies

- The proportion of imports from China to low-income economies exceeds 20%. Imports from India also make up a high proportion at 8.0%, exceeding South Korea (4.8%) and Japan (3.4%). The share of imports from China and India to low-income economies is on the rise as well, while the import share of Japan and the US is on the decline.
- Japan's outward FDI is focused on Asia, North America, and Europe, while FDI to the Middle East and Africa remains low. China is increasing the ratio of its investment in Asia, as well as Africa (investments in Central and South America can be explained as investments in tax havens). India's investment in Africa makes up a large proportion of its total investments, albeit a significant amount of it is to make use of tax havens.

Figure III-3: Proportion of imports for major economies, by income level of importing economies

Figure III-4: Outward FDI from Japan, United States, China, South Korea, and India (by proportion of FDI in each region)



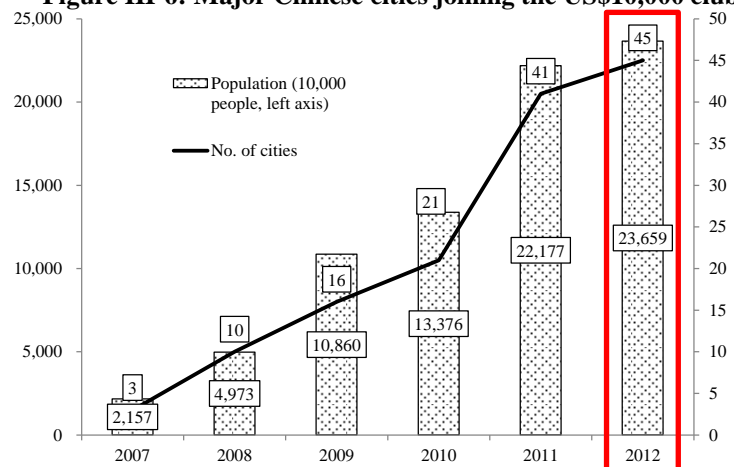
Notes: (1) In the computation for percentages for each region, investments from China in Hong Kong and investments from South Korea in non-specified economies are excluded from the denominator.
 (2) Classification of regions follows the Ministry of Finance and Bank of Japan "Balance of Payment Statistics".
 Sources: Japan: "Japan's Outward FDI stock (by region/industry)" (Bank of Japan), US: "US Direct Investment Abroad" (Bureau of Economic Analysis, Department of Commerce), South Korea: "International Direct Investment Database" (OECD), China: "2011 Statistical Bulletin of China's Outward Foreign Direct Investment" (Ministry of Commerce, People's Republic of China), India: "Coordinated Direct Investment Survey" (IMF).

Notes: (1) Classification of income levels is based on World Bank as of 2011.
 (2) Figures within the brackets refer to the number of target countries/regions.
 Sources: DOT (IMF), World Bank.

Major Chinese cities join the \$10,000 club

- The number of major cities with per capita GRP (gross regional product) exceeding US\$10,000 has increased from three cities in 2007 to 45 cities in 2012. The total population of these cities has grown from 21.57 million to 236.59 million. It increased by 11 times in the past five years.
- There are 15 Chinese cities with a population above 10 million. It is possible to classify the nine cities (see Reference) that have not yet reached the \$10,000 club status based on the criteria used in the previous page. These cities would fall under the volume zone and frontier. In ASEAN as well, the per capita GDP is US\$14,419 for Bangkok (population of 6.88 million), US\$9,871 for Jakarta (population of 9.61 million), and US\$3,179 for Ho Chi Minh City (population of 7.75 million).

Figure III-6: Major Chinese cities joining the US\$10,000 club



[Reference: Per capita GRP for major Chinese cities with population above 10 million (2011)]

	City	Per capita GRP (US\$)	Population (10,000 people)
US\$10,000 club 6 cities US\$10,000 ≤ Per capita GRP < US\$30,000	Shenzhen (Guangdong)	17,096	1,047
	Guangzhou (Guangdong)	15,109	1,275
	Tianjin	13,193	1,355
	Shanghai	12,783	2,348
	Beijing	12,643	2,019
	Wuhan (Hubei)	10,577	1,002
Volume zone 7 cities US\$3,000 ≤ Per capita GRP < US\$10,000	Zhengzhou (Henan)	8,803	1,010
	Chengdu (Sichuan)	7,654	1,407
	Shijiazhuang (Hebei)	6,181	1,028
	Chongqing (Sichuan)	5,342	2,919
	Linyi (Shandong)	4,258	1,081
	Baoding (Hebei)	3,375	1,127
	Nanxi (Henan)	3,343	1,201
2 frontier cities US\$1,000 ≤ Per capita GRP < US\$3,000	Zhoukou (Henan)	2,436	1,239
	Fuyang (Anhui)	1,999	1,040

	2007		2008		2009		2010		2011		2012	
Region	City	Population	City	Population	City	Population	City	Population	City	Population	City	Population
Northeast			Daqing (Heilongjiang)	282	Dalian (Liaoning)	589			Shenyang (Liaoning)	723	Benxi (Liaoning)	154
									Panjin (Liaoning)	131		
East	Dongying (Shandong)	186	Wuxi (Jiangsu)	468	Beijing	2,019	Tianjin	1,355	Tangshan (Hebei)	763	Jinan (Shandong)	607
	Shenzhen (Guangdong)	1,047	Suzhou (Jiangsu)	642	Shanghai	2,348	Weihai (Shandong)	254	Qingdao (Shandong)	766	Yangzhou (Jiangsu)	460
			Ningbo (Zhejiang)	576	Xiamen (Fujian)	185	Hangzhou (Zhejiang)	696	Yantai (Shandong)	652	Huzhou (Zhejiang)	261
			Guangzhou (Guangdong)	1,275	Foshan (Guangdong)	723	Zhuhai (Guangdong)	157	Zibo (Shandong)	424		
									Nanjing (Jiangsu)	636		
									Zhenjiang (Jiangsu)	272		
									Changzhou (Jiangsu)	363		
									Shaoxing (Zhejiang)	440		
									Jiaxing (Zhejiang)	343		
									Zhoushan (Zhejiang)	97		
								Zhongshan (Guangdong)	314			
Central									Wuhan (Hubei)	1,002		
									Changsha (Hunan)	709		
									Xinyu (Jiangxi)	115		
									Tongling (Anhui)	73		
West	Karamay (Xinjiang)	28	Ordos (Inner Mongolia)	200	Jiayuguan (Gansu)	23	Wuhai (Inner Mongolia)	54	Hohhot (Inner Mongolia)	291		
			Baotou (Inner Mongolia)	269					Yulin (Shaanxi)	335		

Business risks for emerging countries differ amongst countries and regions

- Emerging countries in Asia face increasing risks of rising personnel cost and labor issues. The inadequacy of infrastructure and legal systems continue to be problems plaguing these countries. China is characterized by intellectual property risks and rising personnel costs, while rising personnel costs is a significant problem for Thailand. Indonesia faces an increasing number of problems, while Vietnam is confronted by the issue of stagnation in infrastructural improvements. India ranks third for labor issues, but the rate is on the rise.
- In Africa, political and social instability has become a growing problem as compared to five years ago. This is followed by the issue of development and implementation of regulations and laws.

