



JETRO Global Trade and Investment Report 2024

- Division and Cooperation: International Business at the Crossroads -

Japan External Trade Organization (JETRO)

Research and Analysis Department

July 2024



Key Points

1. World Trade Declines for First Time in Three Years

- Geopolitical factors hinder free trade expansion

2. Fragmentation and Realignment in FDI

- Global investment flows fall for second straight year; Japanese firms enter recovery phase

3. Flood of Policy Interventions Over Economic Security

- Growing number of subsidies and trade controls in strategic sectors such as semiconductors and EVs introduced

4. Increased Burdens on Businesses

- Compliance work becomes more complex due to expanded export controls and stricter enforcement

5. Sustainability and New Headwinds

- Changes to EU rules on human rights and the environment; anti-ESG movements affect related policies in the U.S.

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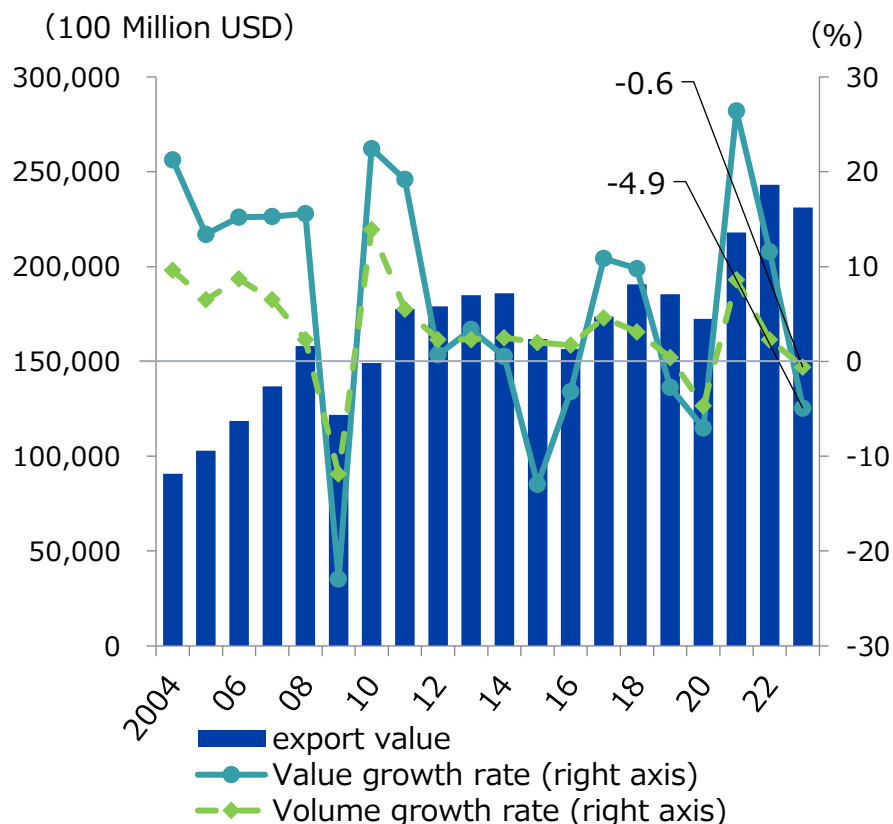
5. Sustainability and New Headwinds

- Changes to EU rules on human rights and the environment; anti-ESG movements affect related policies in the U.S.

1 | World Trade Declines for First Time in Three Years

- The value of world merchandise trade (JETRO estimate) **fell 4.9% in 2023 to \$23.1 trillion**, marking the first decline in three years. The rate of growth (+11.6%) slowed from the previous year.
- The decline in the value of trade (-4.9%) outpaced a fall in trade volumes (-0.6%). Trade values were pushed down by the lower trade volumes as well as year-on-year declines in the commodity prices.

World Trade in Goods (Based on Exports)



Source: JETRO estimate (Global Trade Atlas), WTO

Trade by Country/Region (Quarter): Y-o-Y Growth

(Unit: %)

	Exports				
	2023				2024
	Q1	Q2	Q3	Q4	Q1
Total of 34 major countries/regions	0.1	△ 5.6	△ 6.1	△ 1.4	△ 1.2
China	0.1	△ 5.4	△ 10.8	△ 3.3	△ 1.7
U.S.	5.8	△ 7.2	△ 5.7	△ 1.3	0.1
Germany	4.4	2.5	3.1	0.2	△ 1.7
ASEAN5	△ 3.3	△ 13.0	△ 12.3	△ 2.7	△ 0.8
Netherlands	7.1	△ 5.3	△ 5.7	△ 7.7	△ 8.7
Japan	△ 8.0	△ 4.0	△ 3.2	△ 0.7	△ 3.0
Italy	5.0	1.0	3.2	2.3	△ 1.6
Korea	△ 12.8	△ 12.0	△ 9.7	5.7	8.1
France	4.6	7.2	4.2	2.3	△ 1.7
Hong Kong	△ 15.2	△ 9.9	△ 6.9	9.9	14.8
Canada	1.8	△ 12.4	△ 8.3	△ 0.2	△ 2.8

Note: 1) Based on export value. 2) Top 10 exporting countries/regions and ASEAN5 (Indonesia, the Philippines, Malaysia, Singapore, and Thailand), 3) Calculated only for the 34 countries/regions for which data are available for 2024 Q1.

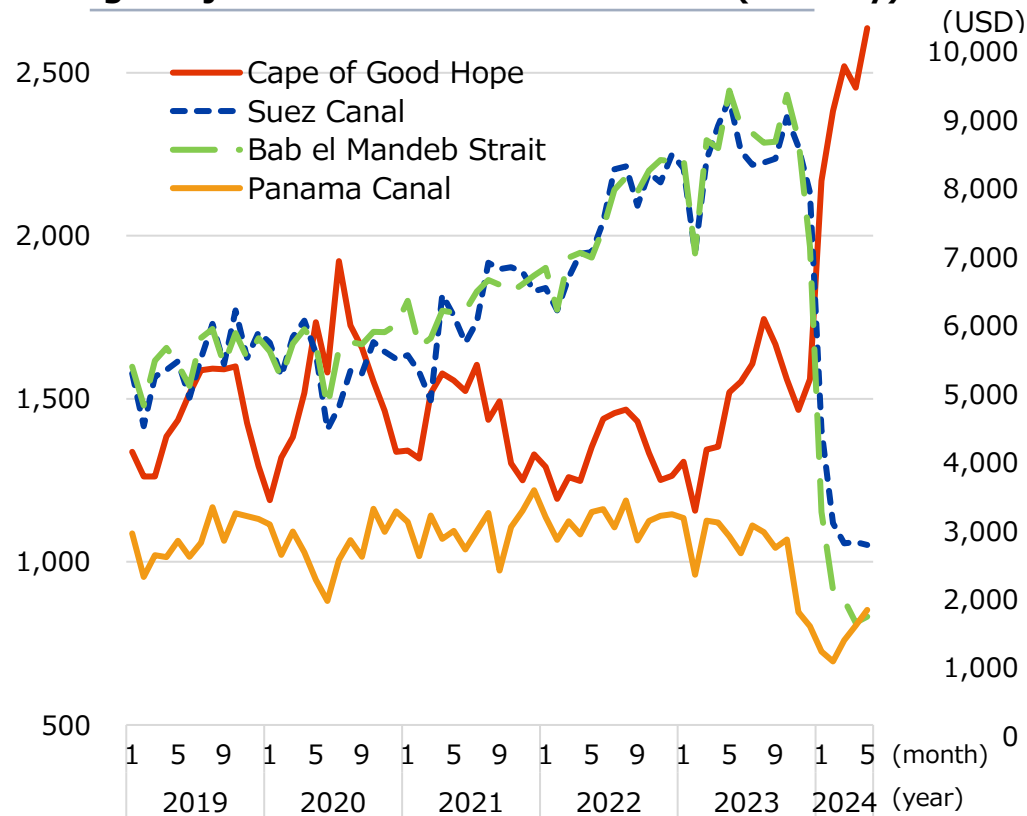
Source: Global Trade Atlas (S&P Global)

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2 | Conflicts Disrupt Major Shipping Routes, Causing Delays and Price Increases

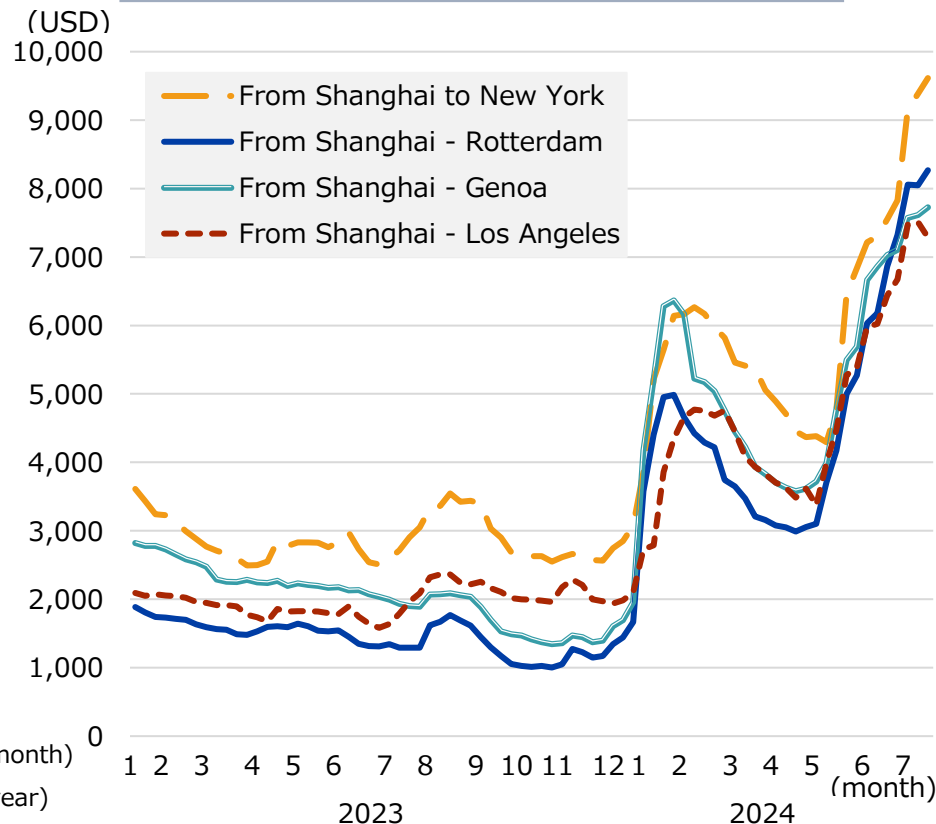
- **Attacks on commercial ships in the Red Sea have disrupted the best route between Europe and Asia.** Many vessels have diverted to a route around the Cape of Good Hope.
- The cost of freight for 40-ft containers from Shanghai to Rotterdam and Genoa increased to around \$8,000 in the 3rd week of July 2024. This is 6.4 times and 4.1 times higher than in the same week in 2023.

Number of Vessels Passing Through Major Points on Container Routes (Monthly)



Source: PortWatch, IMF and University of Oxford, Port Monitor
(Data acquired June 4, 2024)

Container Prices for Major Routes (40ft)



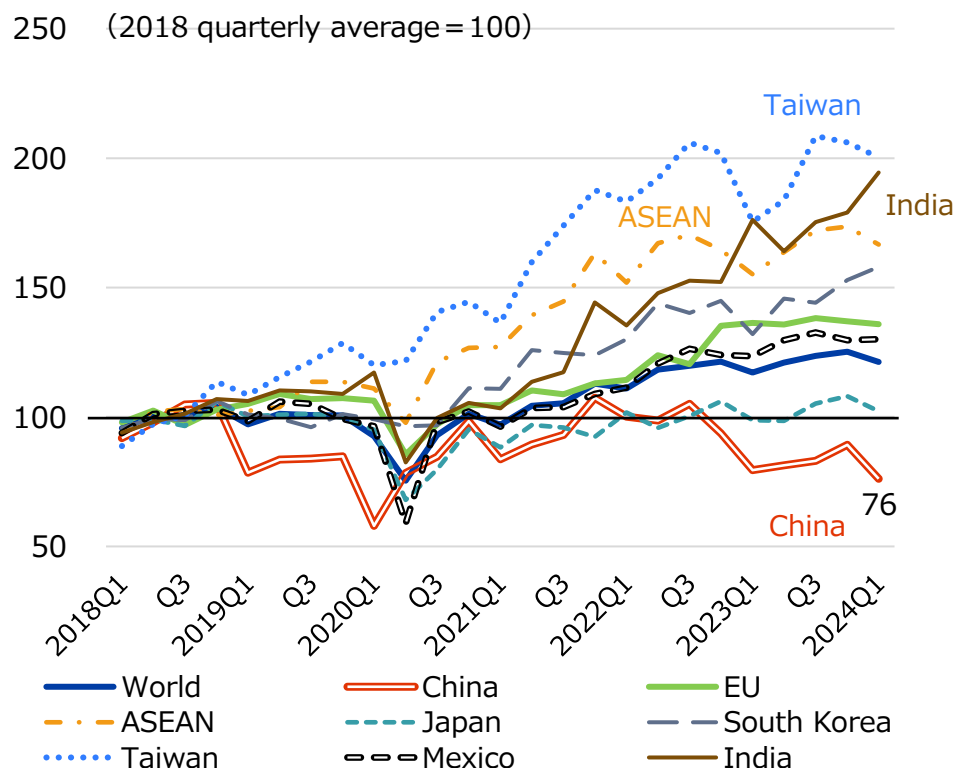
Source: Drewry, Spot freight rates by major route
(Weekly data) (Data obtained July 19, 2024)

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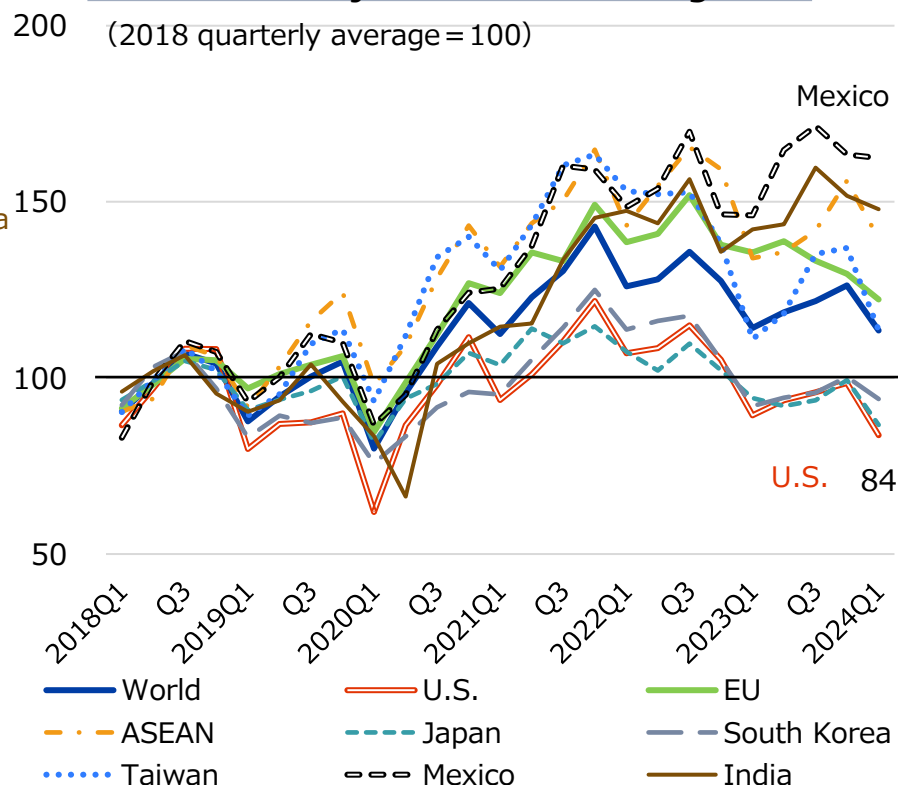
3 | U.S.-China Trade Faltering, Both Sides Strengthening Ties With Other Partners

- **Trade in strategic goods between the U.S. and China has been declining since late 2022**; U.S. trade with China in 2024 is below 80 with index baseline (2018 quarterly average=100).
- **Trade between the U.S. and Taiwan, India, and ASEAN, and trade between China and Mexico have both nearly doubled**. Both groups strengthened ties in general machinery, electronics, and transportation equipment.

