

Macroeconomics and FDI in Japan

January, 2022

Invest Japan Department

Japan External Trade Organization (JETRO)

1. Japan's current economic condition

- Trends in the World and Japan
- Trends among companies, consumers, and industries

2. Trends in Foreign Direct Investment (FDI) to Japan

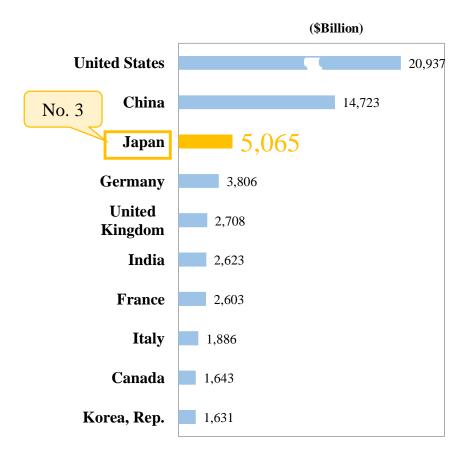
- Inward FDI (flow)
- Inward FDI (stocks)

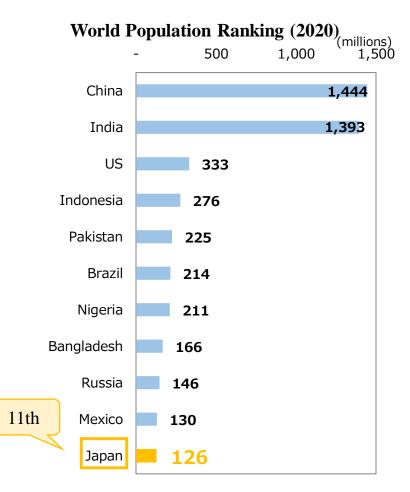


GDP Ranking Japan ranks third in the world

- Japan's GDP is over \$5 trillion.
- Japan's population is the 11th largest in the world, with over 120 million.







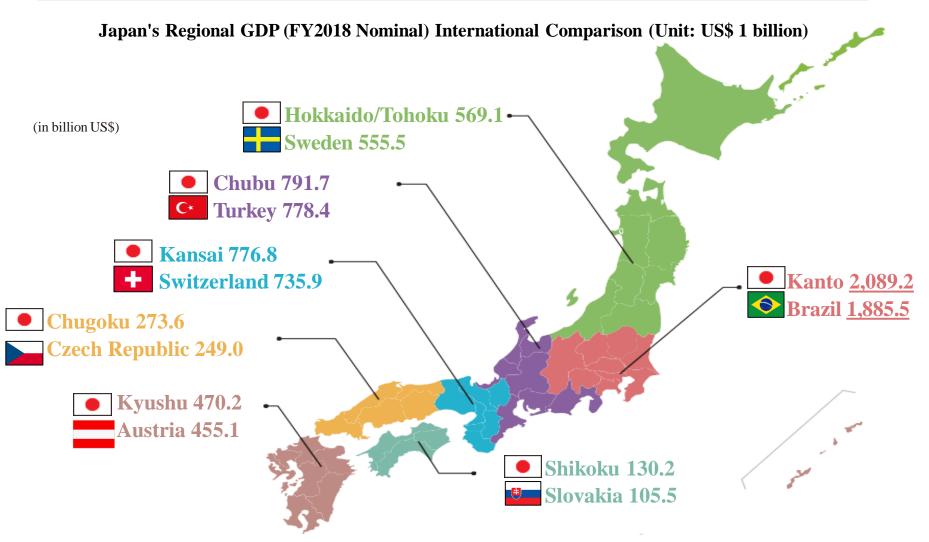
Source: "GDP Ranking" (World Bank)

Source: World Population Prospect 2019 (UNITED NATIONS)



Japan's Gross Regional Production and Foreign GDP

Japan's region is an attractive market with a national level of GDP in one region