Figure III-7: Business risks and issues in major emerging countries in Asia

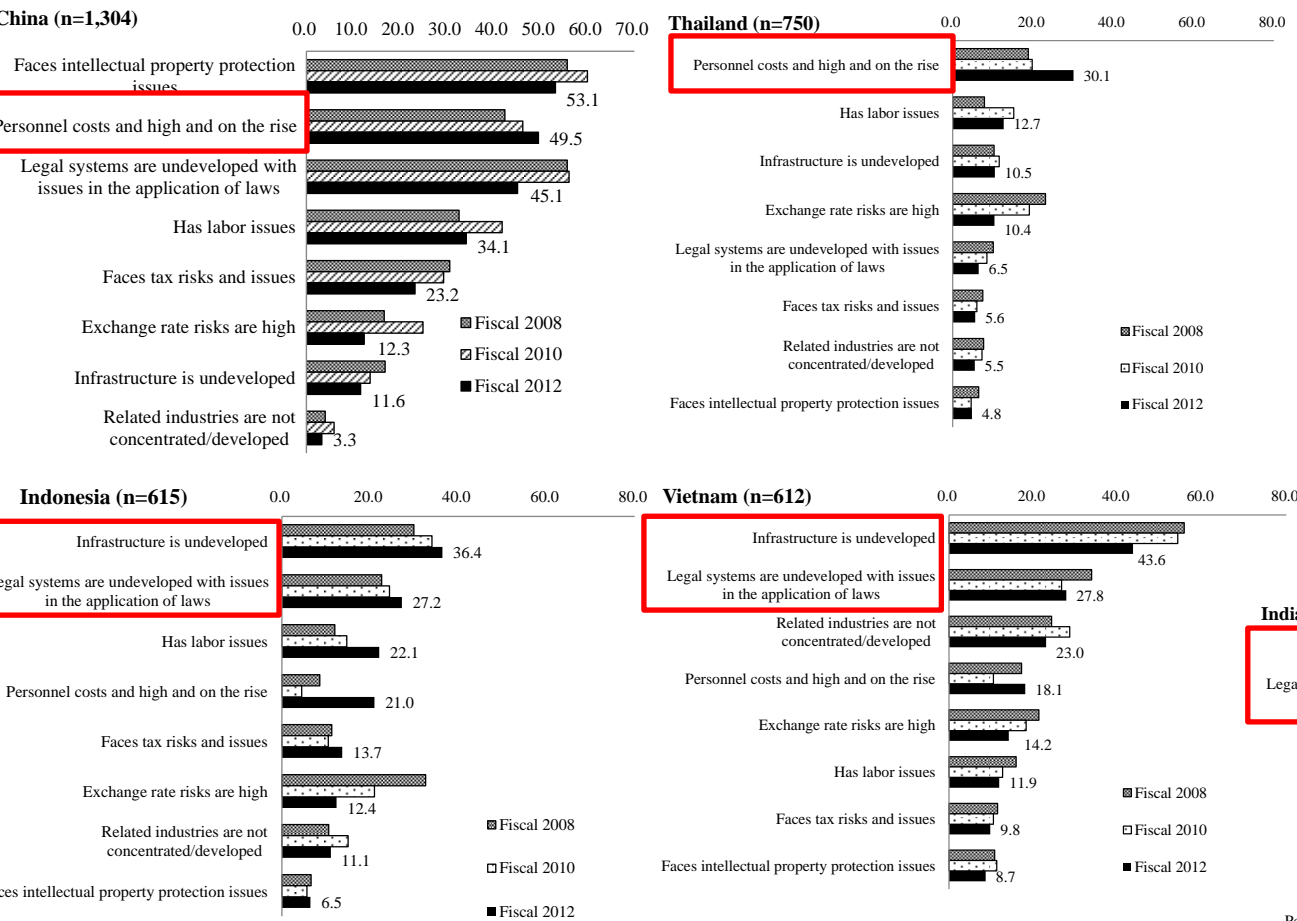
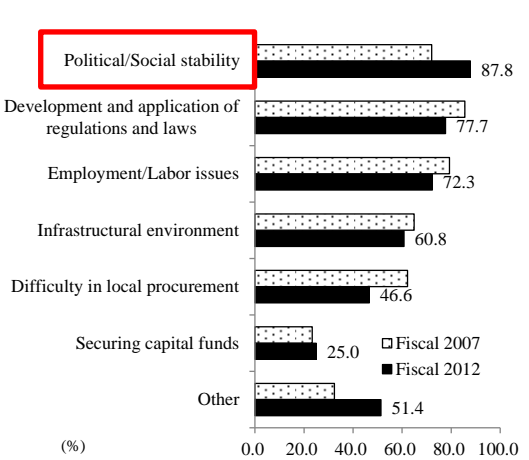
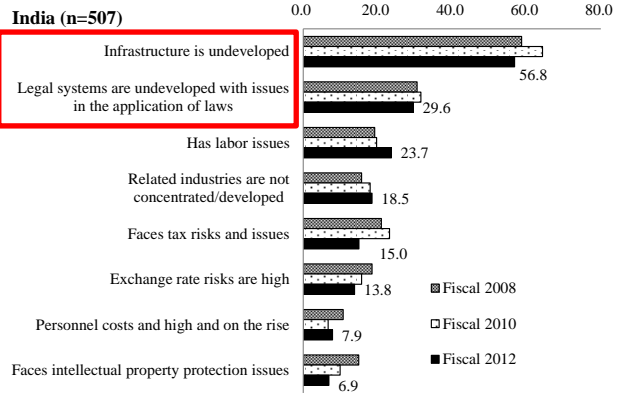


Figure III-8: Management issues in Africa



Note: Period of implementation: August-October 2012. Targets: 333 Japanese companies venturing into the African market. Effective responses: 168 companies (50.5% response rate).
Source: "2012 Survey on Business Conditions of Japanese-Affiliated Firms in Africa" (Jan. 2013, JETRO).



The importance of risk management in breaking into markets in emerging countries

- Africa is perceived as a high-risk region, but its business environment has also been assessed to be similar to that of Asia's. It is important to conduct careful and in-depth studies. There is high demand for improvements in the investment environment from Japanese companies.
- Localization is an important element in risk management, but there are also many related issues. Local exchanges, exchange of information among Japanese companies, and information from public institutions are effective countermeasures against risks.
- In emerging countries where relevant laws and regulations have not been established, companies that are expanding into the market face risks of violating human rights. There is a need to take countermeasures through CSR initiatives, and there is a need even for small and medium-sized enterprises (SMEs) to pay attention to this factor going forward.

Figure III-9: Future countries of note in Africa, and country rankings from the "Doing Business Report"

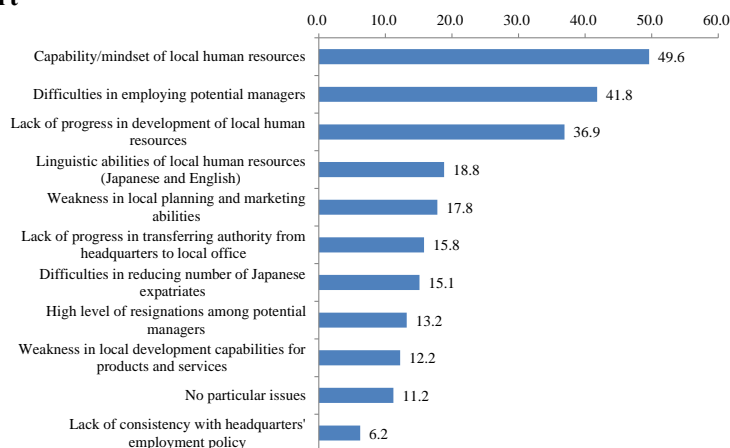
Countries of note (N=151)	No. of responses	Business environment ranking
1st South Africa	53	39
2nd Mozambique	50	146
3rd Angola	46	172
4th Nigeria	44	131
4th Kenya	44	121
6th Egypt	37	109
7th Tanzania	34	134
8th Morocco	29	97
9th Côte d'Ivoire	9	177
9th Zambia	9	94

Others: Libya (8), Algeria (7), Ghana (7), Uganda (6), Zimbabwe (6), Tunisia (6), Ethiopia (5), Namibia (5), Botswana (5), South Sudan (5).
*Excludes countries with less than 5 companies responding. Multiple answers.

Example of DB ranking for emerging countries; China 91st, Vietnam 99th, Russia 112th, Brazil 130th, India 132nd

Sources: "FY2012 Survey on Business Conditions of Japanese-Affiliated Firms in Africa" (Middle East and Africa Division, JETRO), Doing Business 2013 (The World Bank).

Figure III-10: Issues in advancing business localization



Source: "FY2012 Survey on Business Conditions of Japanese Affiliated Firms in Asia and Oceania (JETRO).

Figure III-11: Risk information sources that should be used by Japanese companies expanding overseas

Information source	Specific examples
Local community	Daily contact with people in neighboring homes, factories, or offices. Rotary Club, etc.
Local employee	Maintaining open communication with each level of employees. Individual consultations and gatherings are important.
Among companies	Chamber of commerce for Japanese companies, industry organizations (including local companies), social club restricted to members, partner companies
Supporting companies	Consulting lawyers, accountants, tax accountants, equipment delivery/installation businesses, cleaning/delivery businesses, etc.
Local government	Municipal offices (including police, postal services, etc.), state/provincial government, central government
Publicly available information such as reports	Newspapers, magazines, television/radio programs. It is also important to maintain an outfield perspective (international broadcasts, Internet, SNS).
Japanese Government, public institutions	Japanese embassies/consulates, JETRO, Ministry of Foreign Affairs website, websites of various organizations such as Japanese business associations overseas
External experts	Japanese risk consultants, foreign risk specialist consultants

Source: Interviews and various materials.

Figure III-12: Examples of major human rights violation cases in emerging countries

Year	Company	Country of incident	Details
1984	Union Carbide (U.S.)	India	Large number of deaths among residents caused by leakage of poisonous gas from insecticide plant (violation of right to live)
1997	Nike (U.S.)	Indonesia, Vietnam	Child labor, low wages, forced labor at subcontractor plants
1990s	Shell (U.K., Netherlands)	Nigeria	Sharing of profits with military regime that is acting in violation of human rights, environmental destruction such as crude oil leakage accidents
2003	Coca-Cola (U.S.)	India	Excessive pumping of groundwater violated residents' right to access water supplies; contamination of well-water
2004	Yahoo (U.S.)	China	Provision of personal information to Chinese authorities (user ID), violation of freedom of speech
2010	Apple (U.S.)	China	Successive suicides among employees of Foxconn, a production subcontractor (illegal treatment of employees)
2010	BP (U.K.)	Gulf of Mexico	Oil rig explosion resulted in crude oil leakage, violating right to live (fisheries), environmental contamination

Sources: Study and research report on respecting human rights in expanding business in emerging countries (Business Policy Forum, Japan) (March 2013) and other press releases.

Japanese food is popular throughout the world, according to JETRO survey

■ Government sets goal of increasing annual exports to ¥1 trillion by 2020

Japan's agricultural, forestry and fishery exports for 2012 fell 0.3% year-on-year to ¥449.687 billion. The domestic market is shrinking as a result of the low birth rate and aging population. Japan aims to expand its overseas market particularly focusing on Asia, where total population and the wealthy classes are expected to grow.