Trade in strategic commodities between the U.S. and major countries and regions



Trade in strategic commodities between China and major countries and regions



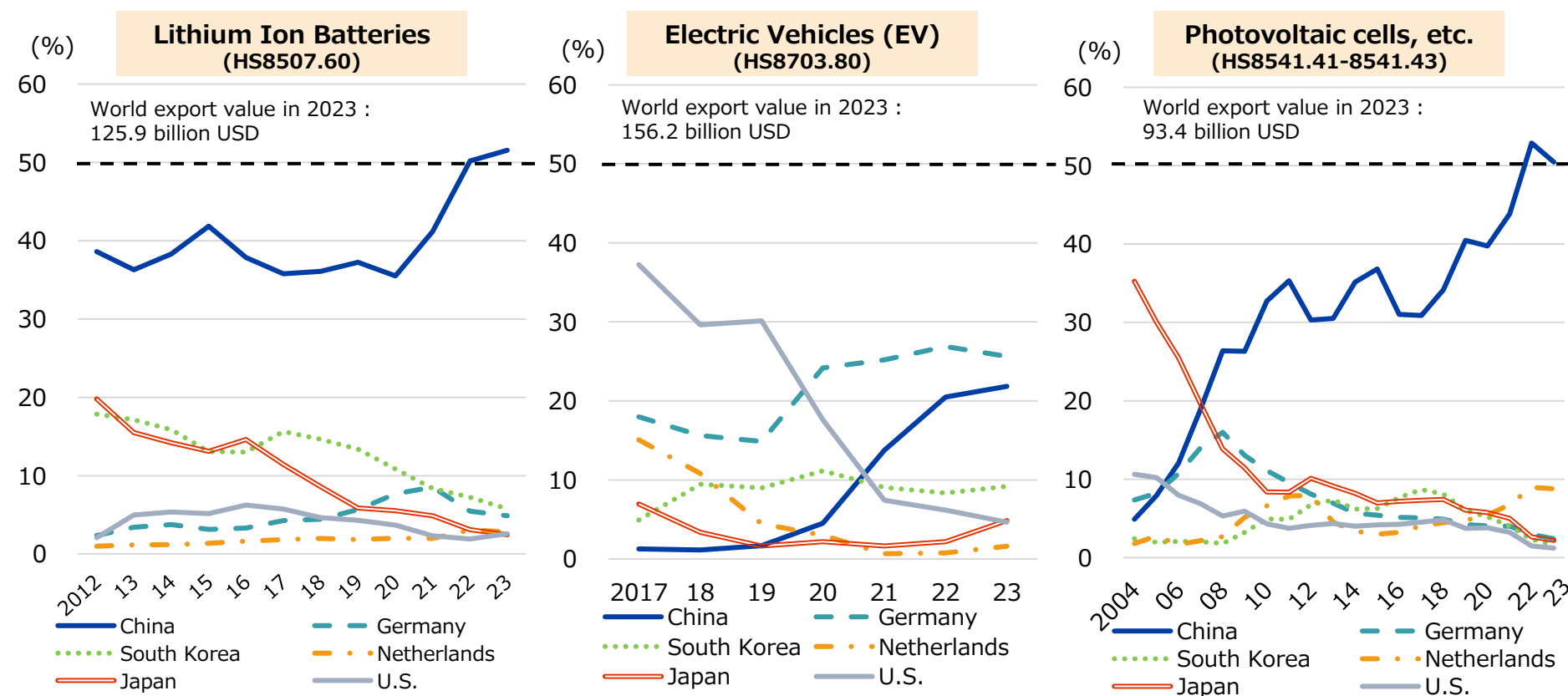
Note: 1) Strategic commodities are based on IMF (April 2024) and include the following: 2-digit HS codes: 28 (inorganic chemicals), 29 (organic chemicals), 30 (medical supplies), 38 (chemical products), 84 (machinery), 85 (electrical equipment), 87 (transportation equipment), 88 (aircraft and parts), 90 (optical equipment), 93 (arms). 2) Quarterly trade (exports + imports) during the period, indexed to the 2018 quarterly average of 100.

Source: Global Trade Atlas (S&P Global)

4 | China's "New Three" Export Offensive, Putting U.S., Europe on Alert

- China has focused on strengthening its exports of lithium-ion batteries, EVs, and solar PV cells, which it refers to as the "New Three." It has expanded its share of world trade in these areas.
- In lithium-ion batteries and solar cells, China's share of global exports has exceeded 50% over the past few years. In contrast, Europe, the U.S., and Japan have seen their share of exports decline.

Global Share of "New Three" Exports of Major Countries

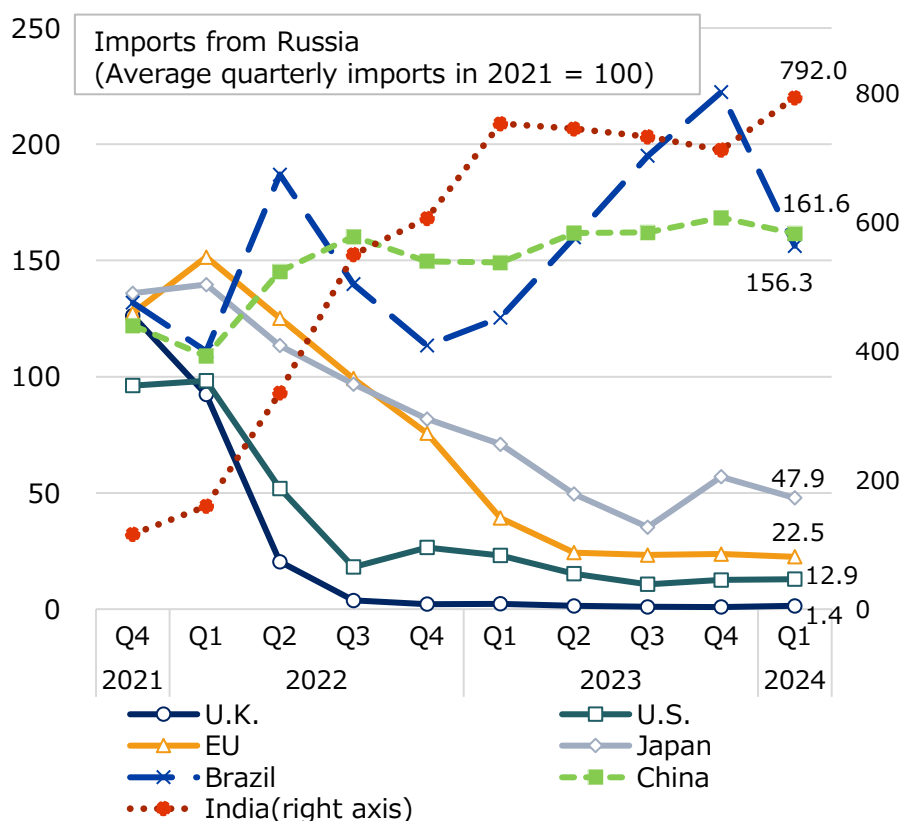


Note : 1) Changes since the year when continuous statistical data for each item can be obtained. 2) Export value basis. Photovoltaic cells include solar PV cells. Source: Global Trade Atlas (S&P Global)

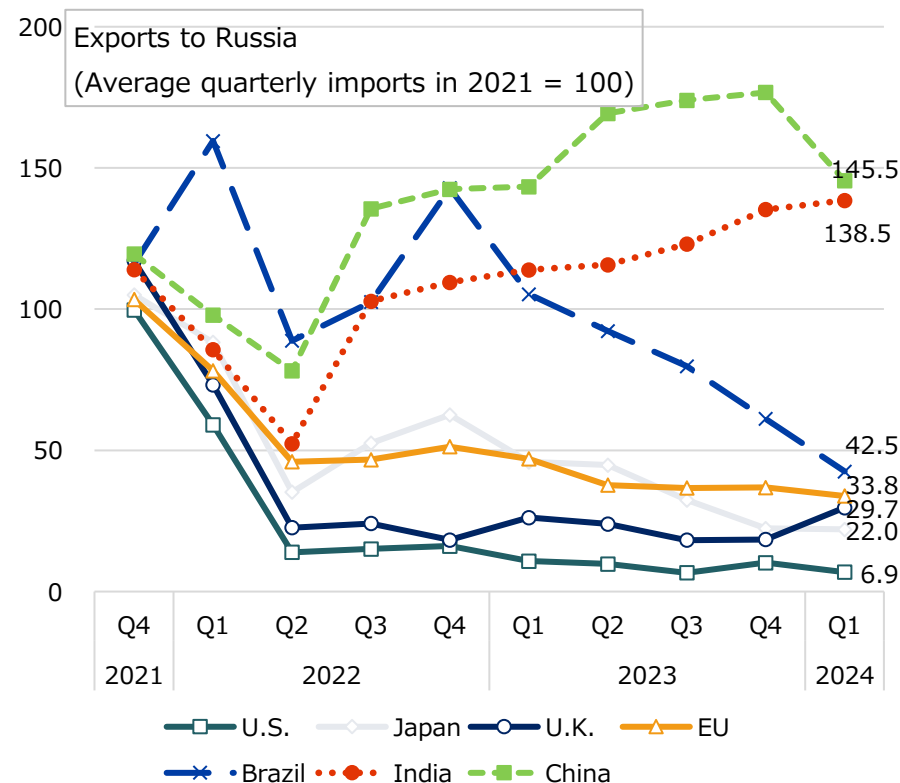
5 | Structural Changes in Trade with Russia Since the Ukraine Conflict

- Since February 2022, G7 countries and the EU have been implementing sanctions against Russia in unison, resulting in a sharp decrease in exports and imports to and from Russia compared with pre-invasion levels.
- **India's imports from Russia increased to a level about eight times higher than in 2021.** India and China are expanding their procurement of Russian crude oil at rates below international prices.
- **Structural changes in trade will continue alongside the prolonged conflict.**

Trends in Imports from Russia by Major Countries and Regions



Trends in Exports to Russia by Major Countries and Regions

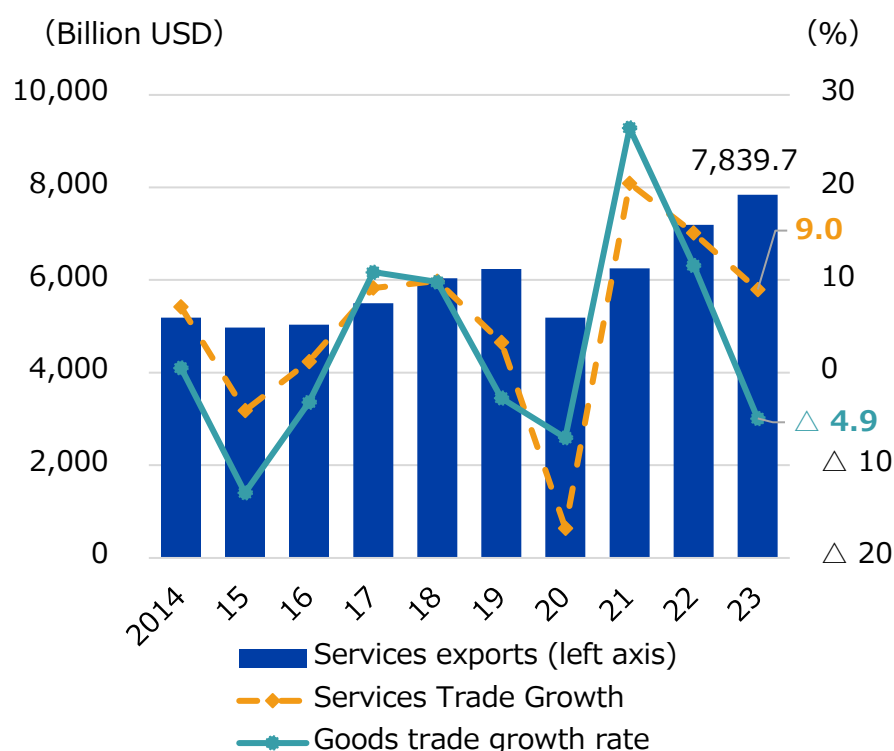


Note: Figures in the chart are index-based.
Source: Global Trade Atlas (S&P Global)

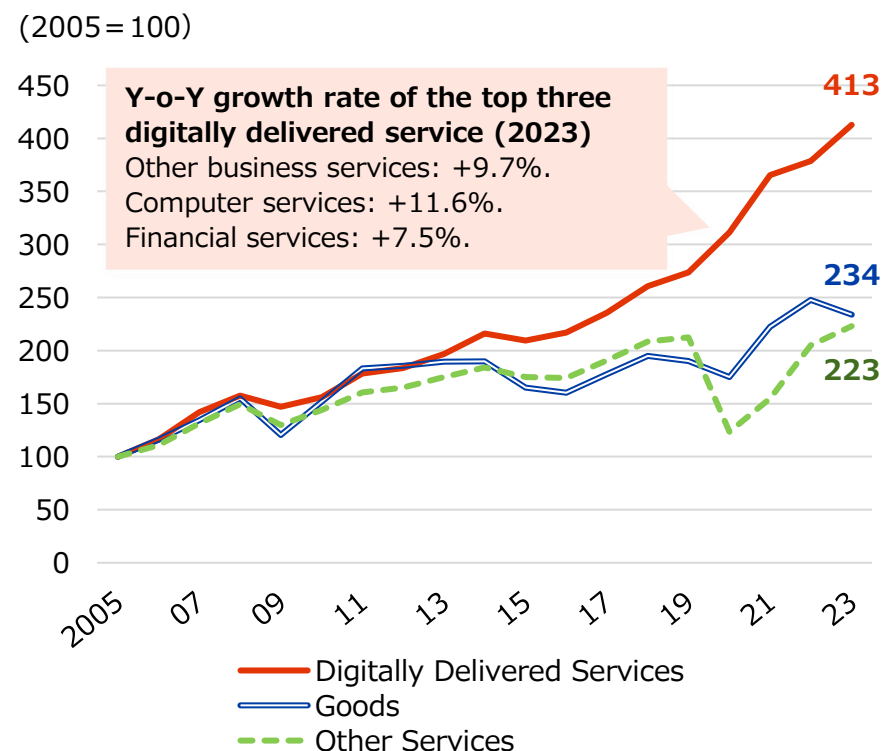
6 | Trade in Services Increases for Third Straight Year, Reaching Record High

- In 2023, world trade in services (based on exports) **increased by 9.0% year-on-year to \$7.8 trillion**. By sector, **"Travel" recovered with a 39.5% increase from the previous year**.
- Compared with 2005, digitally delivered services have grown more than fourfold, nearly double the growth of non-digitally delivered services.