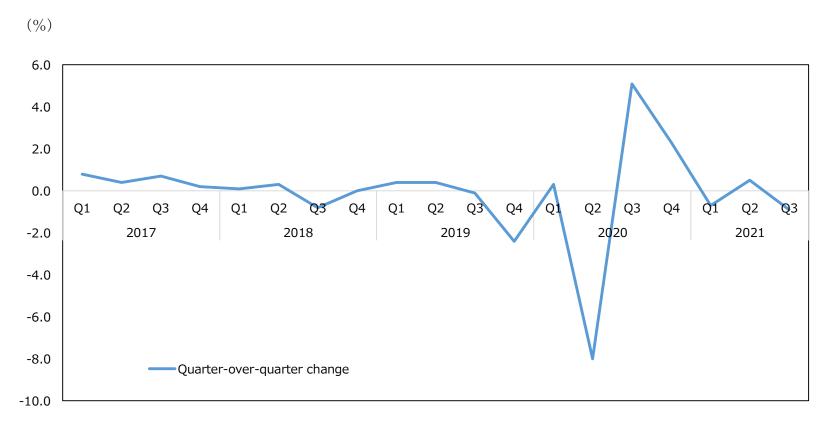
[Source] Cabinet Office, Fiscal 2018 Prefectural Accounts, August 2021.



GDP Growth Rate

The Japanese economy fell sharply through Q2 of 2020 due to the impact of COVID-19. The economy made recovery after Q2 of 2020, but sluggish in 2021.

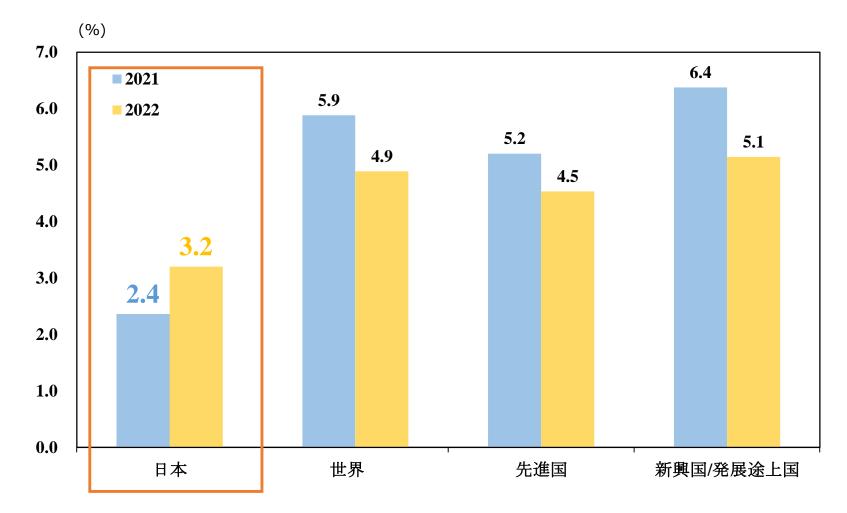
Japan's Real GDP Growth Rate (quarterly, seasonally adjusted, quarter-on-quarter)





GDP growth projections

- GDP growth in 2021 turned positive from negative in the previous year.
- A positive growth rate is expected in 2022 worldwide including Japan.



Source: "World Economic Outlook, Apr. 2021" (IMF)

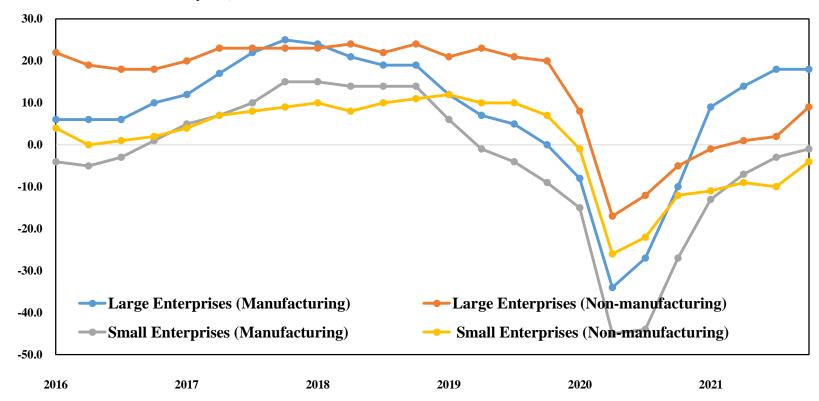


Business Conditions of Japanese Firms (1)

The business conditions of companies have deteriorated significantly due COVID-19 but are gradually recovering. The index of business conditions for large companies showed a positive result in the December 2021 survey.