■ Japanese food ranks first as consumers' favorite foreign cuisine

In December 2012, JETRO conducted the "Survey on Japanese Food Directed at Overseas Consumers" (2,800 respondents from China, Hong Kong, Taiwan, South Korea, US, France, and Italy, in age groups from 20s to 50s). Sushi, yakitori, sashimi, and tempura rank high among the consumers' favorite Japanese dishes. Other than these regular favorites, ramen was also popular among Asian and American consumers, while curry rice was popular among Europeans.

Figure III-13: Japan's agricultural, forestry, and fishery exports

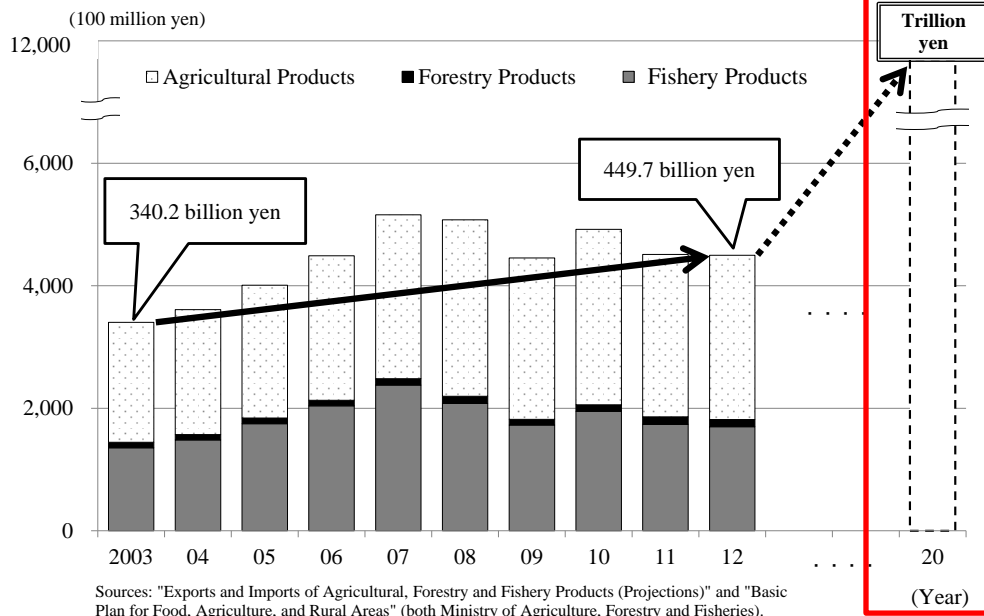
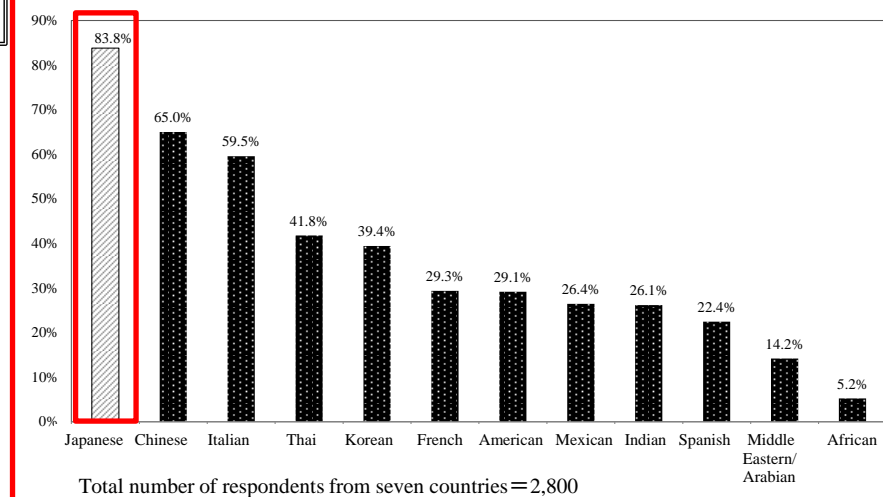


Figure III-14: Favorite foreign cuisine



Note: Multiple answers are accepted. The percentage of the number of responses for each respondent is shown. Cuisine from the home country are excluded from the choices.
Source: "Survey on Japanese Foods Directed at Overseas Consumers" (JETRO).

Government and JETRO initiatives for agricultural, forestry, fishery and food exports; actions taken after policy recommendations

■ Government serious about expanding exports of agricultural, forestry, fishery and food products

At a Cabinet meeting held on June 14, 2013, the Japanese Government made an official decision on the “Basic Policies for Economic and Fiscal Management and Structural Reform”, which represents its basic stance for fiscal reform, as well as the “Japan Revitalization Strategy”, which is one of the “three arrows” under Prime Minister Abe’s economic policy. Promoting exports of agricultural, forestry and fishery products and food is positioned as one of the growth strategies.

On June 19, the House of Representatives Committee on Agriculture, Forestry and Fisheries unanimously passed a resolution on the adoption of the following items pertaining to expanding exports of agricultural, forestry, fishery and food products. This is the first parliamentary resolution passed on the export of agricultural products.

- Communicating the safety of Japanese meat products, accelerating discussions toward abolishing export bans, and strengthening support for the development of meat processing facilities corresponding to the health and sanitary criteria set by the partner country.
- Promoting the branding of Japanese fish, establishing quality management systems such as promoting the acquisition of HACCP accreditation in the United States and EU, and building systems for the prompt issuance of sanitary certification.
- Initiatives to acquire Halal certification in Islamic countries, which make up a quarter of the world’s population, and providing support for acquiring certification, such as GLOBALGAP, etc.

■ JETRO’s initiatives on exports of agricultural, forestry, fishery and food products

- As there is a high percentage of inexperienced exporters in this area, JETRO is strengthening support for improving the skills of exporters.
- Collecting and analyzing information from overseas, and actively disseminating it to exporters.
- Conveying the allure and value of Japanese agricultural, forestry and fishery products and food to buyers, food service businesses, and retailers overseas, etc.

■ Key actions taken by JETRO after policy recommendations

- Ceaseless efforts toward the early abolishment of nuclear-related import restrictions ⇒ Import regulations are in force in 42 countries and regions as of July 1, 2013 (51 countries and regions immediately after the nuclear power plant accident).
- Responding to food safety regulations ⇒ JETRO conducts seminars and provides relevant information about the US Food Safety Enhancement Act.
- Promoting talks on animal and plant quarantine ⇒ After the foot-and-mouth disease outbreak, exports of beef to the United States resumed in August 2012.
- And more.

Examples of JETRO’s support

Hokkaido: Steadily rising export volume

Nemuro’s frozen saury exports to Vietnam and other destinations



- This is the third year of support to promote exports to Vietnam, including mission dispatches and inviting buyers to Japan.
- According to Nemuro City, in FY2012, exports of Nemuro products to Vietnam increased three times year-on-year to approximately 300 tons. (This was 7 tons in FY2010 and 100 tons in FY2011.)
- By carrying out events for consumers in addition to completing business deals with buyers, Nemuro saury strengthened its brand name.

Fukushima: Export of peach and apples

Peaches and apples produced in Fukushima for export to Thailand



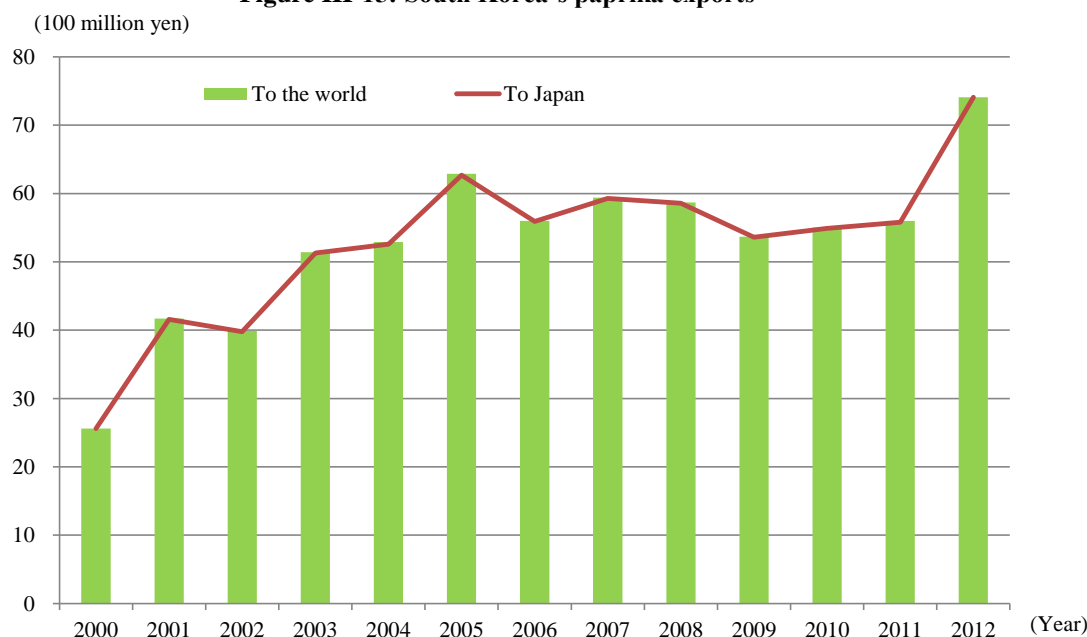
- To launch exports from Fukushima once again after export suspension in the aftermath of the nuclear power plant incident, buyers from Thailand were invited to Fukushima during the harvesting period for peaches, and tours of production sites and business consultations were carried out.
- 800 peaches produced in Fukushima were sold out in two department stores (at ¥600 each) that had sent buyers to Fukushima. Thereafter, products were sold in a greater number of places. This was the first time Fukushima agricultural products were exported since the incident.
- After that, Fuji apples cultivated on two farms in Fukushima City and Date City were successfully sold at a local commercial facility (at ¥360 each).