Trends in World Trade in Services



Exports of Digitally Delivered Services



Note: 1) Only commercial services. 2) Service exports are estimates based on quarterly data. 3) Growth rate of trade in goods is in value terms.
 Source: JETRO estimates (Global Trade Atlas), WTO

Note: 1) Digital distribution services are services that are traded across borders through computer networks. 2) Indexed with 2005 export value as 100.

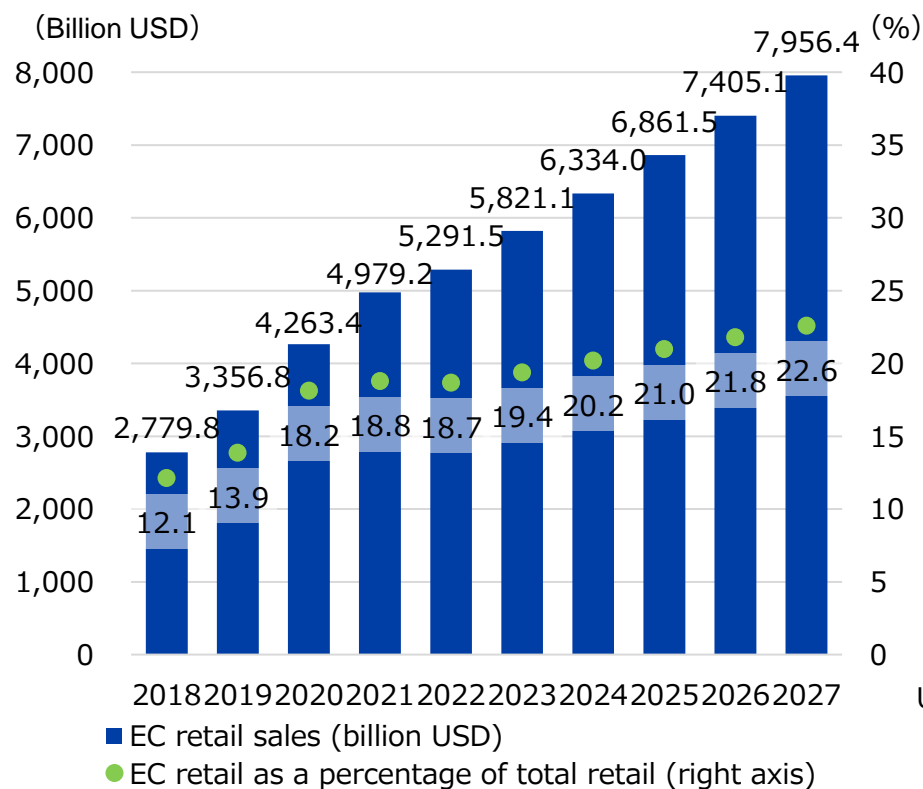
Source: WTO

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7 | EC Retail Market Sees Rapid Growth in Emerging and Developing Countries and Regions

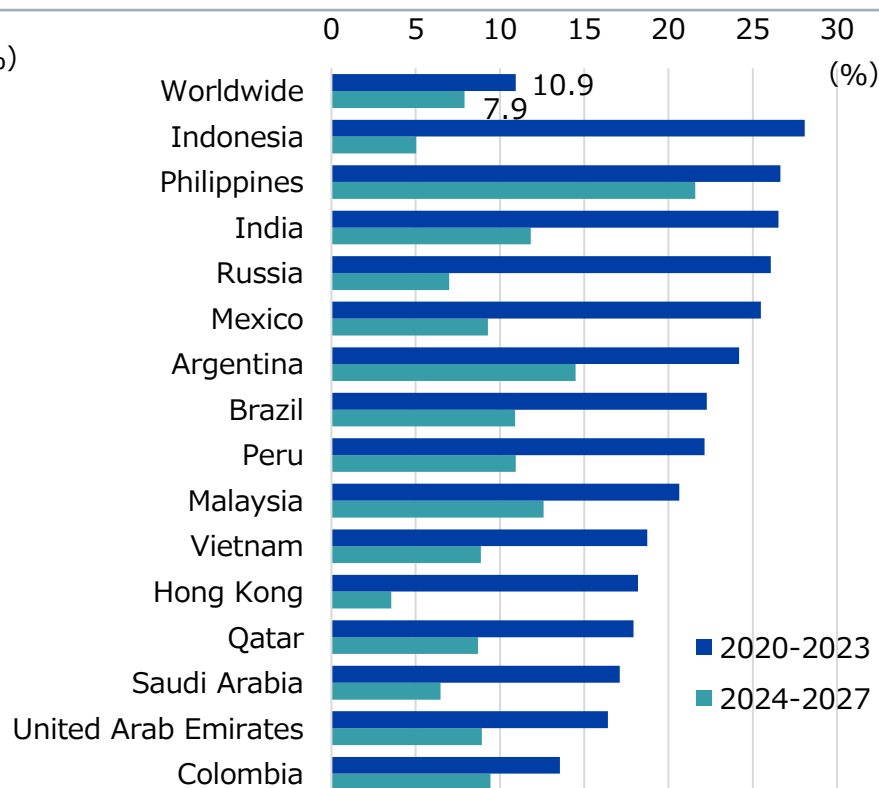
- The size of the global EC retail market **grew 10.0% year-on-year to \$5.821 trillion**. It is expected to continue to grow steadily after 2024.
- China (51.3%) and the U.S. (19.3%) made up about 70% of EC retail market share in 2023, but emerging and developing countries and regions stand out in terms of growth rates. The **market is expanding rapidly in Southeast Asia, Latin America, and Middle Eastern countries**.

Global EC Retail Market Size



Note: Based on eMarketer estimates.
Source: eMarketer

EC Retail Market Size CAGR (2020-23 and 2024-27)



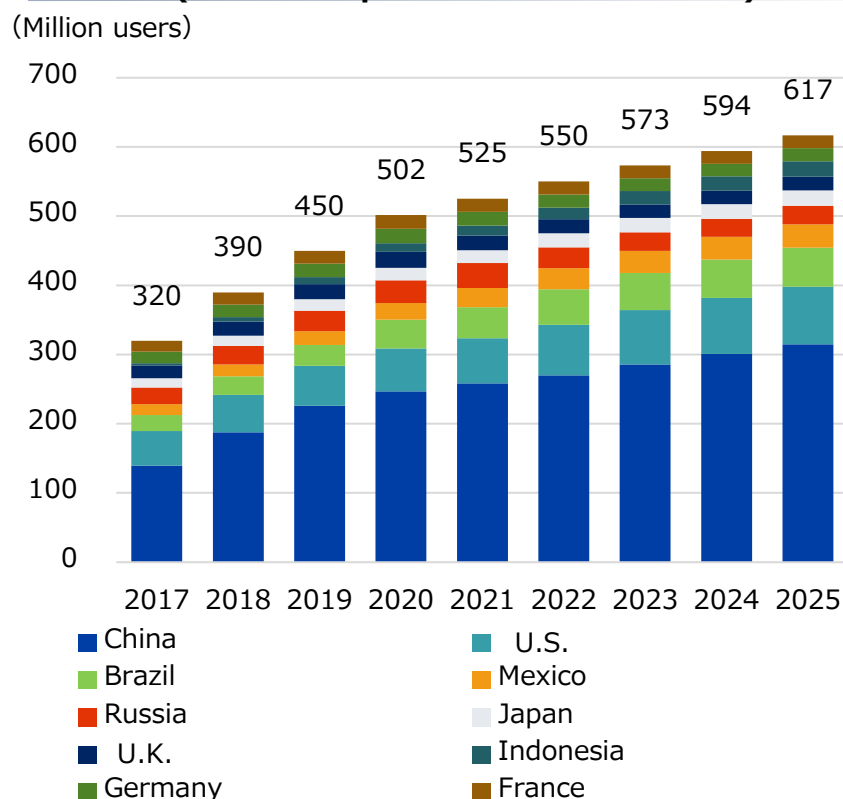
Note: Based on eMarketer estimates. 2020-23 CAGR Top 15 Countries and Regional and world-wide data.

Source: eMarketer

8 Greater Use of Cross-Border EC, China's EC Operators Making Big Strides

- Cross-border EC trading is becoming more and more frequent. In 2023, **there were approximately 573 million cross-border EC users in the top 10 countries** (by number of users).
- In terms of platforms most commonly used for cross-border EC transactions, **Amazon (24%) was followed by e-commerce operators from China**. Temu (7%) was the world's number one-ranked shopping app by downloads in 2023.

**Number of Cross-Border EC Users
(Total of top 10 countries in 2023)**

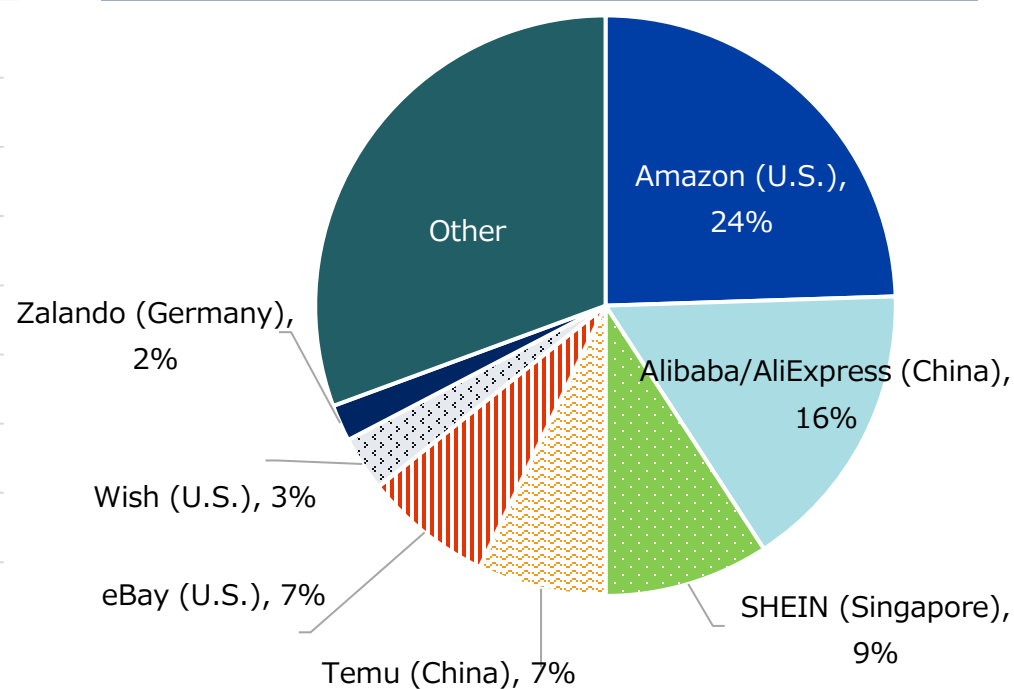


Note: 1) Based on eMarketer estimates.

2) The top 10 countries in terms of the number of users in 2023 are listed.

Source: eMarketer

Most recently used cross-border EC platform



Note: 1) Question asking which businesses (platforms) were used for the most recent cross-border e-commerce purchases.

2) Shein was founded in China and is now headquartered in Singapore.

Source: "Cross-Border E-Commerce Shopper Survey 2023," International Postal Organization.

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9 | Japan Records Trade Deficit for Third Consecutive Year in 2023

- In 2023, Japan's trade balance (on a customs-cleared basis) saw **exports fall 4.3% year-on-year to \$719.1 billion and imports decline 13.0% to \$787.5 billion**. Imports turned down as rises in energy prices slowed. **Exports were sluggish and another trade deficit was recorded.**
- Both export and import volumes declined in 2023, as in they did in the previous year. Volumes continue to shrink in 2024.

Japan Trade Trends

	(Million USD, %)			
	2021	2022	2023	2024 Jan-Jun(P)
Total Exports	758,572	751,540	719,091	341,031
(Rate of change)	18.5	- 0.9	- 4.3	- 3.4
Total Imports	774,421	905,383	787,495	363,069
(Rate of change)	21.8	16.9	- 13.0	- 10.5
Trade Balance	- 15,849	- 153,843	- 68,404	- 22,038
(YoY Difference)	- 20,091	- 137,994	85,438	30,583
Export Volume Index	110.7	110.0	105.7	100.3
(Rate of change)	10.7	- 0.6	- 3.9	- 2.1
Import Volume Index	104.8	104.4	99.3	94.2
(Rate of change)	4.8	- 0.4	- 4.9	- 4.7

(In both of the charts)

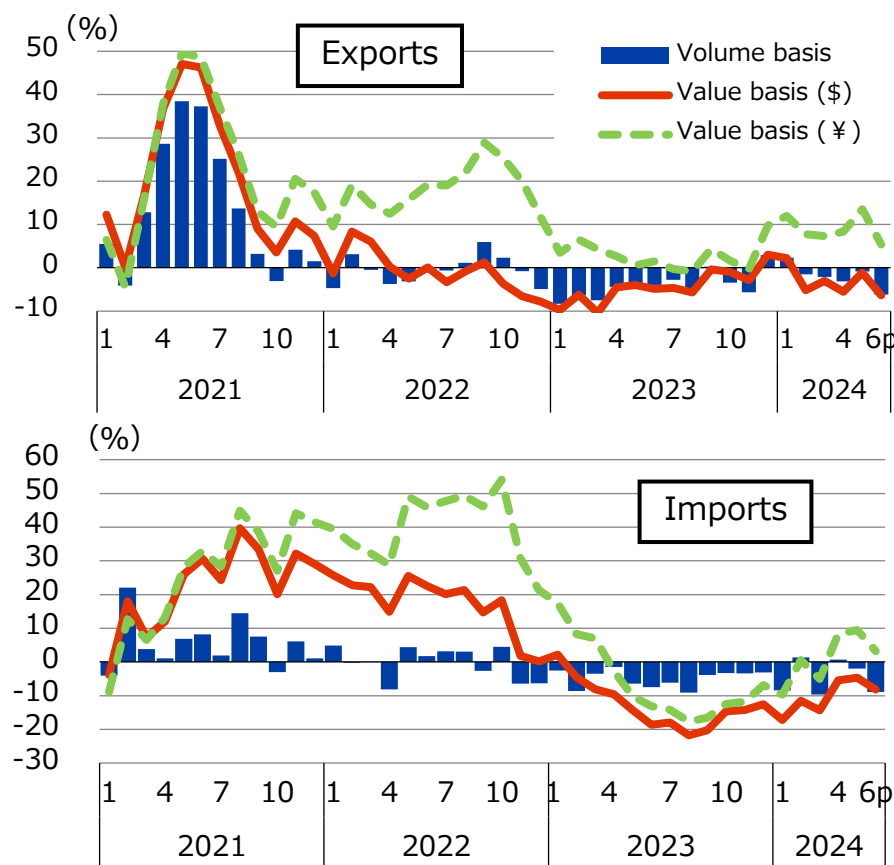
Note: 1) JETRO converted the figures in JPY into USD.