Tankan (Business Conditions)





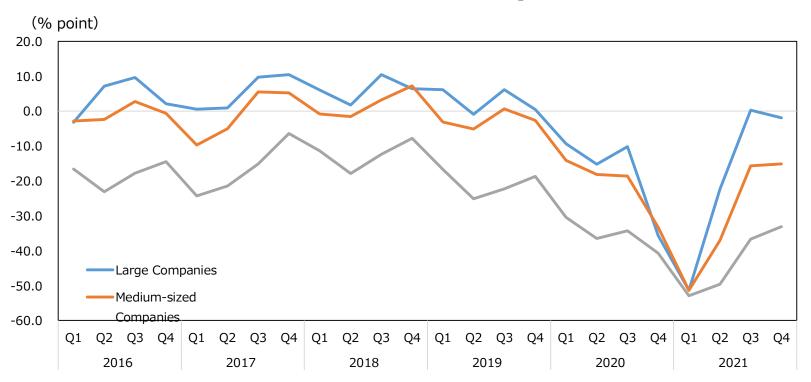
Source: "National Short-Term Economic Survey of Businesses in Japan" (Bank of Japan)



Business Conditions of Japanese Firms (2)

- Another survey on the business conditions of Japanese companies also deteriorated in the first half of 2020 due to COVID-19.
- Business conditions in 2021 are on a recovery trend..

Business Conditions of Corporations



Note: % point is calculated by adding the percentage of companies answering their business condition is "rising" compared to the previous quarter minus that of those answering "falling."

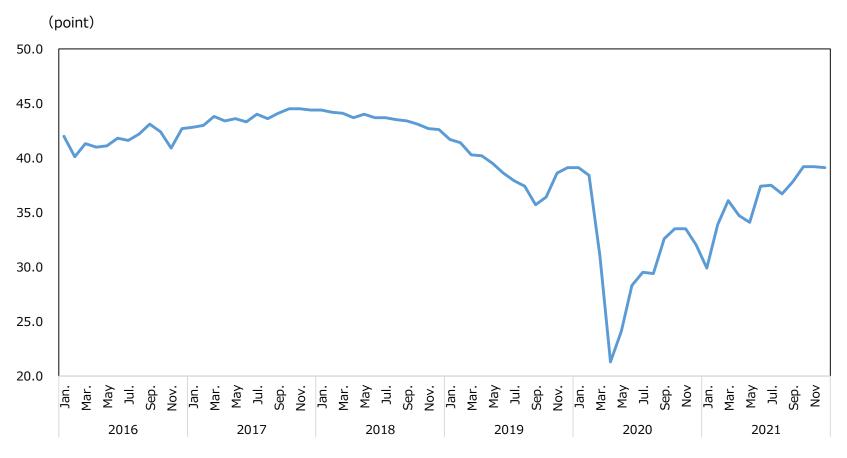
Source: "Business Outlook Survey" (Cabinet Office and Ministry of Finance)



Trends in domestic consumption

Under the impact of COVID-19, the Consumer Confidence Index in April 2020 was the lowest since 1982, when it was comparable. Since then, the index has been on a gradual recovery trend.

Consumer Confidence Index



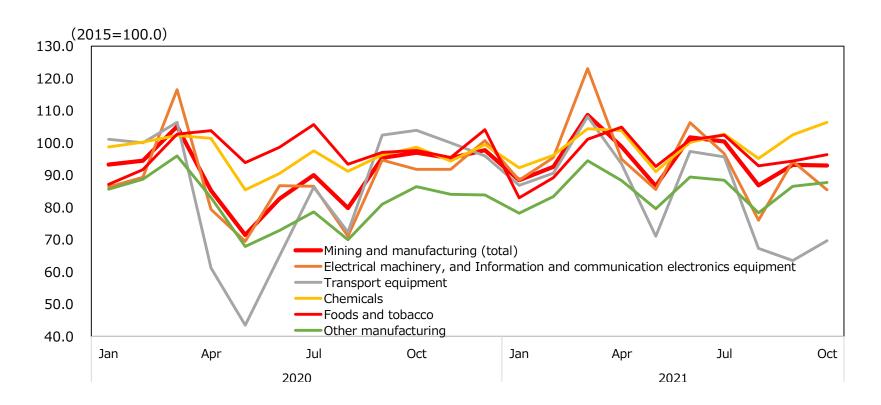
Source: "Consumer Confidence Survey" (Cabinet Office)



Trends in Domestic Manufacturing

- The overall index fell to around the level of the 2008-2009 financial crisis in May 2020 and has been gradually recovering.
- In particular, the transport equipment industry, the largest by weight, declined significantly in May 2020 but made a quick recovery.