Promoting sales of products that match export destination demand

- Exporting Korean paprika to Japan -

- In 1995, South Korea began to engage in growing paprika for export, using Dutch technology. It targeted the Japanese market, which is geographically close to South Korea.
- Since the beginning of 2000, there has been a rapid increase in the amount of low-priced, high-quality paprika exports from South Korea, which have replaced Dutch products. South Korea became the top import partner for Japan. Paprika produced in South Korea is a successful example of promoting products that match market demands in the export destination.

Figure III-15: South Korea's paprika exports



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
To the world	25.6	41.7	39.9	51.4	52.9	62.9	56.0	59.4	58.7	53.7	55.0	56.0	74.1
To Japan	25.6	41.6	39.8	51.3	52.6	62.7	55.9	59.3	58.6	53.6	54.9	55.8	74.1

Note: HS:070960 (Fruits of the genus Capsicum or of the genus Pimenta).

Source: "Global Trade Atlas" (Global Trade Information Services, Inc).

Government accelerates export of infrastructure

- The Growth Strategy has established a target of achieving overseas sales for infrastructure worth approximately ¥30 trillion (currently ¥10 trillion) by 2020. The strength of Japanese companies lies in petro chemistry, LNG plants, electricity, and railway. However, in recent years, there has been a stiff competition with China and South Korea, which have a stronger edge with regard to price. Japan is responding to the competition by strengthening public-private cooperation.
- The Growth Strategy will focus on medical technology and equipment as a new frontier field in the area of infrastructure. Japan's strengths in the Asia Pacific region lie in diagnostic imaging equipment such as endoscopes and CT scan equipment, as well as ultrasound diagnostic equipment. However, its competitor countries are also expanding their import market share. From now on, the Government's policy is to export medical technology and services in an integrated manner.
- To the companies, it is possible to explore sales routes and find trade partners efficiently through participation in exhibitions and fairs overseas. JETRO has launched new initiatives that include inviting foreign doctors to Japan so as to help Japanese companies open up new sales channels. To kickoff these initiatives, five doctors from major private hospitals in Thailand (in the field of dialysis) were invited to Kyushu to visit medical institutions and companies, and to tour exhibitions and fairs.

Figure III-16: Import share of CT equipment in the Asia Pacific region, by country (2012)

	Top import destination	2nd import destination	3rd import destination
China	United States (35.5%)	Japan (35.47%)	Germany (25.95%)
Taiwan	United States (41.18%)	Germany (29.14%)	Japan (18.92%)
Korea	Germany (40.86%)	United States (23.13%)	Japan (23.01%)
Malaysia	United States (53.18%)	Germany (19.92%)	Japan (15.1%)
Thailand	Japan (42.3%)	United States (31.44%)	China (9.12%)
Indonesia	China (32.54%)	Japan (28.55%)	Germany (23.08%)
Singapore	Japan (66.68%)	United States (16.70%)	Germany (14.81%)
Philippines	China (71.65%)	Germany (16.61%)	United States (9.48%)
Vietnam	Japan (35.61%)	Austria (19.19%)	China (15.36%)
India	United States (29.48%)	China (25.18%)	Japan (15.31%)
Australia	United States (43.95%)	Germany (19.57%)	Japan (18.03%)

Notes: (1) HS902212. (2) Only figures for Vietnam are 2011.

Source: trade statistics of each country.

Figure III-17: Import share of ultrasound diagnostic equipment in the Asia Pacific region, by country (2012)

	Top import destination	2nd import destination	3rd import destination
China	United States (42.85%)	Korea (14.61%)	Japan (13.4%)
Taiwan	United States (36.51%)	Japan (30.57%)	Korea (9.23%)
Korea	United States (60.26%)	Japan (15.29%)	China (4.62%)
Malaysia	United States (23.24%)	Singapore (16.82%)	Japan (14.95%)
Thailand	United States (68.89%)	Korea (11.75%)	Denmark (6.7%)
Indonesia	Korea (31.66%)	China (20.57%)	United States (18.83%)
Singapore	Japan (37.90%)	United States (31.33%)	France (7.53%)
Philippines	Korea (35.25%)	Japan (21.47%)	United States (19.55%)
Vietnam	Japan (44.41%)	Korea (21.38%)	China (11.44%)
India	United States (22.22%)	China (21.84%)	Korea (17.86%)
Australia	United States (63.41%)	Japan (11.77%)	Korea (6.4%)

Notes: (1) HS901812. (2) Only figures for Vietnam are 2011.

Source: trade statistics of each country.

Figure III-18: Major overseas trade fairs in the field of medical equipment (FY2013)

Fair	Period	Location	Remarks
China International Medical Equipment Fair (CMEF Spring 2013)	April 17-20, 2013	Shenzhen, China	Largest specialized trade fair for medical equipment in the Asia Pacific region
BIO International Convention	April 22-25, 2013	Chicago, United States	World's largest specialized trade fair and business meeting for pharmaceutical biotechnology
Medical Fair Thailand 2013	September 12-14, 2013	Bangkok, Thailand	Largest specialized trade fair for medical equipment in Southeast Asia
BIO Europe 2013	November 4-6, 2013	Vienna, Austria	Europe's largest specialized trade fair and business meeting for pharmaceutical biotechnology
MEDICA 2013 (International fair and international conference for medical equipment)	November 20-23, 2013	Dusseldorf, Germany	World's largest trade fair for medical equipment
RSNA 2013 (Radiological Society of North America)	December 1-6, 2013	Chicago, United States	World's largest radiological conference and trade fair
Arab Health 2014	January 27-30, 2014	Dubai, UAE	Largest trade fair for medical equipment in the Middle East
Medical Design & Manufacturing West 2014	February 11-13, 2014	Anaheim, United States	World's largest specialized trade fair for medical equipment parts
Medical Fair India 2014	March 14-16, 2014	Mumbai, India	India's largest trade fair for medical equipment

Source: various materials.

Promoting “Cool Japan” globally

- Collaboration between different industries in order to expand globally is an issue faced by the creative industries. Japanese companies are also taking steps to break into countries and regions that they have not yet explored. Japanese products, which boast superior design and function, are accepted not only in emerging countries, but also in competitive Western countries' markets. Price is a continuing issue.
- According to a JETRO survey on service industry companies with a proactive stance toward overseas business, more than 40% of those responding (546 companies) indicated that they have had experience in overseas expansion. The biggest issue they faced in achieving overseas expansion is appropriate localization, such as the supply of products and services, and price setting. Other issues raised were human resources, capital and costs.

Collaboration between different industries

J-POP



Automobile-related goods

Bangkok International Auto Salon 2013

(Largest automobile fair in ASEAN)

Period: June 20 – 30, 2013

Organizer: Local publishing company

Estimated number of visitors: 1 million (approximately 0.7 million last year)

Description:

18 Japanese automobile sundry goods companies exhibited their products at the Japan booth set up by JETRO. A live J-pop performance was also held at the fair.

The collaboration between Japanese products and J-pop opened up new sales channels.

Exploring the women's market in the Middle East

Middle East and North Africa: Population exceeds 500 million (large youth population), and many affluent classes in the Gulf countries

Fashion market: Large number of European and American fashion brand stores (ZARA, H&M, etc.). Entry of Japanese apparel companies into the market is limited due to various forms of restrictions.

New initiatives:

Aug 2012: Buyers from the fashion and beauty industries (6 companies) were invited from Saudi Arabia, Turkey, and UAE to Japan. Business meetings were held in Japan.

Feb 2013: 17 Japanese apparel companies was dispatched to Saudi Arabia and UAE to participate in local trade fairs and business meetings.