2) The volume index is on a 2020 basis.

3) P is preliminary.

Source: "Trade Statistics" (Ministry of Finance), "Foreign Exchange Rate" (Bank of Japan)

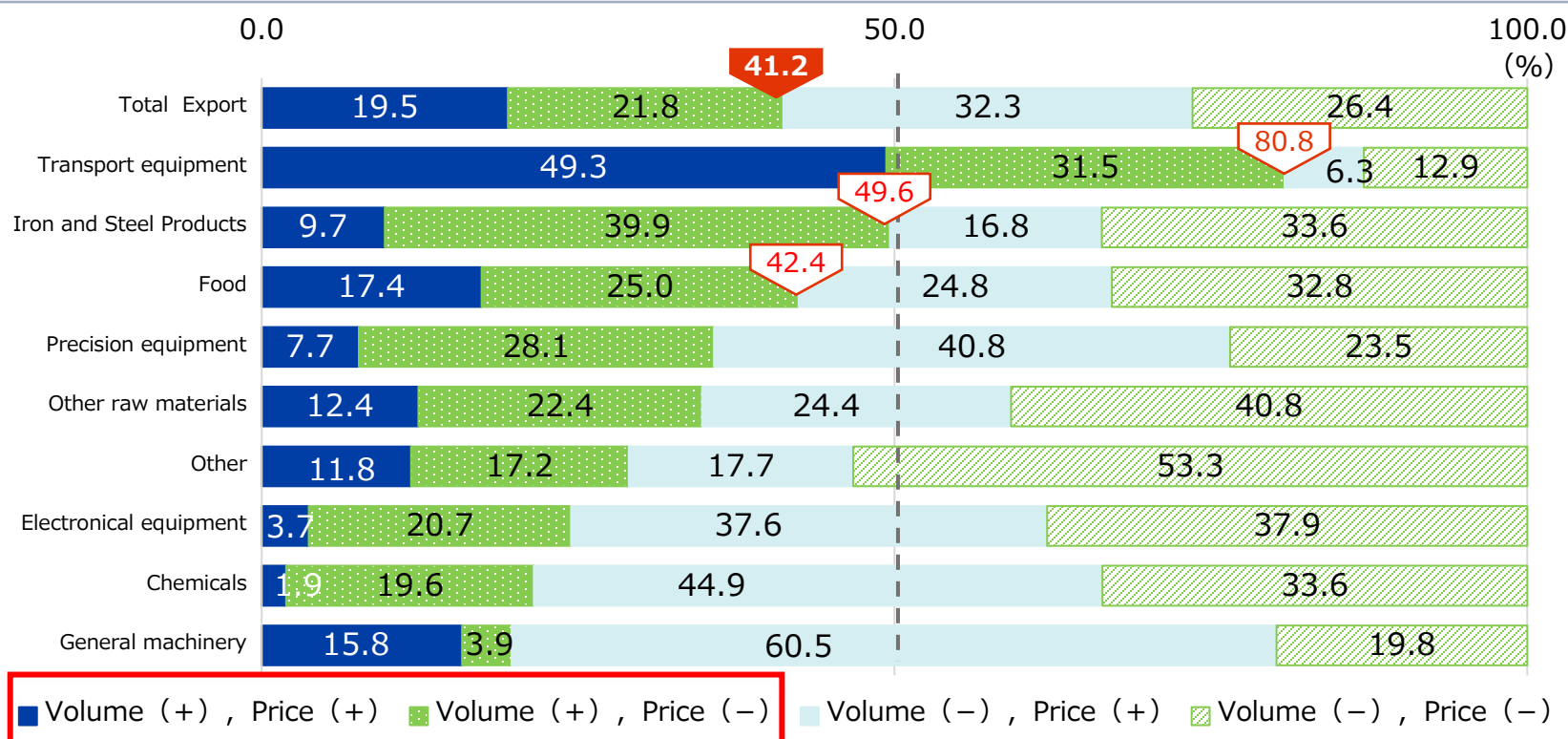
Japan's Import & Export Growth (Y-o-Y change)



10 | Export Volumes in 2023 Increased for Over 40% of Products

- Looking at changes in export volumes and prices by product categories, the **total value of exports of products, with volume increased from the previous year, accounting for 41.2% of total exports in 2023**.
- In transportation equipment, the value of exports of products with increased volumes accounted for 80.8% of the total**, while export volumes of steel, food and other products also increased, driven by the weak yen.

Japan's Exports by Product by Volume and Price Change, 2023 (% of total)



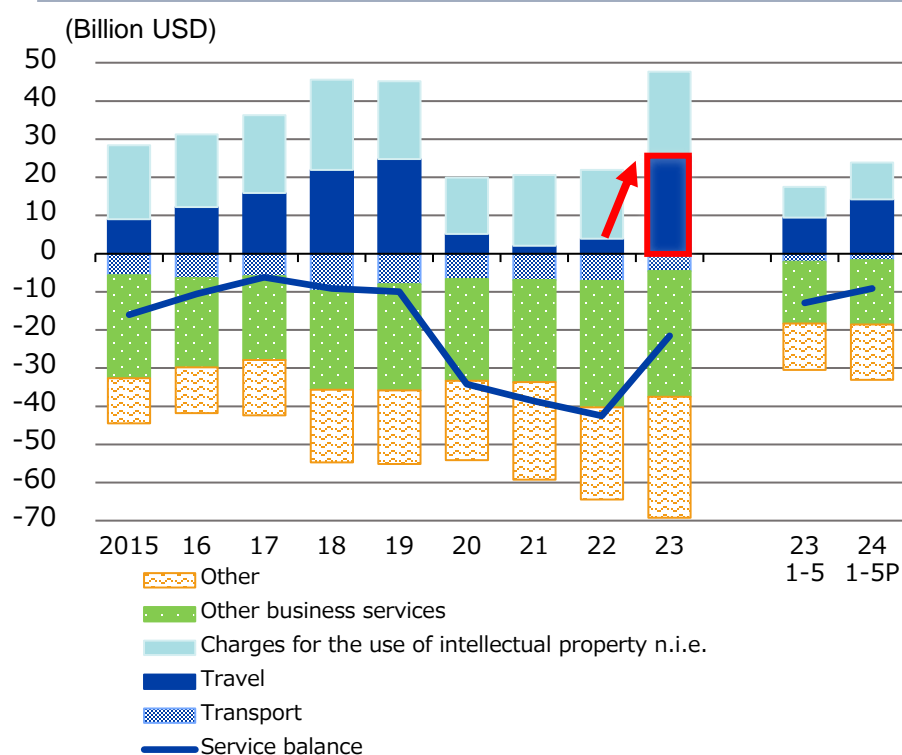
Note: 1) Japan's exports in 2023 (HS 6-digit level, 4,726 products with export value and volume data in 2022-2023). Classification of the products are as in Appendix Note 1 of the "JETRO Global Trade and Investment Report 2024". However, the following products are different: food (HS01-24), other raw materials (25-27, 41-71, 74-83), and others (92-97). 2) Prices are in U.S. dollars. 3) Excluding re-exported goods (0000) and gold (7108).

Source: Global Trade Atlas (S&P Global)

11 | Travel Services Surplus Expands, Helping Improve Overall Trade Balance for Services

- In 2023, Japan's services trade balance was a \$21.0 billion deficit, shrinking to almost half the previous year's deficit (\$42.5 billion). A surplus in the travel services balance (\$25.7 billion) was its highest ever, contributing to an improvement in the services trade balance.
- With the digital economy, **payments to foreign IT giants, such as fees for cloud services, increased. The deficit in digital-related services is growing;** it was \$39.3 billion in 2023.

Japan's Trade Balance in Services

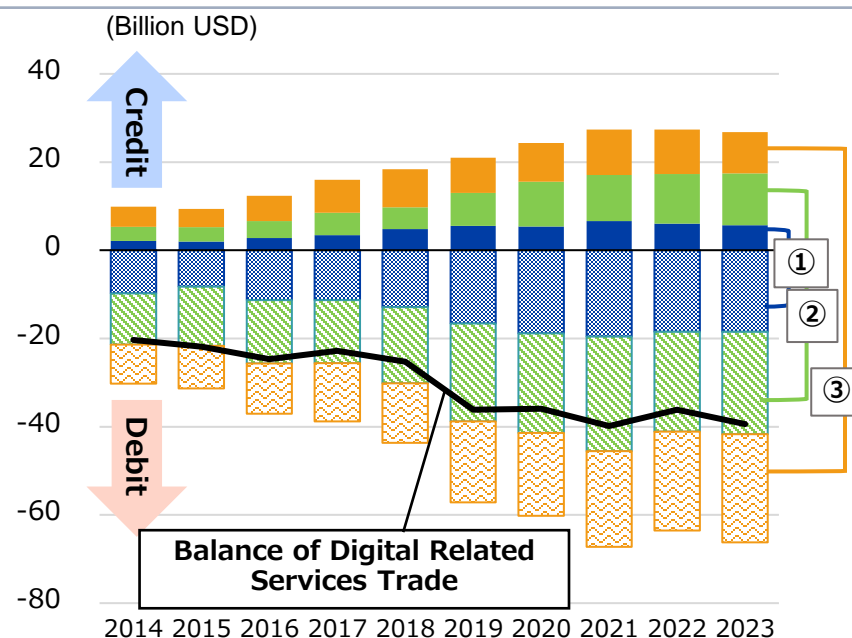


Note: 1) JETRO converted the figures disclosed in JPY into USD.

2) "Other" includes maintenance and repair, construction, insurance & pension, finance, telecommunications, computer and information, personal, cultural and recreational, and public services, etc..

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

Japan's Balance of Digital Related Services Trade



Items included in digital related services

- Charges for the use of copyrights (various licensing fees associated with music and video distribution, etc.)
- Telecommunications, computer, and information services (e.g., fees for cloud services)
- Professional and management consulting services (e.g., website advertising fees)

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

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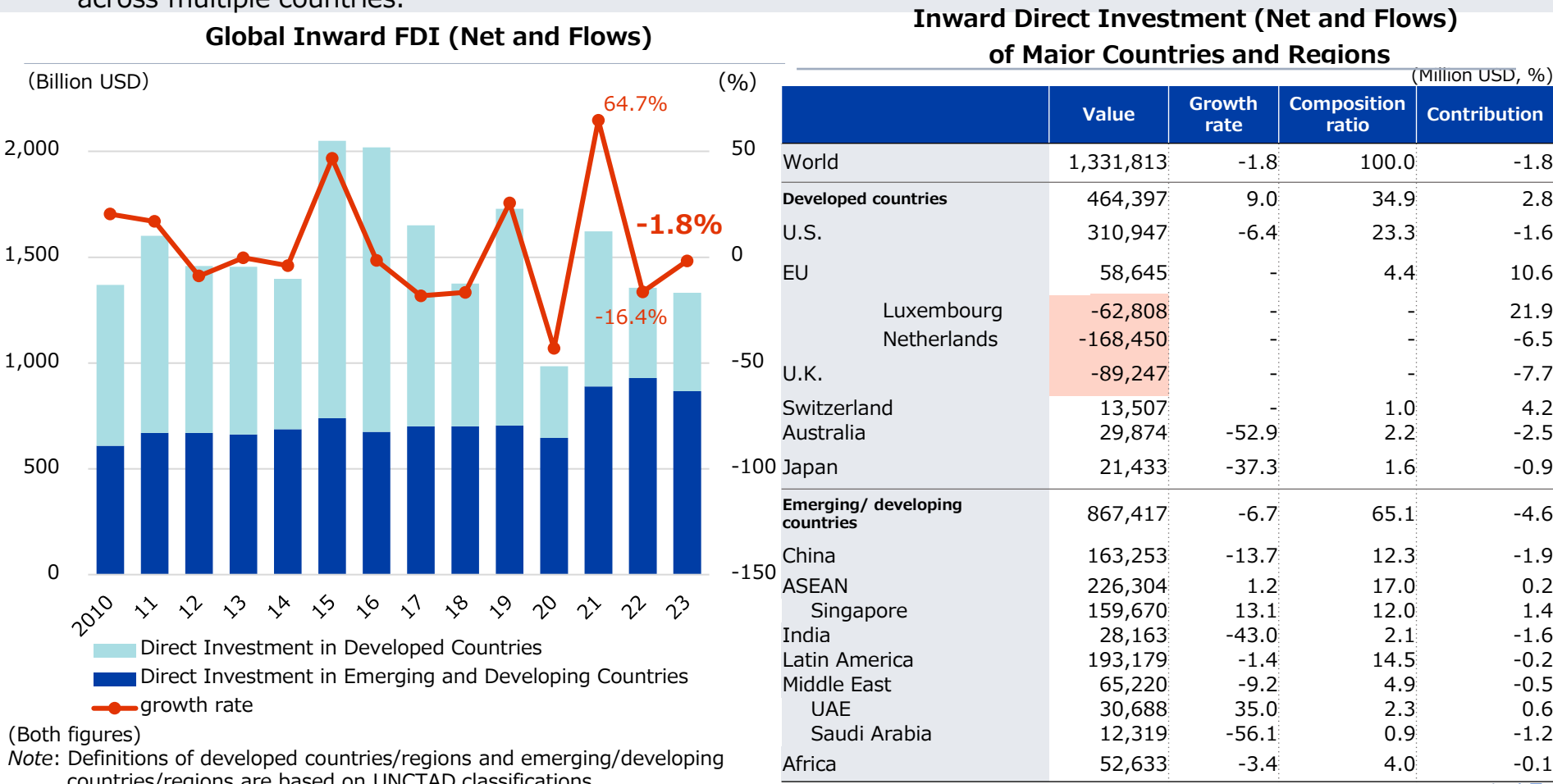
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1 Global Direct Investment in 2023 Declines for Second Consecutive Year

- **Global direct investment fell 1.8% in 2023.** The decline was attributed to increased uncertainty due to geopolitical risks and rising interest rates.
- In Europe, there was a significant movement in investments out of the Netherlands, the U.K., and Luxembourg. Ahead of the introduction of a global minimum tax, multinationals have likely adjusted their financial positions across multiple countries.