Industrial Production Index



Note: The chart shows "Total" and the five largest industries by weight.

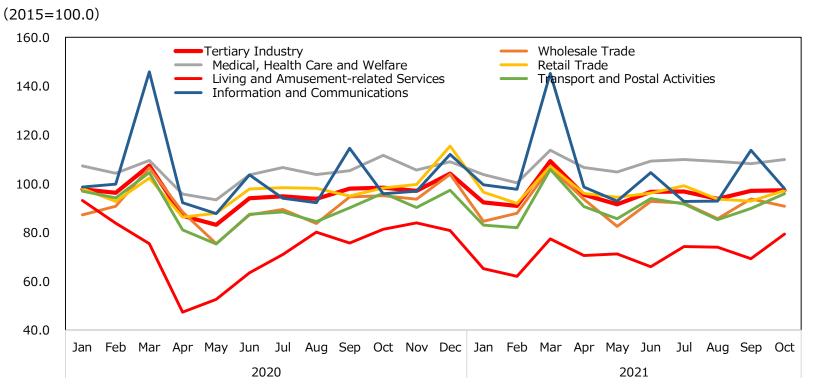
Source: "Indices of Industrial Production" (METI)



Domestic Service Industry Trends

- The overall index improved after May 2020, when it was the lowest comparable since 2008, but remained flat in 2021.
- After the second half of 2020, the recovery of overall index and especially that of services related to living and amusement, including tourism and food and beverage services, has been stagnated.

Tertiary Industry Activity Index



Note: The chart shows "Total" and the six largest industries by weight.

Source: "Indices of Tertiary Industry Activity" (METI)

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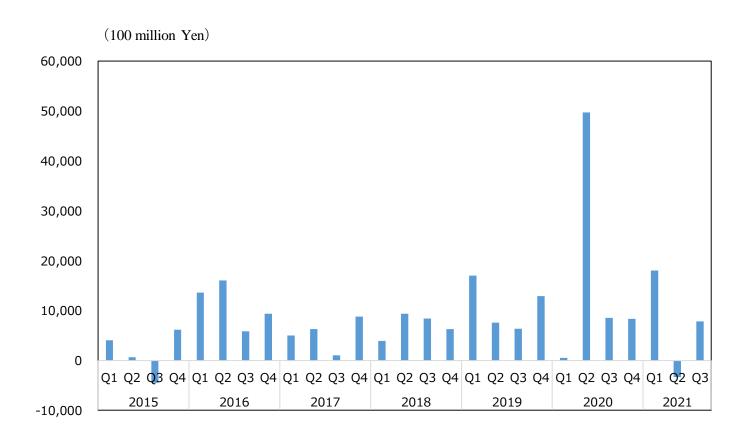
- Inward FDI (flow)
- Inward FDI (stocks)



Trends in Foreign Direct Investment Flows in Japan

Foreign direct investment flows into Japan continued to be in the surplus since the fourth quarter of 2015, however there was a net withdrawal in the second quarter of 2021.

FDI Flow to Japan (Quarterly)



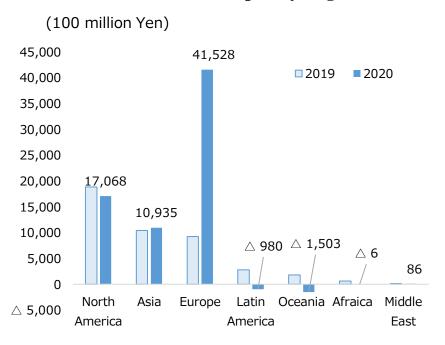
Source: "Balance of Payments" (Ministry of Finance and Bank of Japan)



Flow of FDI in Japan by Region and Country

- The inflow of 2020 was 7.1 trillion yen. By region, the flow from Europe was the largest at 4.1 trillion yen.
- By country and region in 2020, the flow from the United Kingdom was the largest at 3.3 trillion yen (46.3% of the total).