➡ **Japanese products were highly praised (sophisticated, adorable, creative, with Japanese elements)**

Figure III-19: Correlation analysis between achievement of overseas business and respective issues

	Issues that are strongly correlated with degree of business success		Specific issues that are strongly correlated with overall issues on the left		
			1st	2nd	3rd
All companies that responded	1st	Products/services	Supply of products and services that match the needs of the local market	Price setting for products and services for the local market	Supply of products and services that match levels in Japan
	2nd	Capital and cost	Risk management in business investments	Set-up costs	Securing capital funds
B-to-B companies	1st	Products/services	Supply of products and services that match the needs of the local market	Price setting for products and services for the local market	Price competitiveness of products and services
	2nd	Business environment	Problems related to labor laws, etc.	Local tax systems	Administrative procedures for licenses and approvals
B-to-C companies	1st	Capital and cost	Set-up costs	Securing capital funds locally	Business costs such as infrastructure, etc.
	2nd	Products/services	Stable supply (quantity) of products and services	Price setting for products and services for the local market	Price competitiveness of products and services
Wholesalers	1st	Personnel	Management of local employees	Implementation of local personnel evaluation system	Transfer of knowhow to local employees
	2nd	Management	Collecting and analyzing market information for the destination of the business venture	Strategic collaboration with partners	Collecting information to decide on the destination for the business venture
All industries except wholesalers	1st	Products/services	Supply of products and services that match the needs of the local market	Supply of products and services that match levels in Japan	Stable supply (quantity) of products and services
	2nd	Capital and cost	Risk management in business investments	Set-up costs	Securing capital funds
Companies venturing into China	1st	Personnel	Management of local employees	Securing internal human resources	Work motivation of local employees
	2nd	Business environment	Problems related to labor laws, etc.	Regulations on participation by foreign capital	Cultural and business practices

Source: JETRO's 2nd "Field Survey Concerning Overseas Presence in the Service Industry FY2012".

Overseas expansion by SMEs with great potential (1)

- In fiscal 2011, only 0.9% (15,011 companies) of Japanese small, and medium-sized enterprises (SMEs) had subsidiaries or offices overseas. (Source: The general condition of the 2012 Basic Survey, The Small and Medium Enterprise Agency)
- According to a JETRO survey on Japanese enterprises taking a proactive stance toward overseas business, more than 60% of SMEs are interested in expanding their businesses overseas. In conducting business overseas, 28% responded that they wished to capture overseas demand through exports. The difference with large corporations is clear.
- JETRO has launched a project providing individual support to about 1,000 established SMEs for two years from March 2013. In addition, it provides consistent support for overseas expansion by Japanese companies by providing various consulting and business consultation opportunities.

[Reference] Attributes of experts dispatched in the support program for overseas expansion in emerging countries by SMEs

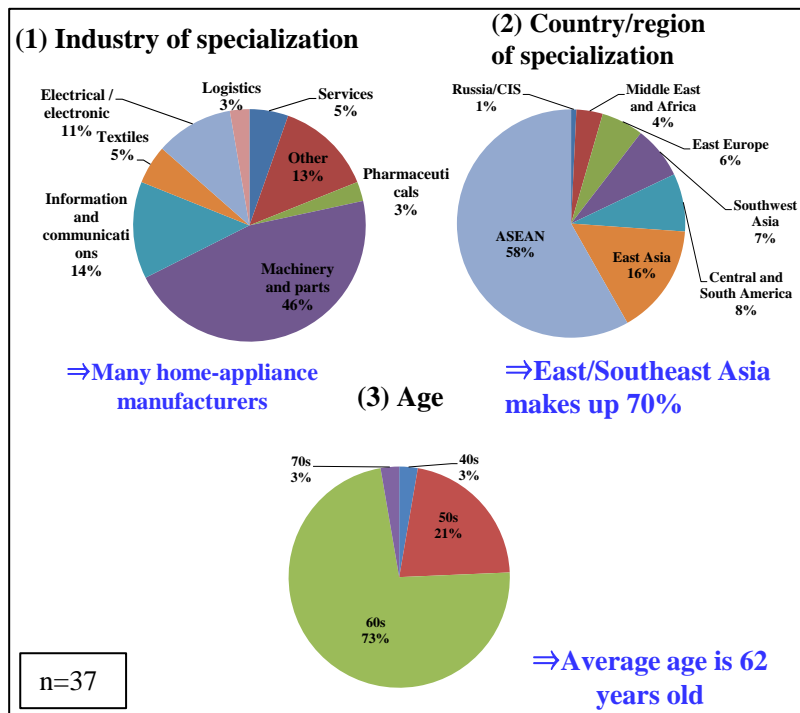


Figure III-20: JETRO's support for overseas expansion by individual companies

	Service	Fees (Note 1)	Target companies (Note 2)
Consultation/ Providing information	Trade and investment consultation	Free	No restrictions
	BOP/Volume zone business consultation	Free	No restrictions
	Services related to the protection of intellectual property	Free (some priced services)	No restrictions
	Services for conducting surveys overseas	Priced	No restrictions
	Consultation with export coordinators in overseas	Free	Small and medium-sized enterprises (excluding infrastructure sector)
	New Market Development Program for Japan-made Products with Global Potential	Free	Small and medium-sized enterprises
	Support for individual companies in the service industry	Free	Service industry
	Support for consortium on overseas expansion	Free	More than half of the group member are small and medium-sized enterprises
	Dispatch of experts to provide support to small and medium-sized companies venturing into emerging economies	Free	Small and medium-sized enterprises, and medium-sized company
	SME Overseas Expansion Platform (service provided in overseas)	Free	Small and medium-sized enterprises (as of July 2013)
Providing opportunities for business meetings	Business support center (service provided in overseas)	Priced	Some facilities for small and medium-sized enterprises only
	Services to assist in the acquisition of business appointments	Priced	No restrictions
	Inviting overseas buyers to Japan and dispatching business missions to overseas	-	-
	Support for participating in trade fairs and exhibitions	Priced	Mainly small and medium-sized enterprises
	Asia Caravan project	Priced	Small and medium-sized enterprises

Notes: (1) Please refer to the service guide on JETRO's website for details (<http://www.jetro.go.jp/services/>). When using the services, separate costs may be incurred by companies using the services.

(2) Small and medium-sized companies are defined based on the Small and Medium Enterprise Basic Law. While there are no legal definitions for medium-sized companies, classification is based on factors such as capital, sales, and number of employees.

(3) Fees and target companies for inviting overseas buyers and dispatch of missions differ on a case-by-case basis.

(4) Overseas expansion support services are provided separately for companies in the agricultural, forestry and fishery and food product sectors. 48

Overseas expansion by SMEs with great potential (2)

- It is effective for small enterprises to promote their products developed through established technologies by cooperating with overseas partners and putting creative effort into drawing up proposals.
- SMEs in the US are characterized by thorough utilization of “site capability” overseas in the aspects of personnel and sales, based on established technologies and products that can be passed on to overseas markets. While minimizing the number of expatriates dispatched from the home country, capable local personnel are employed locally, and local sales agents are fully utilized.

Figure III-21: Examples of overseas expansion by Japanese SMEs

Company	Headquarters	No. of employees	Characteristics
Tohoku Electronic Industrial Co., Ltd.	Sendai, Miyagi Prefecture	60	Provided a demonstration of electronic measuring systems and scientific instruments on actual machinery and equipment used by an overseas customer, thereby achieving new sales.
Sayama Mold Manufacturing Co., Ltd.	Iruma, Saitama Prefecture	31	Design and manufacture of ultra-high precision molds. Established a joint venture company overseas with a company that it had met at an overseas trade fair, thereby securing a sales base in Asia.
Yuki Precision Co., Ltd.	Chigasaki, Kanagawa Prefecture	20	Exhibited in an overseas trade fair, harnessing its strength in ultra-high precision fine metal processing technology, and received orders for satellite parts and automobile parts.
Taisin Production Co., Ltd.	Matsudo, Chiba Prefecture	3	Ice-making mold "Ice Mold" drew the attention of an established whisky manufacturer overseas, at a liquor trade fair. Thereafter, it received orders from various parts of the world through word-of-mouth.

Note: The number of employees is the number as at the time each company was interviewed.

Source: company interviews.

Figure III-22: Examples of overseas expansion by American SMEs

Company	Established	Headquarters	No. of employees/ Annual sales	Main product(s)	Overseas expansion format	Overseas bases	Overseas sales ratio
CEM Corporation	1978	North Caroline	Approx. 280/ Approx. US\$80 million	Microwave laboratory equipment	Exports products manufactured in United States	Sales subsidiaries in Japan, U.K., Germany, France, and Italy	70%
RGB Spectrum	1987	California	Not disclosed	Video graphics products	Exports products manufactured in United States	Sales subsidiaries in China and Netherlands. Representative offices in Japan, Korea, Australia, India, France, Russia, and Beirut.	40%
Power Integrations	1988	California	443/ US\$298.74 million	Integrated circuits (IC) for use by substations	Subcontracts production to overseas companies	R&D subsidiary in Canada. Service center in Singapore. Subcontracts production to China, Malaysia, Thailand, and Philippines.	90%
Fluidigm	1999	California	239/ US\$42.9 million	Microfluidic chip	Establishes overseas production bases	Sales subsidiaries in Japan, China, Netherlands, and France. Production base in Singapore.	47%
MP Biomedicals	1959	California	Approx. 500/ Not disclosed	Pharmaceutical laboratory equipment and reagents	Acquires overseas production companies	Sales subsidiaries in nine countries, including Japan, China, India, Australia, NZ, Europe, and Russia. Production base in Singapore.	Not disclosed

Source: JETRO Sensor, Nov 2012 issue.

Overseas expansion by SMEs with great potential (3)

- In Europe, companies boldly capturing overseas markets through the “agility” that is unique to SMEs are known as “hidden champion” or “born global” companies.
- SMEs that take a proactive stance toward overseas expansion are characterized by not only the potential to do so but also the ability to create niche markets, make quick decisions, add high value and be service-oriented, have a sound market strategy and be flexible.