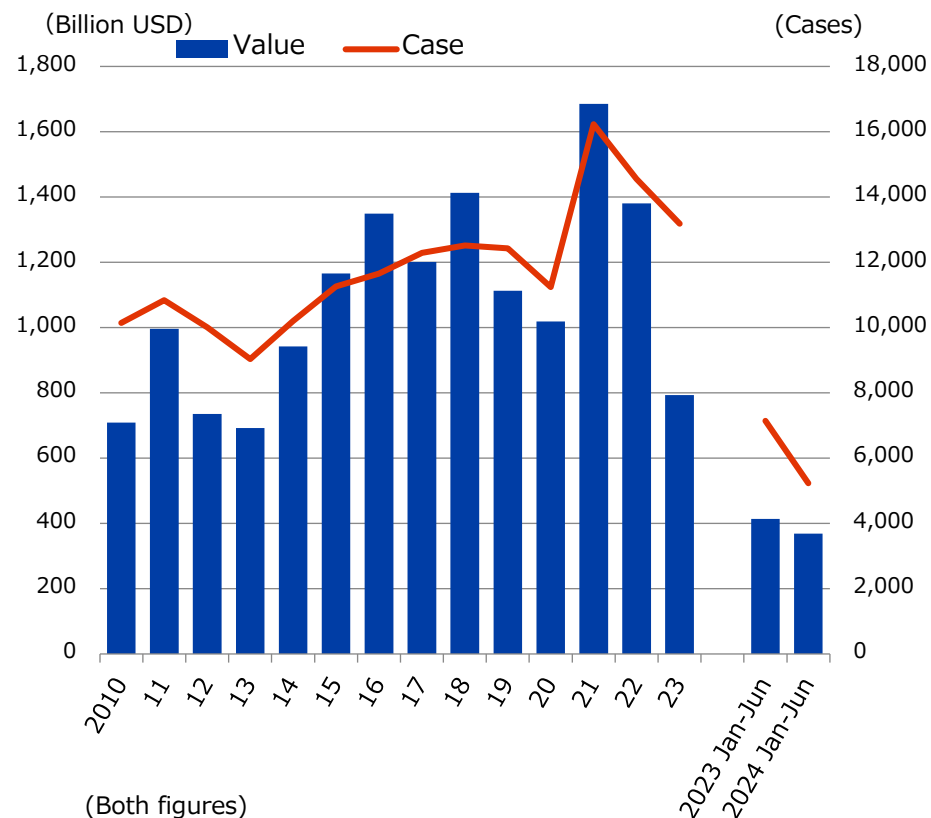


(Both figures)
Note: Definitions of developed countries/regions and emerging/developing countries/regions are based on UNCTAD classifications.
Source: UNCTAD

2 | Cross-Border M&As at 10-Year Low

- **The value of global cross-border M&As in 2023 declined 42.5% to \$793.1 billion**, marking the first time since 2013 for deals to be less than \$800 billion. The second straight year of declines was attributed to stricter financing terms and increased uncertainty in financial markets.
- **The number of deals in the second quarter of 2024 (2,512) fell to near the lowest level recorded during the COVID-19 pandemic.**

Global Cross-Border M&As by Total Value,
Number of Deals

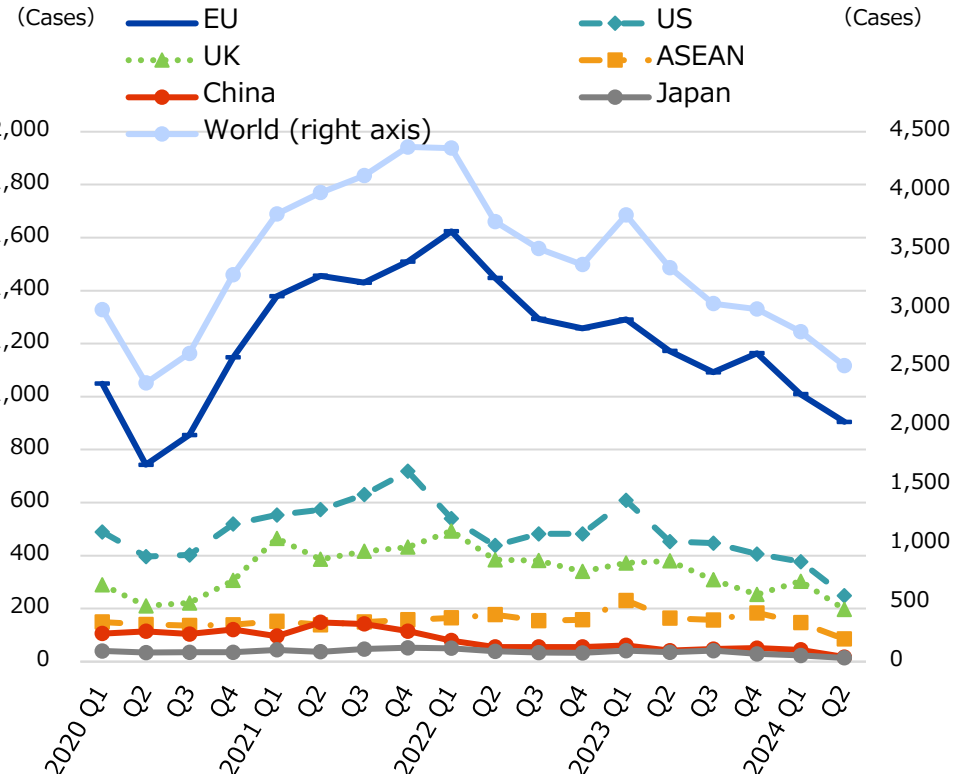


(Both figures)

Note: Data through the second quarter of 2024.

Source: Created from Workspace (LSEG) (left figure as of July 2, 2024; right figure as of July 5, 2024)

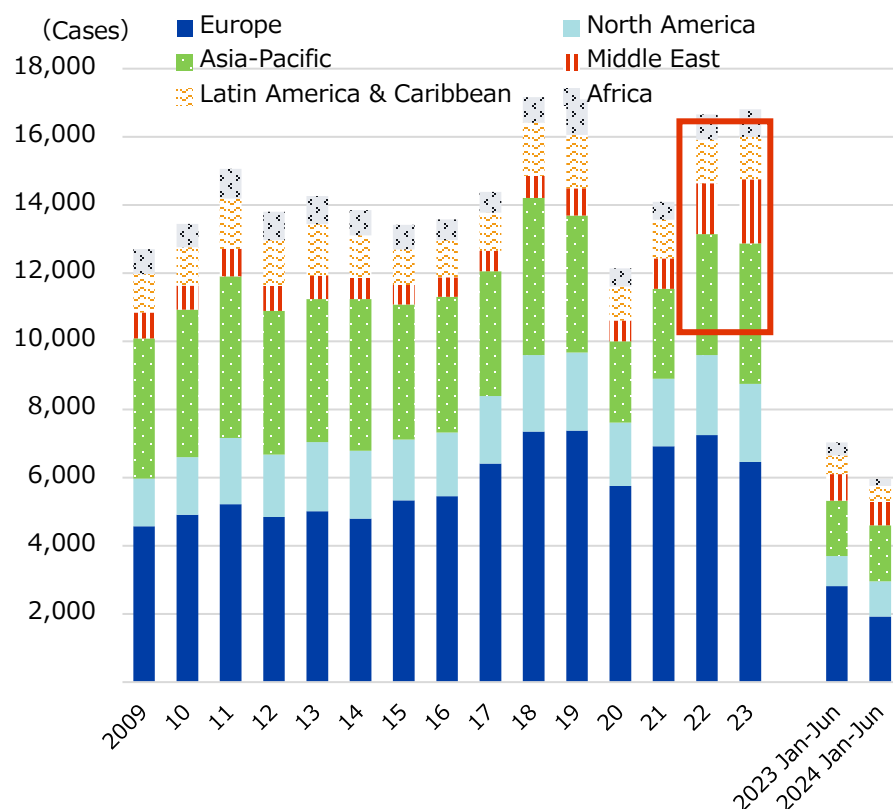
Number of Cross-Border M&As
for Major Countries and Regions (Quarterly)



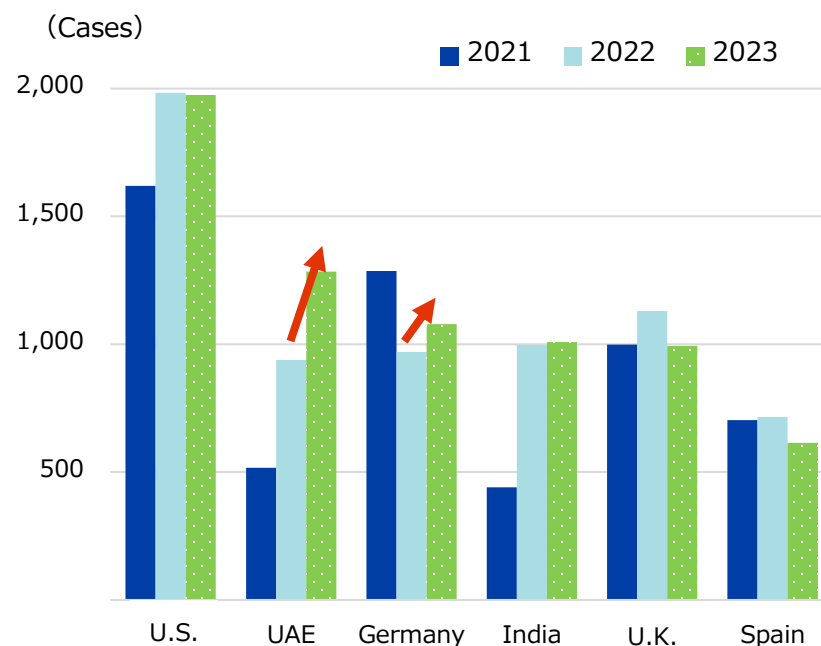
3 | Greenfield Investments Increase in Middle East and Asia

- The number of global greenfield investments in 2023 (based on announcements) increased by 0.9% year over year to 16,810. The overall number of cases was boosted by the Middle East (+26.2%), Asia Pacific (+16.1%), and Africa (+7.8%).
- Looking at the number of investments by country, the U.S., which ranked first in the number of accepted investments, was nearly flat (down 0.5%). The **United Arab Emirates surged 36.9%** to take second place. Investments to Germany, including those from Chinese companies, grew.

Number of Global Greenfield Investments
by Recipient



Number of Greenfield Investments
(Top 6 Recipients)



4 | Fragmentation and Realignment in Greenfield Investments

- A comparison of investment flows among major countries and regions before and after the COVID-19 pandemic shows that the **number of investments between Western countries, and Japan and China declined significantly in both directions**. Among the major countries, the decline in Japanese outward direct investment after the pandemic stands out. Global investment in the Middle East region increased by 80%. A greater number of **Chinese companies are choosing the Middle East and ASEAN countries as investment destinations**.

Global Greenfield Investment Matrix (by number, 2021-23 total, growth rate over 2017-19)

Investment destination Investment source	U.S.	EU	U.K.	Australia	Japan	China	ASEAN	India	Latin America	Middle East	Africa	World	(%)
U.S.		- 2.4	- 27.7	- 13.1	- 35.0	- 62.5	- 10.8	46.0	- 3.8	58.0	- 14.9	- 5.6	
EU	- 5.9	12.8	- 6.1	8.9	- 25.0	- 36.1	- 12.3	- 4.1	- 25.4	43.9	- 24.5	- 1.9	
U.K.	15.1	4.9		6.8	6.0	- 51.0	- 4.7	54.2	24.8	116.3	2.9	12.1	
Australia	- 21.6	- 30.1	- 7.7		122.2	**	34.5	387.5	- 54.5	56.8	83.3	3.8	
Japan	- 27.5	- 32.5	- 45.0	- 36.6		- 63.1	- 57.3	- 22.5	- 36.9	- 3.8	- 38.2	- 38.4	
China	- 36.0	- 17.2	- 59.5	- 71.1	- 50.0		11.6	- 88.0	- 4.7	78.0	- 51.2	- 29.9	
ASEAN	16.0	25.5	- 7.9	22.4	- 5.5	-60.3	- 20.0	- 5.8	106.1	122.2	- 22.2	1.0	
India	16.9	-13.3	4.8	10.7	**	**	57.1		31.1	282.2	39.6	49.2	
Latin America	25.7	43.8	- 44.6	**	**	-26.3	109.1	**	1.9	177.8	**	17.8	
Middle East	18.1	7.2	- 21.4	8.3	**	- 35.6	4.5	106.3	16.7	113.5	0.5	21.9	
Africa	26.1	- 23.4	- 31.7	**	**	**	**	**	**	181.6	- 7.1	3.5	
World	1.1	4.4	- 19.6	- 3.9	- 21.8	- 49.9	- 15.9	15.6	- 11.9	84.4	- 15.7	- 2.2	

Legend

30% or more

Less than 20-30%

Less than 10-20%

0 to less than 10%

0~-10%

-10~20%

-20~30%

-30% or less

Note: 1) Targeted projects are those in the top 100 countries and regions in terms of investment destination and source (46,555 projects) for the period 2021-2023. The ratio to the total number of investments (47,391) for the same period is 98.2%.