FDI Flow to Japan by Region



Source: "Balance of Payments" (Ministry of Finance and Bank of Japan)

FDI Flow to Japan by Country/Region

(100 million Yen, %)

Ranking	Investor	2020	
	Country/	2020	Share
1	UK	32,674	46.3
2	US	22,605	32.0
3	Switzerland	7,610	10.8
4	Singapore	5,462	7.7
5	China	1,434	2.0
6	France	1,398	2.0
7	Hong Kong	1,239	1.8
8	Netherlands	1,215	1.7
9	Thailand	1,080	1.5
10	Germany	819	1.2
_	World	70,581	100.0



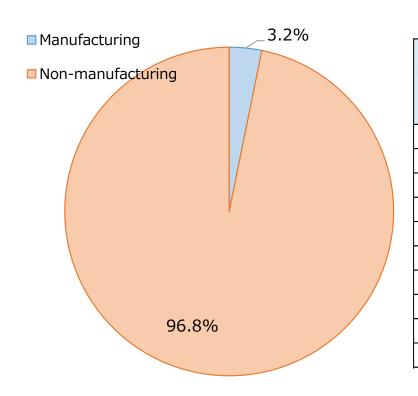
(100 million Yen. %)

Flow of FDI in Japan by Industry

- By industry in 2020, the flow in the manufacturing industry accounted for 3.2%, while the non-manufacturing industry accounted for 96.8%.
- By industry in detail, the finance and insurance sector accounted for the largest share at 1.2 trillion yen.

FDI Flow to Japan by Industry

FDI Flow to Japan: Top 10 Industries



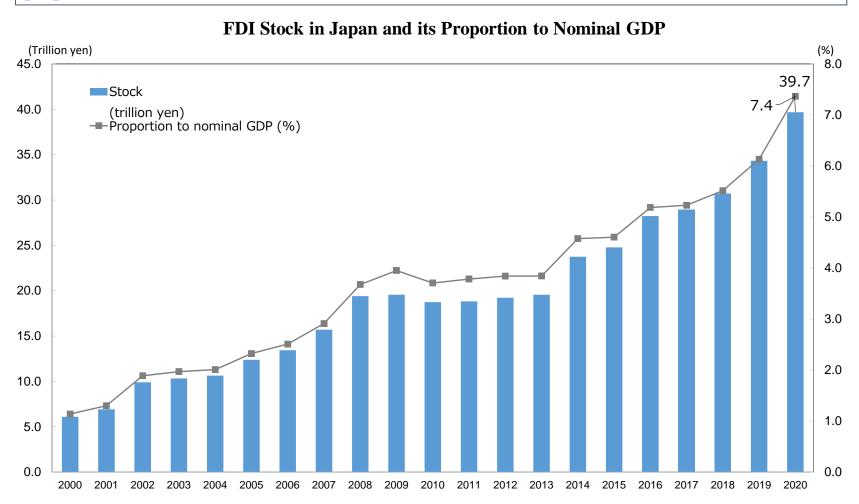
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Ranking	Change in Ranking	Sector	2020		
				YoY	
1	1	Finance&insurance	12,445	-3.7	
2	۲,	Transportation Equipment	1,992	-18.4	
3	^	Services	1,950	38.1	
4	>	Electric machinery	325	-90.4	
5	7	Transportation	256	11.5	
6	^	General Machinery	254	-	
7	۲,	Glass and ceramics	243	-	
8	7	Petroleum	77	-	
9	۲,	Teitle	40	44.8	
10	→	Iron, non-ferrous&metals	35	-70.2	

Note: FDI by industry is recorded based upon a different principle from FDI by region. Therefore, the total amounts differ. Source: "Balance of Payments" (Ministry of Finance and Bank of Japan)



Steady Growth in FDI Stock in Japan

The FDI stock in Japan increased steadily, reaching 39.7 trillion yen at the end of 2020. The proportion to GDP increased to 7.4%.