Figure III-23: Hidden champion and born global companies in Europe

Hidden Champion companies	
Definition/ Criteria	<ul style="list-style-type: none"> • Anonymous (Supplier of fundamental parts and services) • Ranked in the top three globally among peers in the niche industry • Sales below US\$4 billion
Characteristics	<ul style="list-style-type: none"> • Not limited to small enterprises; many medium-sized companies • Strategic dominance of niche markets • Global expansion while securing profits in the home country • Flat global business expansion
Country/ Areas	Germany, Switzerland, Italy, etc.
Also known as	Global nicher
Examples	<ul style="list-style-type: none"> • Tetra (Germany): Tropical fish food • Wanzl (Germany): luggage trolleys used by passengers in airports • Gerriets (Germany): theater curtains and stage equipment • Da Vinci (Germany): paint brushes

Born Global companies (BGC)	
Definition/ Criteria	<ul style="list-style-type: none"> • Small and medium-sized ventures (less than 250 employees) • Overseas business expansion within three years of establishment/founding (small domestic market) • More than 25% sales in overseas markets • Less than 20 years old
Characteristics	<ul style="list-style-type: none"> • ICT, biotechnology, new services, etc. • Engage in cutting-edge industries • Technological innovation through collaboration with research institutes • Universal design-oriented • Linear global business expansion
Country/ Areas	North Europe, Switzerland, Ireland, etc.
Also known as	International ventures
Examples	<ul style="list-style-type: none"> • Zound Industries (Sweden): Headphones • NetHawk (Finland): Operation inspection tools for mobile communication • CRF (Finland): Processing of clinical test data using PDA • Team Olivia (Sweden): Home care/welfare services

Sources: JETRO's report on the globalization strategies of European small and medium-sized enterprise(Feb 2013).

Figure III-24: Five characteristics of SMEs in Europe that venture overseas

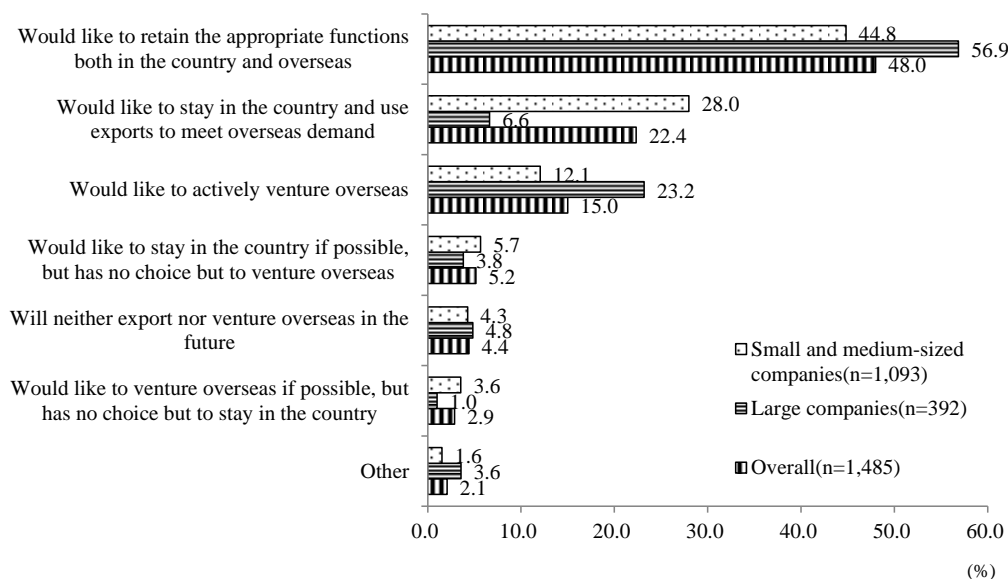
Five characteristics	Explanation
Foundation for overseas expansion	<ul style="list-style-type: none"> • Need to move away from subcontracting due to the slump among major European manufacturers • Need to capture demand outside the region due to low economic growth. • No resistance toward expanding business in multilingual countries.
Speed management	<ul style="list-style-type: none"> • Prompt decision-making through family management • Absorbing customer needs through direct sales, reducing use of middlemen • Proactive stance toward sales by top executives
Creation of niche market	<ul style="list-style-type: none"> • Need to create unique and proprietary products and services by moving away from subcontracting • Motivation to take up something that other companies in the industry have failed in
High value-added and service orientation	<ul style="list-style-type: none"> • Branding domestic production (Example, "Made in Switzerland") • Stabilization of profitability through the long term contracts of maintenance services to main customers.
Strategy that takes the global market into consideration; flexibility	<ul style="list-style-type: none"> • Complementing weaknesses through cluster collaboration • Not adhering to own management resource. • actively utilize the right personnel for the right job. • Active utilization of sales tools such as international fairs.

Sources: JETRO's report on the globalization strategies of European small and medium-sized enterprise(Feb 2013).

Companies with a policy of overseas expansion are also ambitious in expanding their domestic business

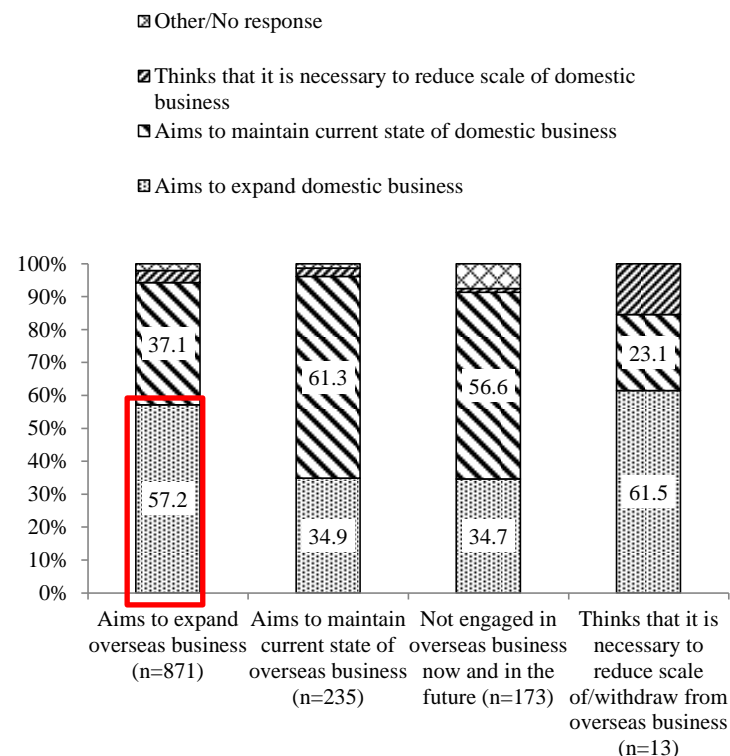
- Existing studies show that the higher the level of productivity of a company, the more active they tend to be in exporting and FDI. It is important to have in place policies for reducing fixed costs for companies when they venture overseas.
- Japanese companies wish to maintain appropriate functions in their respective overseas bases, and companies that are attempting to expand their businesses overseas also tend to want to expand their domestic businesses. Companies that wish to maintain the status quo or that are passive in overseas ventures tend to be content with the status quo in the home country.

Figure III-25: Stance in the implementation of overseas businesses



Source: Figures III-25 and 26 are both based on "FY2012 Survey on the International Operations of Japanese Firm" (March 2013, JETRO).

Figure III-26: Future direction for domestic businesses of SMEs, based on policy for overseas businesses



Foreign direct investment in Japan remains at a low level

Foreign direct investment in Japan remains extremely low compared to other countries. However, there are also companies that are attracted by factors such as industrial concentration in Japan, and which are entering and expanding operations in the Japanese market. The appeal of the market is expected to shrink relatively, so the promotion of foreign direct investment through the application of Japan's strengths is of even greater importance. In recent years, investment from Asian countries has been on the rise. There is a need to promote investment not only from Europe and America, but also from Asian countries that have strong ties with Japan.