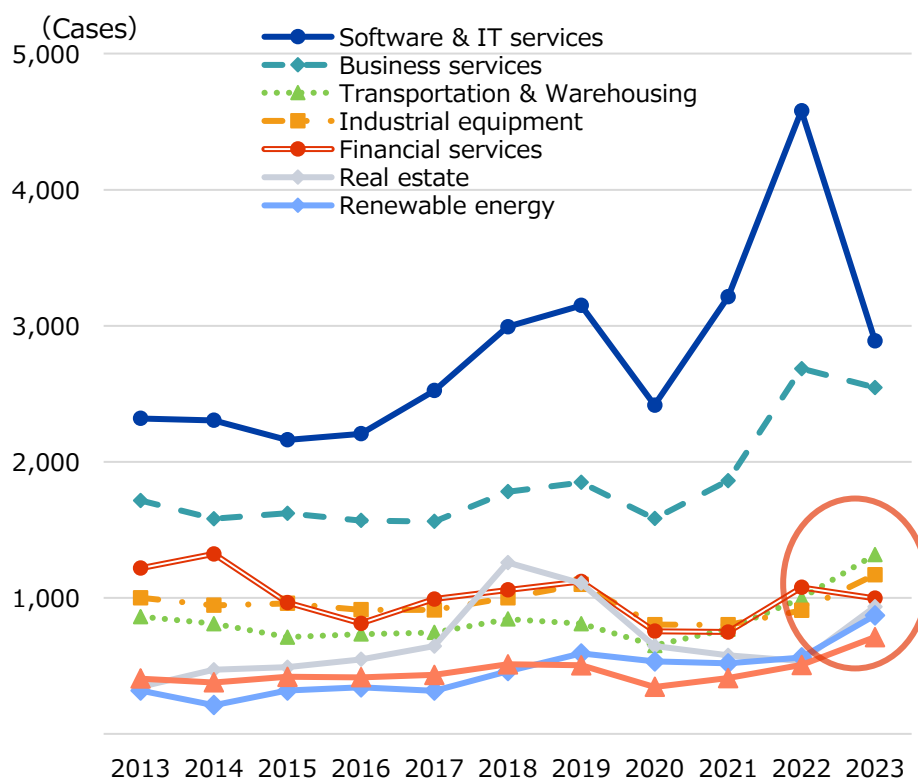
2) If the number of investments is less than 20, it is indicated with **.

Source: fDi Markets (Financial Times)

5 | Mega Investment Projects in Renewable Energy, Batteries, and Metals

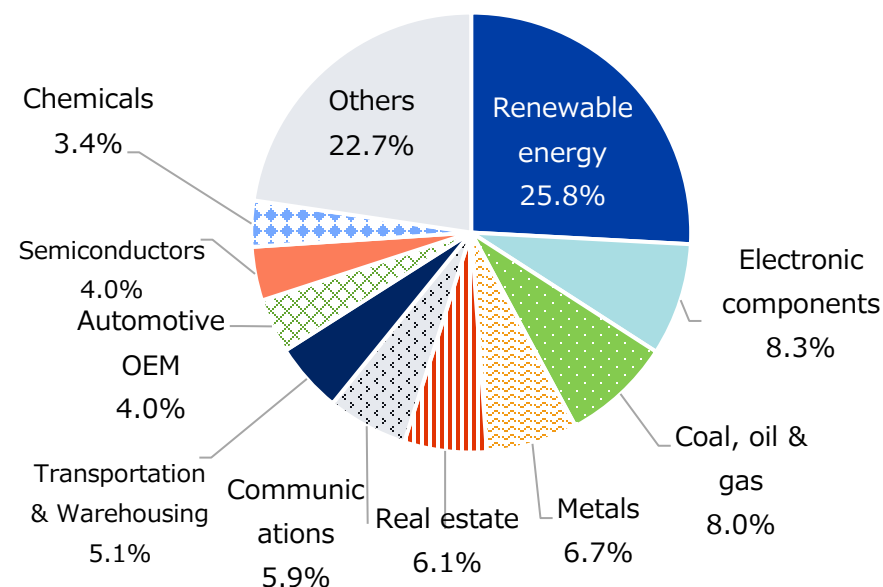
- The number of global greenfield investments in digital-related software/IT services and business services declined 36.9% and 5.2%, respectively, in 2023. On the other hand, transportation and warehousing (+32.4%), **industrial equipment (+28.9%)**, real estate (+74.6%), **renewable energy (+55.1%)**, and **electronic components (+40.3%)** saw double-digit growth.
- In value terms, global greenfield investments increased 6.4%. Renewable energies accounted for 25.8% of the total. Electronic components and metals also saw significant increases.

**Number of Greenfield Investments in 2023
(By Industry)**



Note: Only the top 8 industries are listed.

**Greenfield Investments in 2023
(% of Total by Industry)**



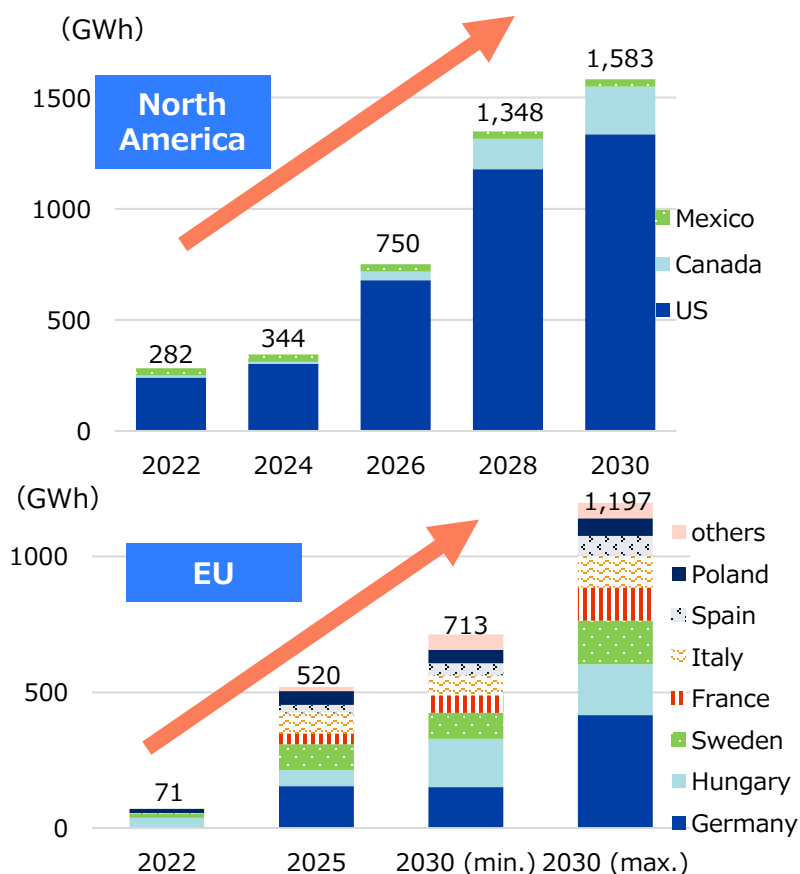
(Both figures) Source: fDi Markets (Financial Times)

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6 | Wave of EV Battery-Related Investments

- With EV battery demand expected to continue to grow rapidly, the U.S. and EU are promoting local production of batteries to meet demand. Huge subsidies and tax credits are being provided under the U.S. Inflation Reduction Act (IRA) and the EU Green Deal Industrial Plan. As a result, **since 2023 investment projects related to the manufacture of batteries and their components have been rapidly increasing in North America and Europe.**

EV Battery Production Capacity in North America and EU (estimated)



Note: The figure below shows both minimum and maximum estimates as of 2030.

Source: Argonne National Laboratory, above; European Court of Audit, below)Source: Press releases and other sources)

Establishment and Planning of Factories in North America and EU (example)

country of location	place name	Company (Nationality)	Capacity (GWh)
U.S.	Nevada	Tesla (US)	100
	Kentucky	Ford, SK-on (US, South Korea)	86
	Indiana	Samsung SDI, Sterantis (Korea, Europe)	67
	Michigan	GM, LG Energy (US, Korea)	50
	Ohio	LG Energy, Honda (Korea, Japan)	40
Canada	Ontario	PowerCo (Germany)	90
		LG Energy, Sterantis (Korea, Europe)	45
	Quebec	Northvolt (Sweden)	60
Germany	Grunheide	Tesla (US)	100
	Heide	Northvolt (Sweden)	60
	Kaiserslautern	ACC (France)	40
	Salzgitter	PowerCo (Germany)	40
Hungary	Debrecen	CATL (China)	100
	Göd	Samsung SDI (Korea)	40
Sweden	Borlänge		100
	Skellefteå	Northvolt (Sweden)	60
	Gothenburg		50
France	Dunkirk	Verkor(France)	50
		ProLogium Technology (Taiwan)	48
	Billy-Berclau Douvrin	ACC (France)	40
Italy	Piemonte	Italvolt (Italy)	45
	olm (Proteus anguinus)	ACC (France)	40
Spain	Valencia	PowerCo (Germany)	40
Poland	Wroclaw	LG Energy (Korea)	115

Note: Only projects with an annual production capacity of 40 GWh or more.

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7 | Massive Subsidies for Semiconductor Industry

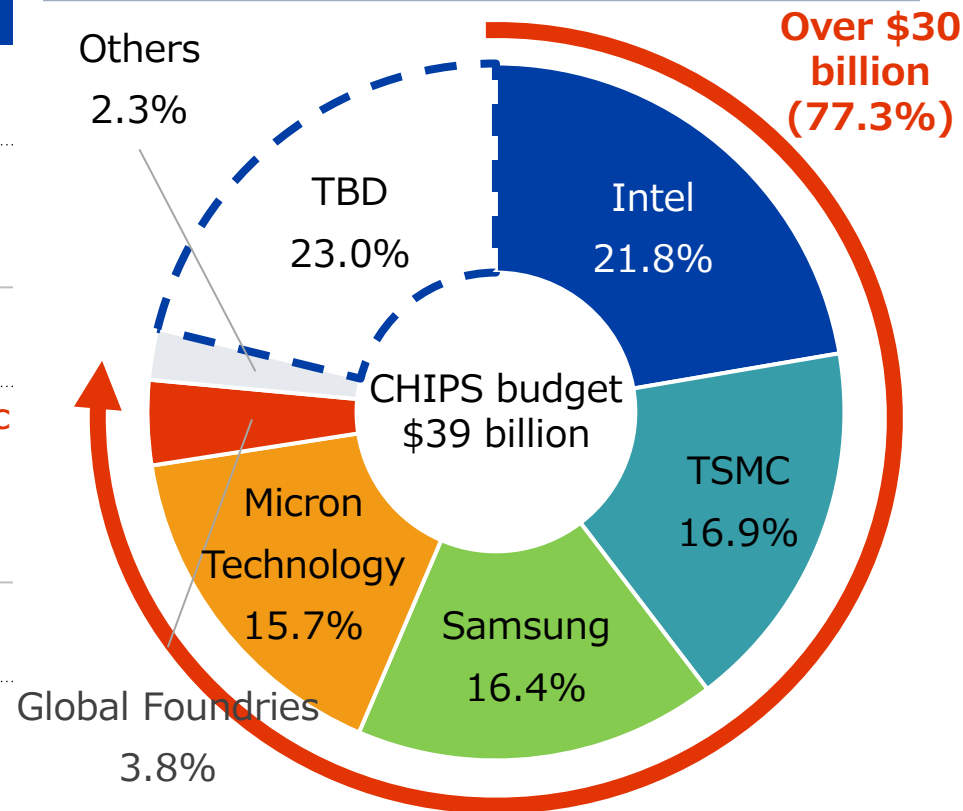
- The semiconductor industry has heavily invested in the U.S. and Japan, backed by governmental **support for individual companies** to encourage domestic production. This will promote the development of massive investment projects.
- The U.S. government has revealed the beneficiaries of these huge subsidies, including Intel and TSMC, would receive amounts nearing 80% of their budgets through the CHIPS and Science Act.

Semiconductor Support [U.S./EU/Japan]

Country/Region		Outline of Support
U.S.	Law	\$39 billion in manufacturing support under the CHIPS and Science Act as well as \$11 billion in R&D support.
	Announced	Over \$30 billion has been allocated. Majority of recipient companies claim tax credits under CHIPS and Science Act.
EU	Law	The European Semiconductor Act (financial support by member states) The EU budget provides €3.3 billion for R&D.
	Announced	The German government has awarded TSMC €5 billion and €1 billion to Infineon technologies. The French government is also providing up to €2.9 billion to STMicroelectronics.
Japan	Law	Budget (FY2021-FY2023) related to semiconductors ¥4.064 trillion
	Announced	Announced over ¥2.6 trillion for advanced semiconductor manufacturing plants Up to ¥340 billion for suppliers of manufacturing equipment, raw materials for power semiconductors

Source: Government data and other sources

Allocation Under the U.S. CHIPS Budget

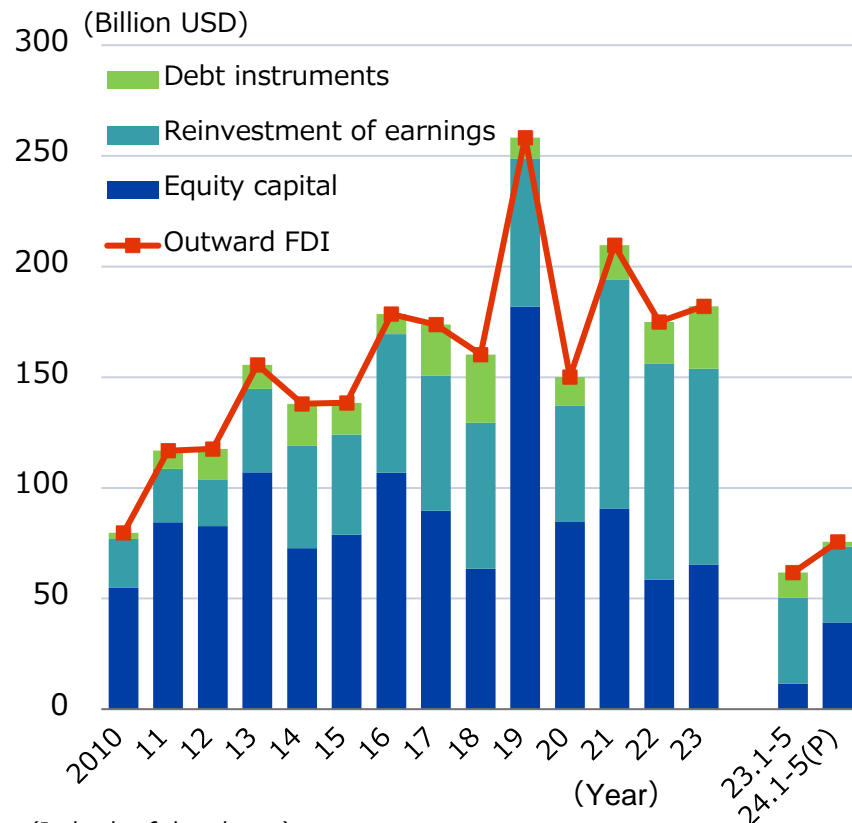


Note: As of July 18, 2024. Grant amount only. Based on announcement.
Source: Semiconductor Industry Association (SIA)

8 | Japan's Outward FDI Increases in 2023

- In 2023, **Japan's outward FDI increased by 4.0% from 2022 to \$182.1 billion**. There was a 22.5% year-on-year growth in January-May 2024.
- Japan's overall investment to Asia, investment in China, continues to shrink as its investment in India and Vietnam increases. In 2023, investment in India and Vietnam exceeded China for the first time.