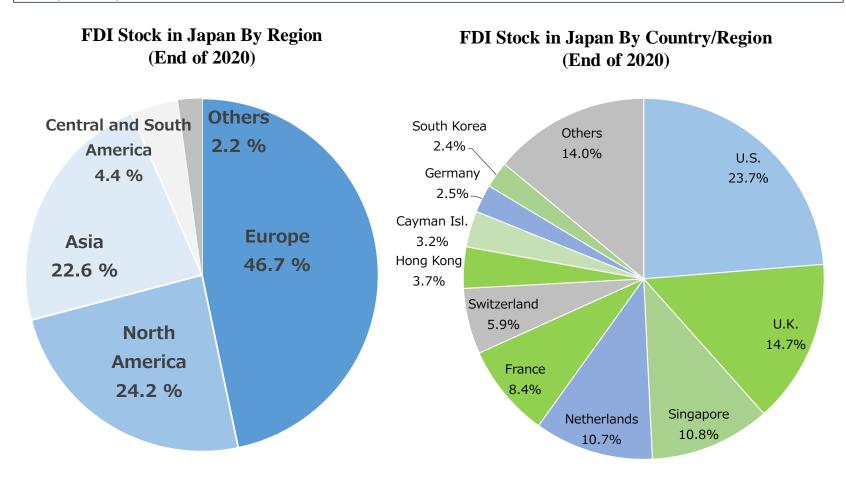


Source: "International Investment Position of Japan" (Ministry of Finance and Bank of Japan), "National Accounts of Japan" (Cabinet Office)



FDI Stock in Japan by Region and Country

- By region, Europe accounts for 46.7% of the total stock and is the largest.
- By country and region, the U.S. accounted for the largest at 23.7%, followed by the UK (14.7%).

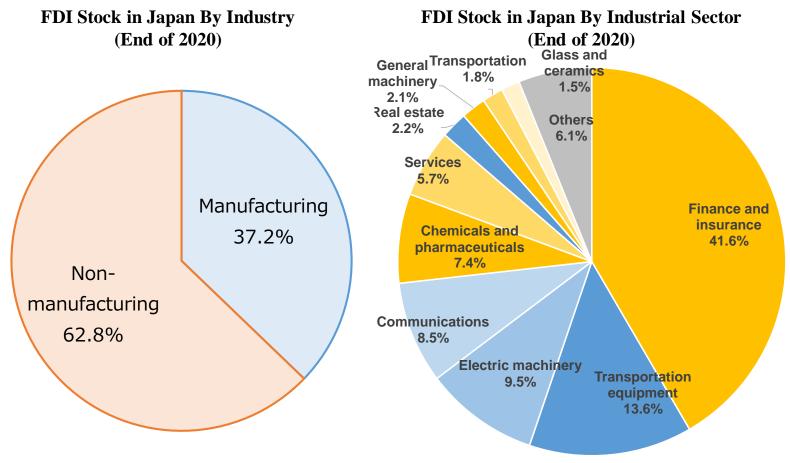


Source: "International Investment Position of Japan" (Ministry of Finance and Bank of Japan)



FDI Stock in Japan by Industry

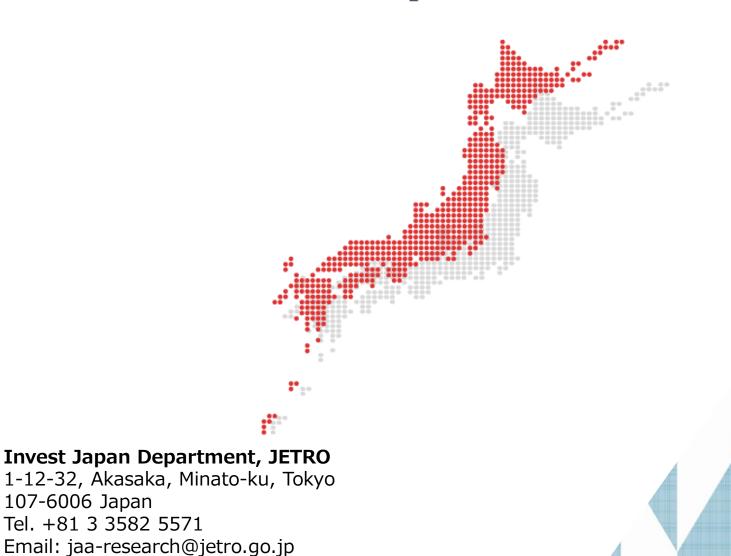
- By industry, the FDI stock of the non-manufacturing industry accounted for 62.8%, and that of the manufacturing industry accounted for 37.2%.
- By detailed industry, the finance and insurance industry accounted for 41.6% of the total.



Note: FDI by industry is recorded based upon a different principle from FDY by region. Therefore, the total amounts differ.

Source: "International Investment Position of Japan" (Ministry of Finance and Bank of Japan)

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