Figure III-27: GDP ratio of inward FDI for major economies

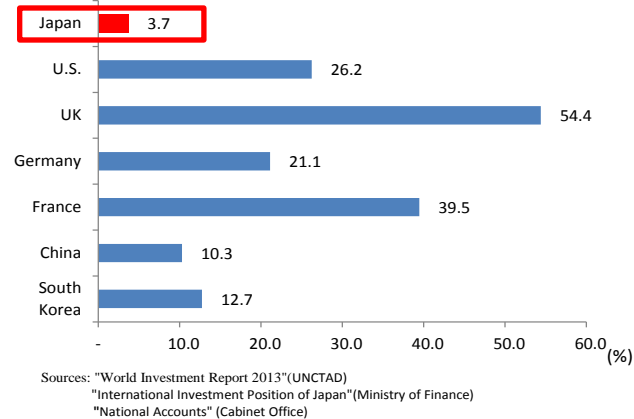


Figure III-28: Change of regional FDI stock in Japan (End of 2003=100)

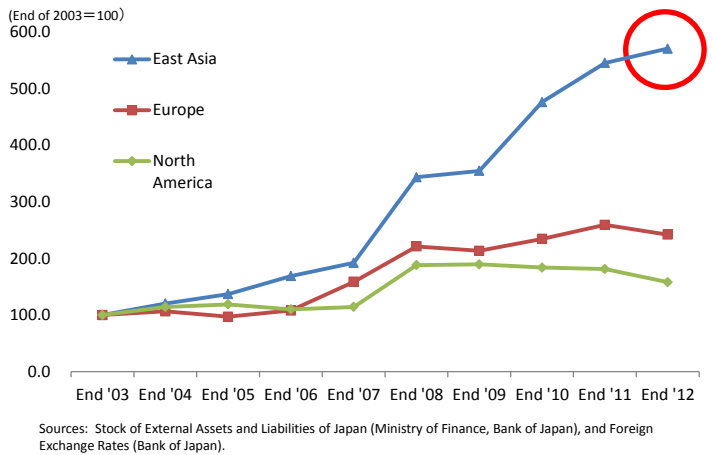


Figure III-29: Assessment of Japan in the Global Competitiveness Report

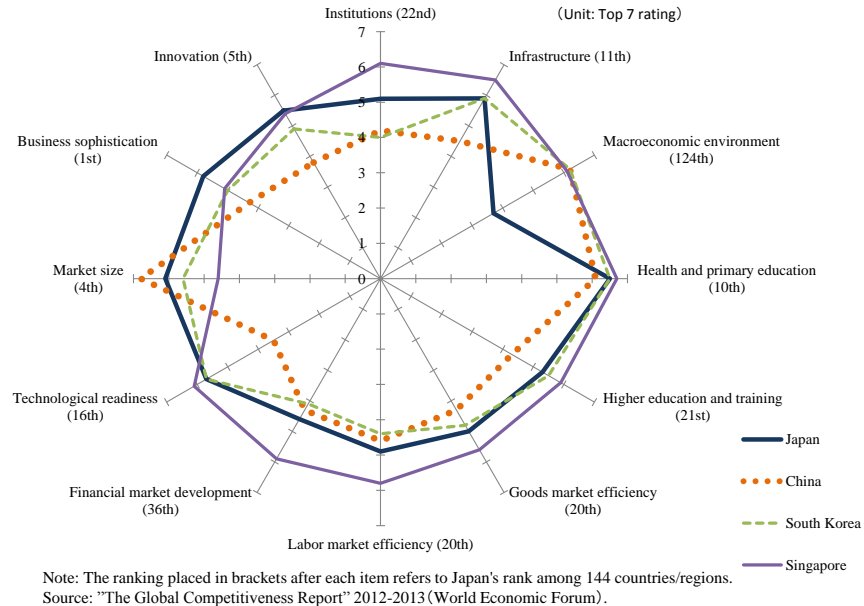


Figure III-30: Examples of R&D investments in Japan

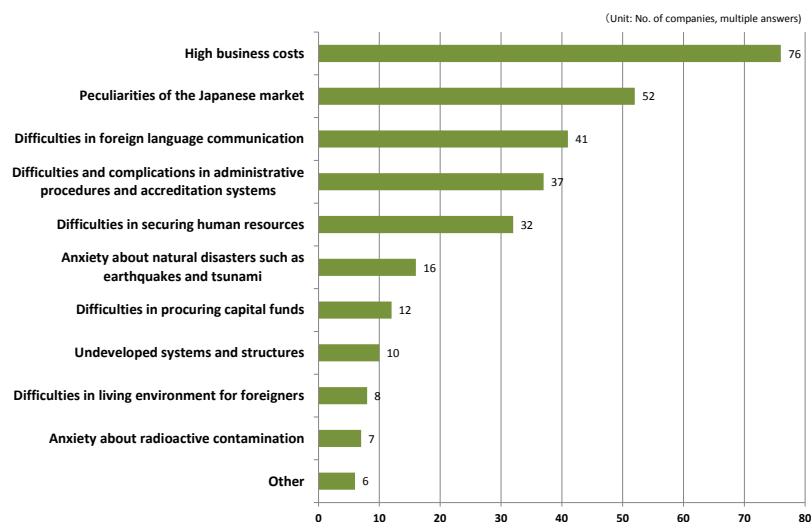
[NeoPhotonics Corporation]

- ◆ Provides modules and subsystems for high-speed optical communication networks based on photonic integrated circuits (PICs).
- ◆ In November 2012, the company established a new R&D center that engages in R&D on low power-consumption drivers, which are the main part used in next-generation optical transmitter modules.

Main barriers to foreign direct investment in Japan

In a survey conducted by JETRO on foreign companies from February to March 2013, respondents pointed out several barriers to foreign direct investment in Japan. These included high business costs, peculiarities of the Japanese market, and difficulty in communicating in foreign languages. Foreign companies have called for reduction in business costs through cuts in effective corporate tax rates, etc., and put in demands for less stringent criteria in the company registration system and initiatives to enhance the development of global human resources.

Figure III-31: Barriers to FDI in Japan



Note: From April 2003 to December 2012, of the 1,048 foreign companies entering Japan with the assistance of JETRO, a questionnaire survey was conducted on 555 companies, and responses were received from 102 companies.

Source: Opinions and requests for improvement from foreign companies about barriers to investing in Japan (April 2013, JETRO).

Figure III-32: Specific demands for improvements to Japan's business environment

Requests for improvement		Comments
1. Tax/financial measures	(1) Reduce effective corporate tax rate	It is difficult to make business profitable in Japan due to corporate tax and high business costs. (Machine/ North America)
	(2) Expand special exemption measures for corporate taxes for foreigners	We hope tax incentives of the Act for Promotion of Japan as an Asian Business Center will be expanded. (Medical/ Asia and Oceania)
	(3) Enhance subsidies for setting up business	The range of business covered by the subsidy is small. (Automobile parts / North America) We would like the subsidy application period to be prolonged. (Medical / Europe)
2. Easing difficulty of securing human resources	(4) Develop global human resources	When it comes to technical or specialist personnel who can speak English, the range of human resources becomes extremely narrow. (Environmental energy / Europe)
3. Improvement measures for company registration system	(5) Loosen criteria in company registration system	When establishing a Japanese office, finding a CEO who is a resident in Japan is difficult. (Information communication / North America)
4. Measures to ease regulations	(6) Ease regulations for various industries	Japanese regulations for medical equipment have not been internationalized. (Medical products / North America) Costs in clinical pharmaceutical trials for rare disease treatment is too expensive and related procedures are time-consuming. (Medical products / North America) In terms of selling wireless equipment, meeting the unique standards and certification system of Japan is cost and time-consuming. (Communications / Asia and Oceania)

Source: Opinions and requests for improvement from foreign companies about barriers to investing in Japan (April 2013, JETRO).

Intensification in competition to attract companies

Many countries have introduced various measures to attract foreign companies. European countries are putting effort into enhancing their location competitiveness by promoting industrial concentration in urban areas and reducing corporate taxes. Asian countries are taking a proactive stance toward attracting foreign companies by formulating bold incentive measures.

Figure III-33: Measures and systems to attract companies in major countries

Country	Measures for attracting investors
U.S.	There are no preferential measures in place that are applicable only to foreign investors. Under the tax revision policy laid out in February 2013, it was announced that corporate tax rate would be reduced to 28%. Much focus has been placed on the ripple effect of manufacturing industries on the domestic economy. To that end, there are plans to raise the deduction rate of deductible income attributable to manufacturing activities carried out in the United States, for the manufacturing industry in order to set the maximum effective tax rate at 25%.
Germany	There are no preferential measures in place that are applicable only to foreign investors. For investments that are highly effective in creating employment, ventures into specific regions, or ventures into specific sectors and industries, various incentives are in place at the national, state, and EU level. These include cash incentives, low interest loans, employment-related incentives, and R&D incentives.
UK	There are no preferential measures in place that are applicable only to foreign investors. In March 2013, the government announced that it was reducing corporate tax rate. Tax rate would be reduced in phases, reaching 20% by April 2015. This will be the lowest tax rate among the major European/American economies.
South Korea	Through its law to promote foreign investment, tax exemptions and deductions of corporate taxes and other taxes are provided to foreign investments in (1) businesses that involve advanced technology, and (2) businesses that provide support services to industries. These are businesses that are necessary for the strengthening of international competitiveness of domestic industries. In addition, there are also tax reduction/exemption measures for companies that set up bases in foreign investment communities, free economic zones, and enterprise cities.
Singapore	In addition to having the lowest level of effective corporate tax rate (17%) in Asia, a large number of diverse preferential measures are in place. Through the development of the business environment, the country is promoting the concentration of foreign companies in Singapore. In particular, with the aim of establishing a knowledge-based economy, investments in sectors that contribute to this development are rewarded. These include cutting-edge technology, high value-added industries, R&D, and services that contribute to business hub functions. Bold incentives are available for technologically innovative companies, such as corporate tax reduction/exemption for 15 years.

Sources: Various government institutions websites. Details about the measures provided by each country are available as country/region information (J-File) on the JETRO website.

Strengthening systems to attract investment

Many countries, including the major advanced economies, have in place organizations to provide one-stop support for investment activities from foreign companies. In particular, in addition to low corporate tax rates, South Korea and Singapore have established and applied various support tools. These include consultation services that facilitate administrative procedures for investors (South Korea) and offering preferential measures such as tax exemption through individual deliberation (Singapore), etc.