Japan's Outward FDI by Type (net, flow)



(In both of the charts)

Note: 1)JETRO converted the figures disclosed in JPY into USD. 2) P is preliminary.

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

Japan's Outward FDI by Country/Region

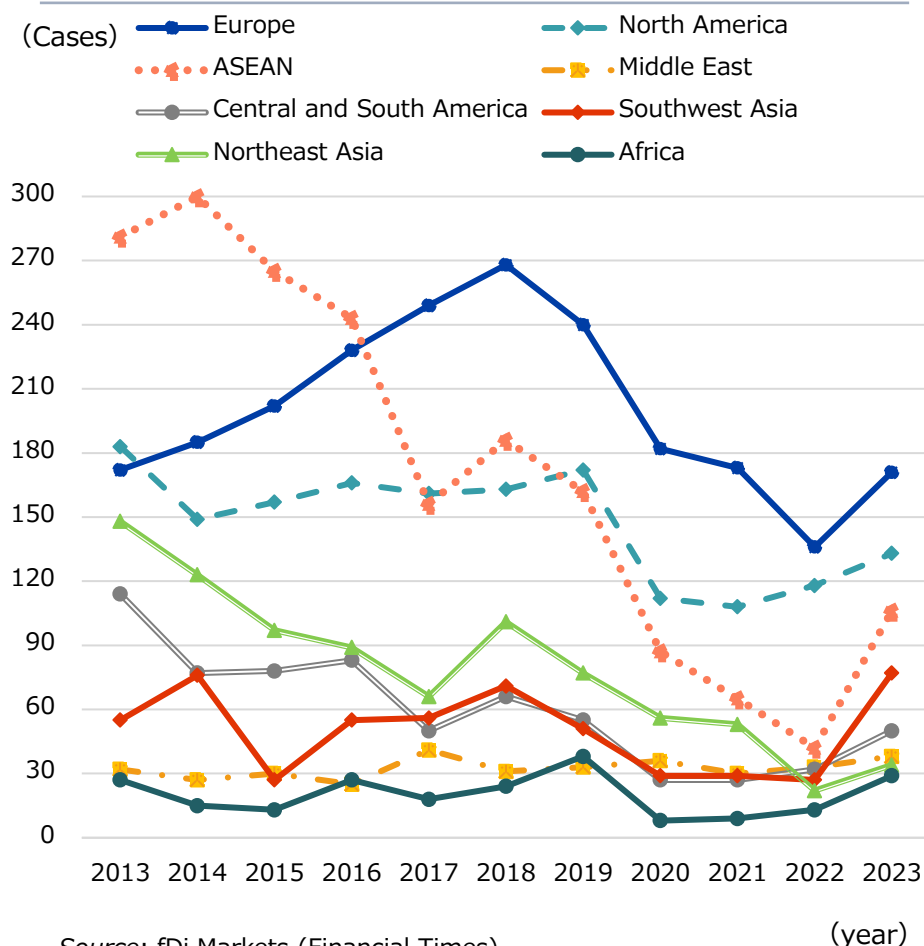
(Million USD, %)

	2022	2023	Growth rate	2024 Jan-May 2024 (P)	Growth rate
Asia	36,978	33,159	- 10.3	17,146	37.4
China	5,611	3,822	- 31.9	1,680	10.1
ASEAN	23,308	22,627	- 2.9	12,959	58.7
Singapore	6,855	7,923	15.6	8,277	210.4
Vietnam	3,237	4,146	28.1	897	- 4.0
India	4,094	5,038	23.0	1,818	3.1
North America	66,416	68,672	3.4	35,359	117.6
U.S.	64,211	64,954	1.2	34,748	123.3
Latin America	14,753	12,795	- 13.3	3,211	- 35.3
Oceania	13,080	17,266	32.0	5,717	- 12.8
Europe	41,976	47,354	12.8	14,018	- 30.4
Germany	5,796	4,466	- 22.9	1,937	- 12.5
U.K.	4,345	13,040	200.1	5,451	131.8
World	175,015	182,078	4.0	75,592	22.5

9 | Outward Greenfield Investment from Japan Rebounds

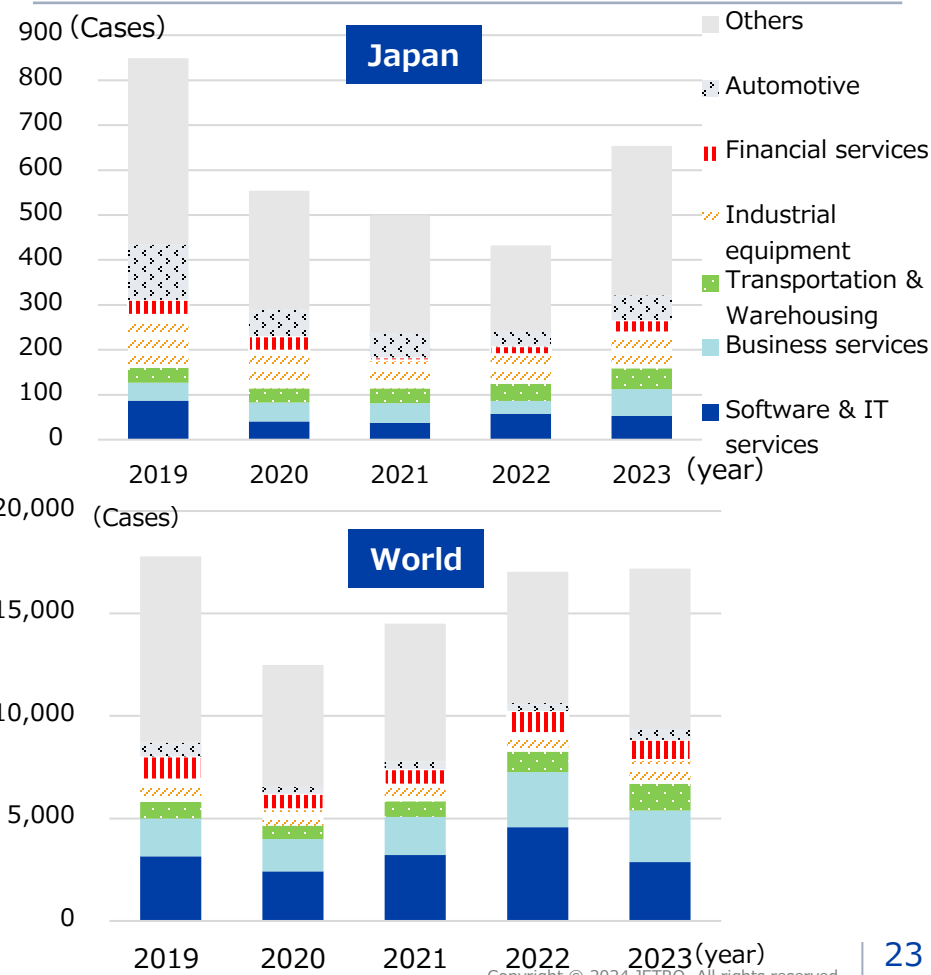
- Japan's outward greenfield investment in 2023 increased 51.3% year-on-year, with **a large increase in investment to ASEAN and Southwest Asia driving overall growth**.
- By industry, business services and food and beverages doubled from the previous year, real estate increased sixfold, and electronic components increased 80%.

Number of Outward Greenfield Investments from Japan (by region)



Source: fDi Markets (Financial Times)

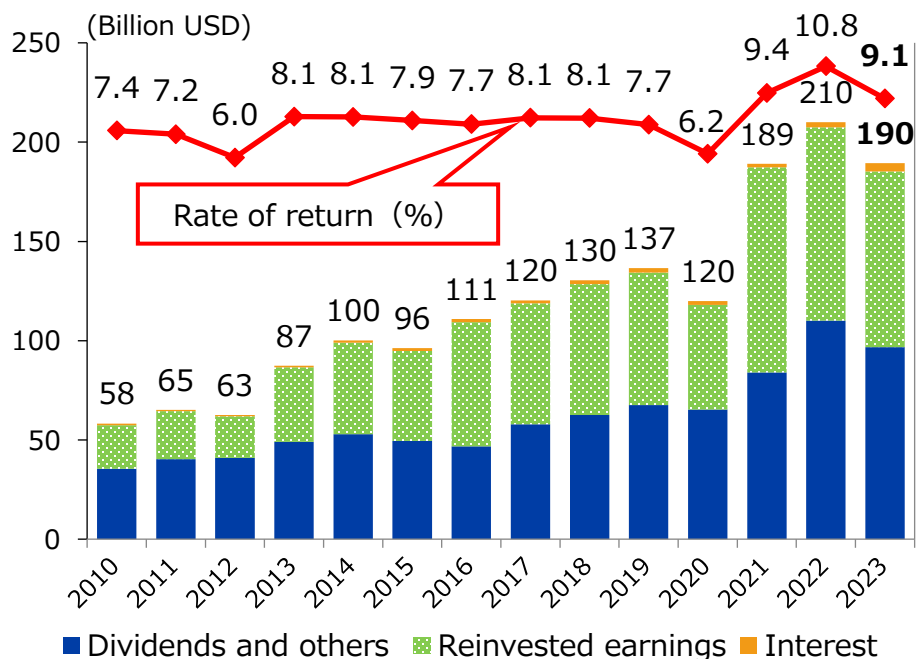
Number of Outward Greenfield Investments Worldwide and in Japan (by industry)



10 | Japan's Outward FDI Returns Remain High

- Outward FDI returns in 2023 were US\$189.5 billion, staying high near the US\$200 billion mark since 2021. **The outward FDI rate of return (investment income received/investment stock) has also remained at a high level of around 10%.**
- The non-manufacturing sector contributed to the increased outward FDI returns. Revenue increased in all regions, including North America.

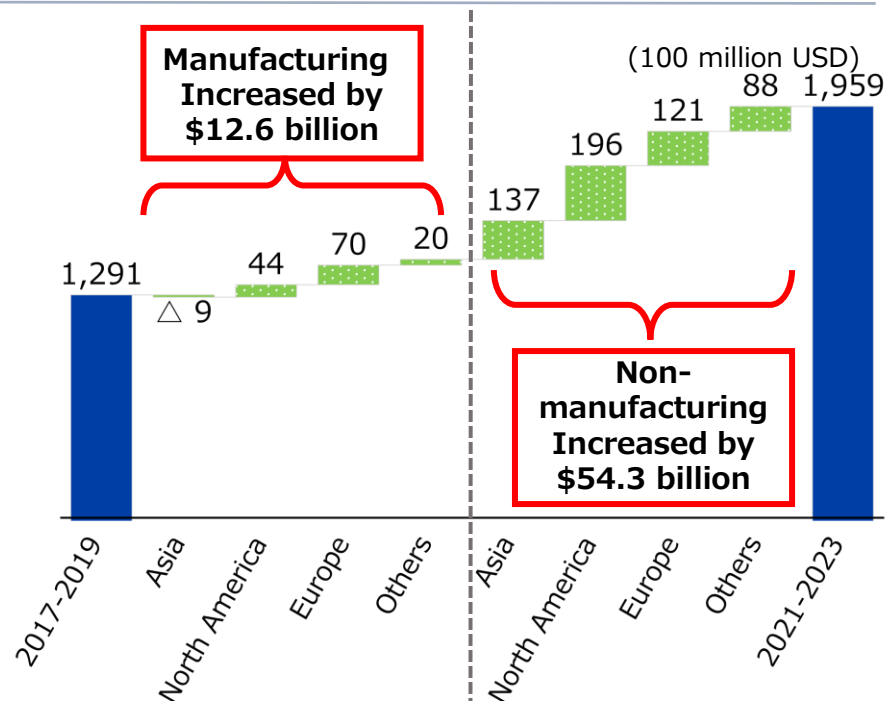
Japan's Outward Direct Investment Return and Rate of Return



Note: Calculation of the rate of return on FDI: The rate of return on outward FDI = Return on FDI for the period/Outward FDI beginning and ending stock x 100 (%)

Source: "External Assets and Liabilities of Japan" (Ministry of Finance, Bank of Japan,) "Balance of Payments Statistics" (Ministry of Finance, Bank of Japan)

Change in Outward FDI Return (Annual Average)



Note: Outward FDI returns are annual averages for both 2017-2019 and 2021-2023.

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

Key Points

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2. Fragmentation and Realignment in FDI

- Global investment flows fall for second straight year; Japanese firms enter recovery phase

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- Growing number of subsidies and trade controls in strategic sectors such as semiconductors and EVs introduced

4. Increased Burdens on Businesses

- Compliance work becomes more complex due to expanded export controls and stricter enforcement

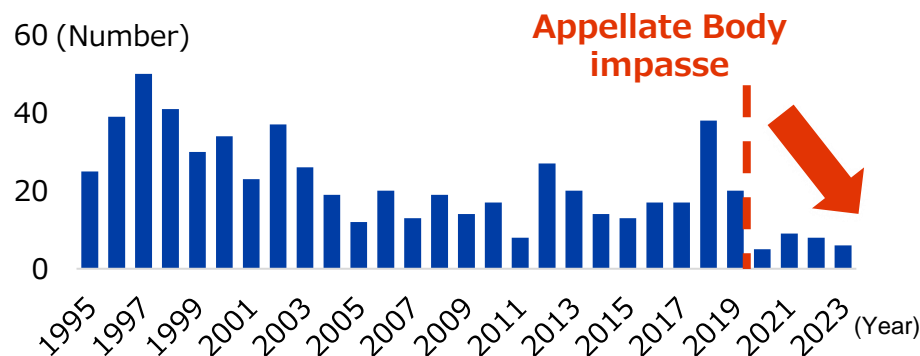
5. Sustainability and New Headwinds

- Changes to EU rules on human rights and the environment; anti-ESG movements affect related policies in the U.S.

1 | WTO Judicial, Legislative Stagnation Continues

- The number of cases of the WTO's **dispute settlement mechanism being used has dropped to levels less than half than what they were** before being suspended. The Multi-Party Interim Appeal Arbitration Arrangement (MPIA) is entering a critical phase to see if it can be used to restore the rule of law at the WTO.
- The Initiative on E-Commerce negotiations have concluded. However, **the U.S. withdrew its support regarding the free flow of data** and other issues, suggesting **even developed countries failed to align themselves toward liberalization**.

**Number of WTO Dispute Settlements
(Requests for Consultation) and MPIA Flow**



Source: WTO

E-Commerce Rule Formation at the WTO

Past Initiatives

Joint Statement Initiative (JSI): 90 countries and regions participated and held talks. In December 2023, the JSI announced the substantial conclusion to a part of the negotiations.

Moratorium on Non-Imposition of Tariffs:

Continuation of the practice of not imposing custom duties on electronic transmissions since 1998; extension agreed upon at the 13th WTO Ministerial Conference in Feb-Mar 2024.