Figure III-34: South Korea's system for attracting investment

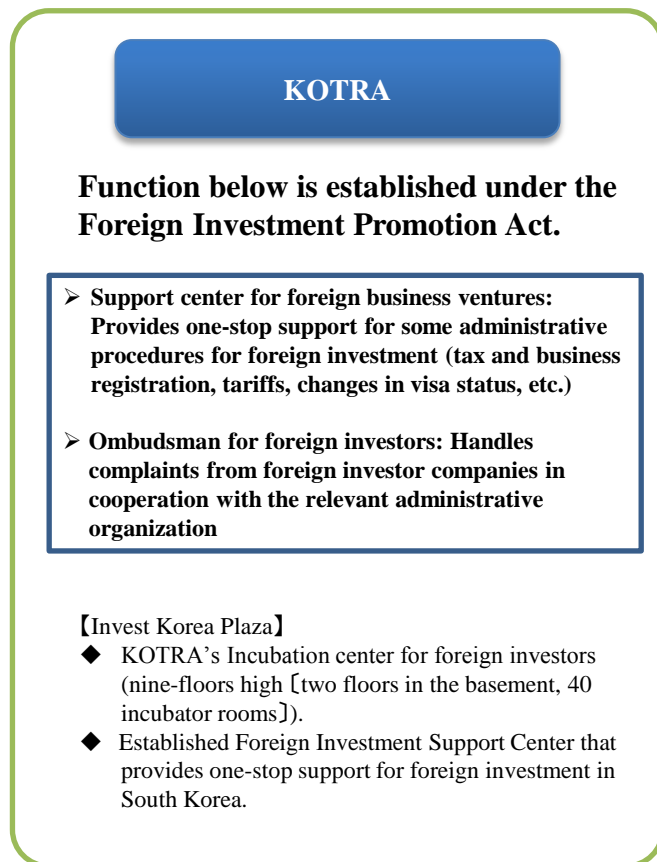


Figure III-35: Systems for attracting investment in major economies

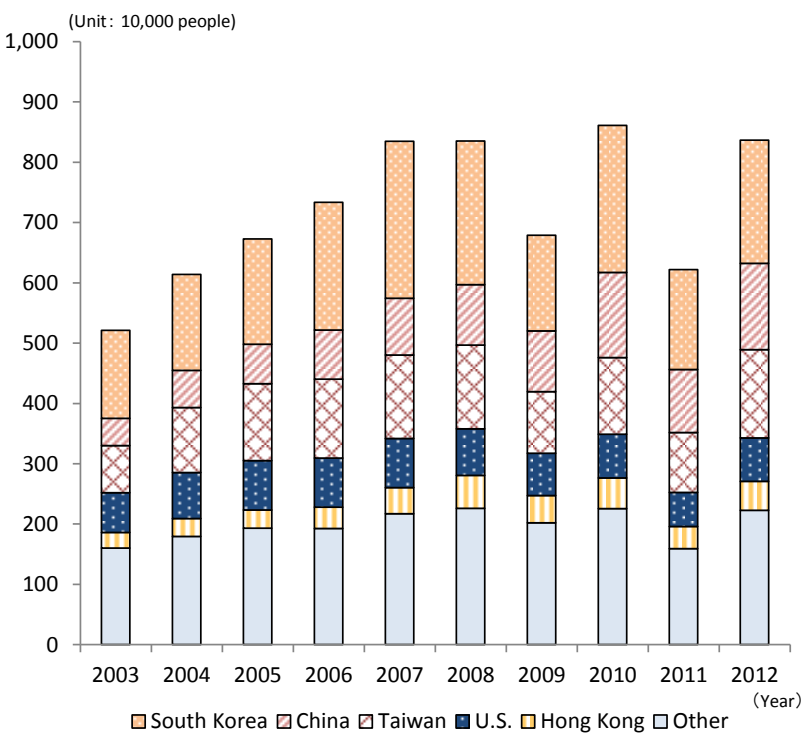
Organization	Characteristics	No. of employees responsible for attracting investments (includes estimates)	Office leasing
【Singapore】 Economic Development Board (EDB)	<ul style="list-style-type: none"> ○ Provides one-stop support for attracting Singaporean and foreign investors. ○ Provides preferential measures such as reduction/exemption of corporate tax to companies, through individual consultation. 	Approx. 500 (Singapore and overseas) (A large number of employees are engaged in work related to attracting investments)	None
【United Kingdom】 UK Trade and Investment (UKTI)	<ul style="list-style-type: none"> ○ Provides one-stop support for foreign investments in the United Kingdom. ○ Attentive support is provided by experienced sector and location consultants. 	Approx. 500 (U.K. and overseas)	None
【France】 Investment in France Agency (AFII)	<ul style="list-style-type: none"> ○ Provides one-stop support for foreign investments in France. ○ Attentive support is provided by representatives for the respective industries. 	Approx. 160 (France and overseas) (All employees are engaged in work related to attracting investments)	None
【Japan】 Japan External Trade Organization (JETRO)	<ul style="list-style-type: none"> ○ Established Invest Japan Business Support Center (IBSC) that provides one-stop support for foreign investments in Japan. ○ Attentive support is provided to companies that are interested in investing in Japan, by experts in attracting investments. Services include the provision of information to individual companies, advice for entering the Japanese market, and consultations on establishing companies in Japan. 	Approx. 60 (Japan and overseas)	40 offices • 23 offices in Tokyo • 17 offices in other regions

Sources: Each organization's website etc.

Increasing the number of foreign visitors in Japan

The number of foreign visitors in Japan for 2012 was about 8.37 million. There was a large number of tourists from Asia, such as South Korea and China. Efforts to attract the investment of tourism-related companies to Japan, such as low cost carriers (LCC) and travel agencies, are expected to contribute to a further increase in tourist numbers. In June 2013, the Japan Tourism Agency, Ministry of Economy, Trade and Industry, Japan National Tourism Organization and JETRO formulated a joint action plan for increasing the number of foreign tourists in Japan. In collaboration with measures and projects implemented by the respective organization, such as Visit Japan, Cool Japan, and Invest Japan, the organizations will promote the appeal of Japan to foreign visitors.

Figure III-36: Number of foreign visitors to Japan



Note: Figures for 2003-2011 are actual figures. Figures for 2012 are estimates.
 Source: Changes in number of visitors to Japan after the launch of the Visit Japan project (2003-2012). (Japan National Tourism Organization).

Figure III-37: Revitalization of tourism through investment in Japan

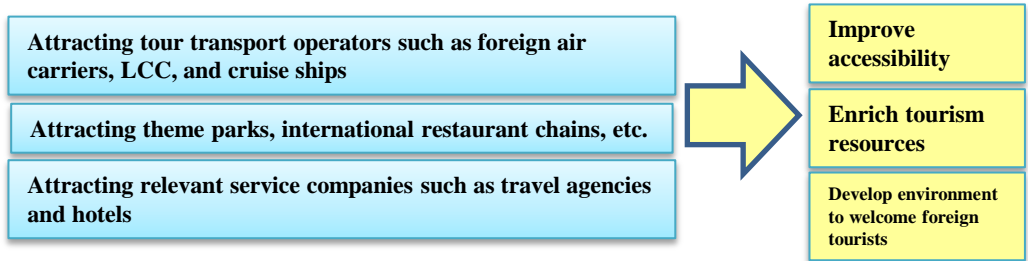


Figure III-38: Examples of overseas expansion by tourism companies to Japan

Industry	Company	Country/Region	Overview
Aviation	AirAsia X	Malaysia	One of AirAsia's divisions that covers long-distance routes. In 2010, began operating flights in Japan, it established a branch office in Tokyo.
	T'Way Air	South Korea	LCC. Launched flights to Fukuoka Airport, it established a branch office in Fukuoka in 2012.
	Air Busan	South Korea	LCC. Launched flights to Fukuoka Airport and to Kansai International Airport, it established office in Fukuoka and Osaka in 2010.
Shipping	DBS CRUISE FERRY JAPAN	South Korea	Ferry operator. Operates ferries that connect Japan, Korea, and Russia. Established a public company in Tottori in 2009.
Accommodations	OSBERT Hotels	Hong Kong	Acquired Chikusenso in Zao, which had become bankrupt, and reopened it in 2010.
	Japan Powder Hakuba	Australia	Operates ski resort accommodations in Australia. Established branch office in Hokkaido in 2008.
	HANAZONO308 (Nihon Harmony Resorts)	Hong Kong (Australia)	Australia Alpine Enterprises, which operates ski resorts, established Nihon Harmony Land in August 2004. In 2007, it was sold to Hong Kong developer Pacific Century Premium Developments.
Travel agency	Lion Travel Japan	Taiwan	Largest travel agency in Taiwan. Established public company in Tokyo in 2010.
	Japan Spring Travel Services	China	In November 2012, it established a public company in Tokyo to serve as a land operator specializing in "land arrangements" for Chinese travellers to Japan.
	Inside Japan Tours	U.K.	Tour operator that welcomes foreign visitors and makes various arrangements. Established branch office in Japan in 2007.

Note: These cases were extracted from tourism-related companies that were supported by JETRO to enter Japanese market.
 Sources: Reports and various websites.