First proceeding

Panel

Second proceeding

Appellate Body
*Impasse since 2019

MPIA participating countries

MPIA Interim Appellate Arbitration

or

Non-MPIA-participant

Ad hoc
(Bilateral Agreement)
Arbitration

Degree of support for liberalization

Japan
Australia
Singapore

Leading negotiations as co-chairs of JSI.

Europe

Allows discretion regarding measures to protect personal data and privacy.

U.S.

Withdrew support for data free flow and source code proposals to retain policy space.

China

Security of each country's core interests is a prerequisite for data distribution.

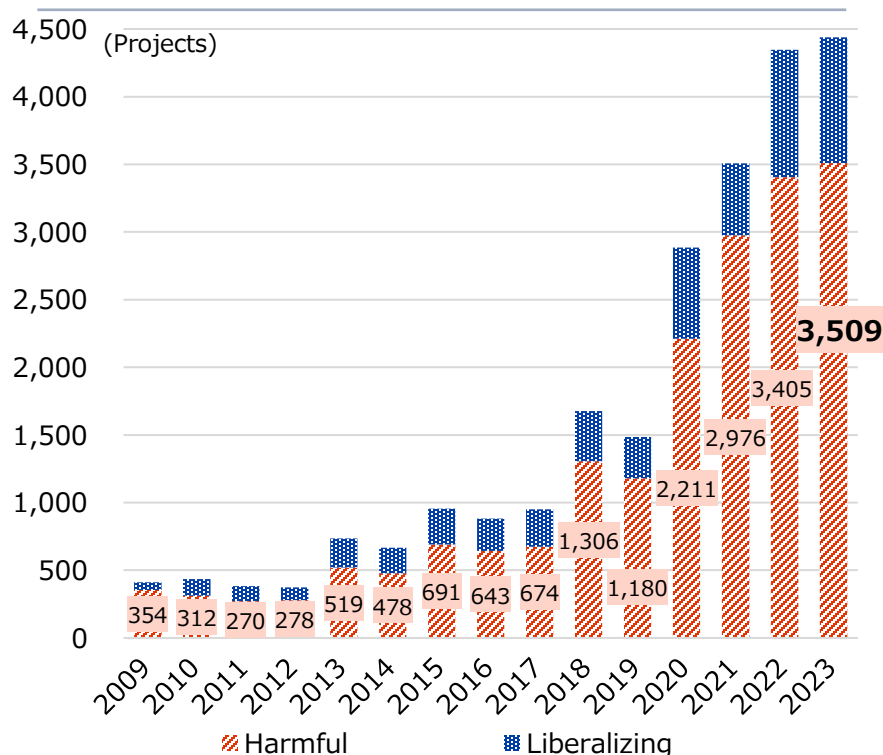
India
South Africa,
etc.

Cautious position on making permanent the moratorium on non-tariff imposition.

2 | Policy Interventions Harmful to Trade Triple

- There were 4,440 instances of policy interventions globally in 2023. Of these, **over 3,500 are “harmful measures” negatively impacting trade and investment, three times more than in 2019 (pre-pandemic)**.
- The U.S. implemented the largest number of harmful measures (521), followed by Italy (274), Germany (254), and Canada (249). By contrast, China was the hardest hit country with 1,295 cases.

Policy Interventions in Trade and Investment (Global)



Note: 1) Harmful measures are government interventions that impede the flow of goods, services, and capital across borders and adversely affect other countries. Liberalization measures are those that promote the flow of goods, services, and capital across borders. 2) The number of cases only counts measures introduced and reported within the same year (both tables). 3) Aggregation based on registration data as of July 2, 2024.

Harmful Measures in 2023 (Top 10 by Country)

Country Contribution to Harmful Interventions		Country Exposure to Harmful Interventions	
Country	Number of Measures	Country	Number of Measures
U.S.	521	China	1,295
Italy	274	Germany	1,148
Germany	254	France	1,069
Canada	249	Italy	1,040
Brazil	202	Netherlands	1,000
India	198	UK	999
France	173	Korea	993
Spain	170	Spain	965
Russia	164	U.S.	945
UK	146	Japan	921

Note: In many cases, the introduction of harmful measures by a specific country affects multiple partner countries, and the total number of cases of damage exceeds the number of measures introduced.

Source: Global Trade Alert, St. Gallen Trade and Prosperity Fund.

3 | The West Deals with “Countries of Concern”

- The Biden administration has restricted the involvement of “countries of concern” in the supply chain as a condition for granting industrial subsidies. It expanded the scope of export controls, and doubled the number of concerned trading entities. It has also announced restrictions on leading-edge investments by U.S. companies.
- The EU also began a series of investigations of Chinese companies under the Foreign Subsidies Regulation, which came into effect in July 2023.

Biden Administration's Response to Countries of Concern (Examples)

Semiconductors

Clarify restrictions on recipients of CHIPS grants
⇒ Covers joint research and technology licensing

EVs

Limit procurement of parts (e.g. batteries) for tax deductible vehicles from foreign entities in “countries of concern”
 (*) China, Russia, North Korea, Iran

Export controls

EAR Listed Entities
1,255 entities added (China: 355)
 Total 2,825 **(Doubled in 4 years)**
 (Note) Jan 20, 2020 - May 9, 2024

Investment

U.S. companies investing in China
 Banned: **advanced semiconductors**
quantum and artificial intelligence
 Note: Not yet effective.

Source: U.S. government data

EU Investigations of Chinese Companies (2024)

Subject of Investigation	Survey Month	Case Overview [Public Procurement]
CRRC (China Central Rolling Stock Corporation) Group (railroad)	Feb	Railways in Bulgaria. Contract value (estimated) €610 million. The survey was completed when the company declined to bid.
LONGi Green Energy Technology (solar cells)	Apr	Solar Power Plants in Romania. Contract value (estimated) approximately €375 million. After the survey began, both firms declined to bid and the survey was completed.
Shanghai Electric Group		
Wind turbine operator (anonymous)		The EU plans to investigate wind power facility projects in Spain, Greece, France, Romania, and Bulgaria.
Security equipment manufacturer (anonymous)		Nuctech's Polish and Dutch locations, which manufacture airport baggage scanners, are the subject of the investigation.

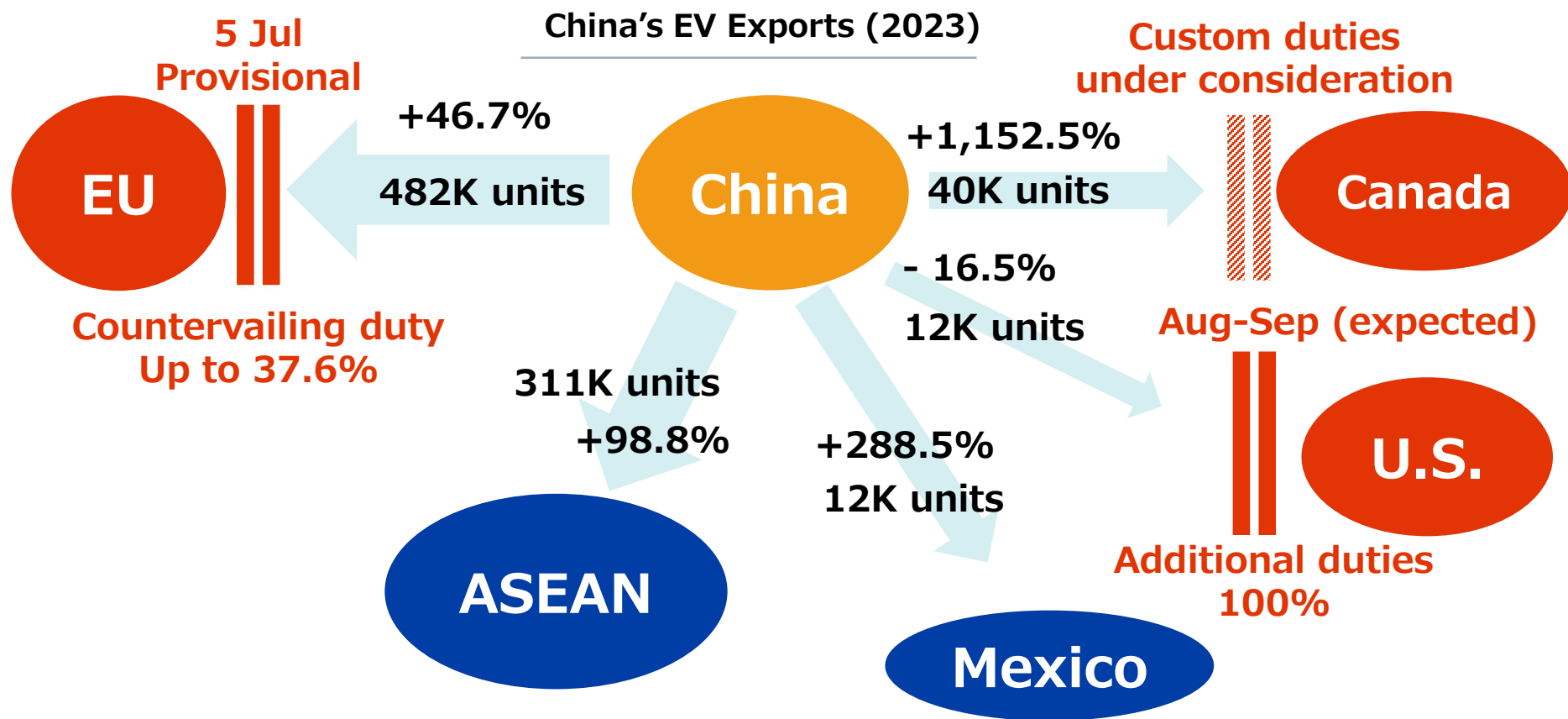
Note: The survey covers parent companies.

Source: European Commission data and media reports

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4 | Tariffs Used to Counter China's EV Export Blitz

- **China's EV export** strategy is well underway with **exports reaching nearly 1.55 million units in 2023**. Exports to the EU (31.1%) and ASEAN countries (20.1%) now make up more than half of all exports.
- Europe and the U.S. claim that Chinese EVs are being overproduced due to government subsidies. **Tariff measures** have been invoked or are being considered.



Note: 1) The number of units refers to the number of EVs (HS 8703.80) exported from China. The thicker the arrow the higher the number of units. Percentage (%) is compared to the previous year. 2) The country/region quota refers to countries/regions where the red color is explicitly invoking (or considering) restrictive measures on EV imports to China.

Source: Global Trade Atlas (S&P Global), government data from various countries and regions.

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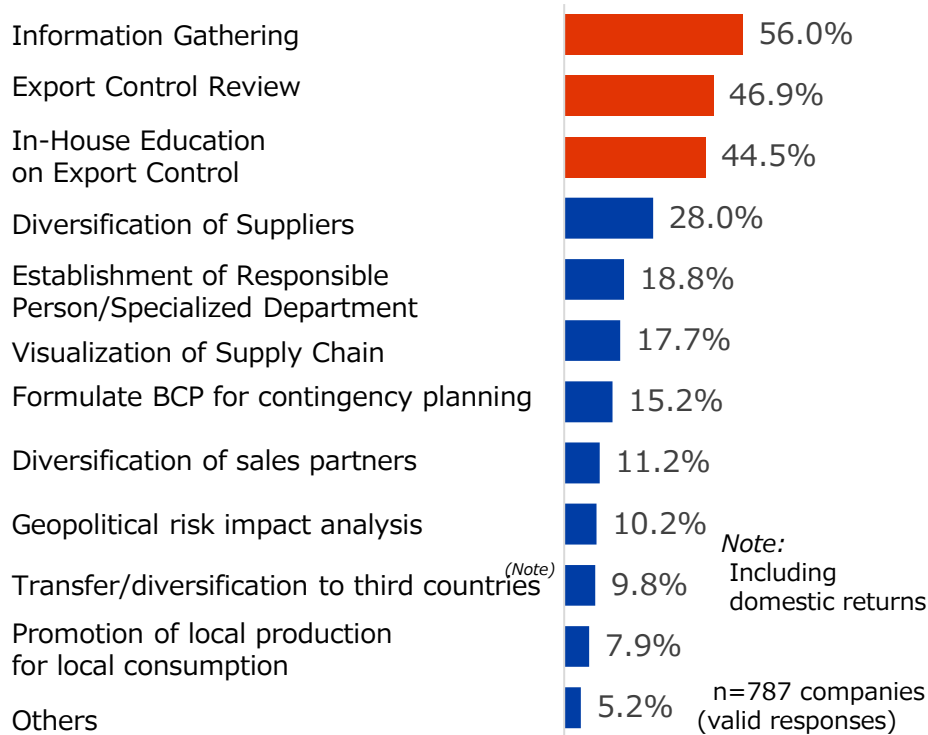
5. Sustainability and New Headwinds

- Changes to EU rules on human rights and the environment; anti-ESG movements affect related policies in the U.S.

1 | Export Controls: A Top Response to Geopolitical Risks

- Growing policy interventions by major countries amid heightened geopolitical risks are forcing Japanese companies to respond in a variety of ways.
- **Export control (screening and training) reviews are a top response**, followed by diversification of suppliers. Japanese companies have a keen interest in gathering information about export controls, particularly U.S. regulations.

Responses to Geopolitical Risks



Information is being strengthened

Topic (responses: 539)	n	Ratio
U.S. Export Administration Regulations (EAR)	386	72%
Japan's export control and Economic Security Policy	345	64%
China's Anti-Foreign Sanctions Law and Others	287	53%
U.S. Entity List (EL) additions and revisions	236	44%
Country Risks in China	198	37%
Regulations related to semiconductors and its equipment	198	37%
Data Security Regulations in China	125	23%
Regulations related to critical minerals	99	18%
Country Risk in the U.S.	92	17%
Others	13	2%

Note: Multiple responses are allowed for both the left chart and the right table.

Source: JETRO survey (conducted in March 2024 for companies participating in the webinar "Economic Security - Global Trends and the Response of the Japanese Government and Businesses")

2 | Export Controls: Company-Wide Approach Essential

- **Executive-level commitment is essential** for export controls. Those bearing responsibility and relevant departments must be prepared to make a decision concerning sensitive transactions.
- It is recommended that **business units be involved in compliance efforts so that there are no risks that any unit violates export control regulations during their transactions.**

Guidelines for Compliance with Export Controls

(2) Establish an internal system

- ◆ It is desirable to have an independent department or department separate from the sales department.
- ◆ **Responsible person** (executive), **also appointed responsible person in export control department and each business unit.**

(5) Documentation/report/correction

- Examples: permits, end-use certificates, customs clearance documents, records of electronic (technology) transfer, invoices
- *5 years of recordkeeping under the EAR**
- ◆ Violations of laws, regulations, and internal rules are reported to the company's upper management and regulatory authorities. Implement measures to prevent recurrence.

(1) Establish policy and Inform employees

(3) Implement export controls

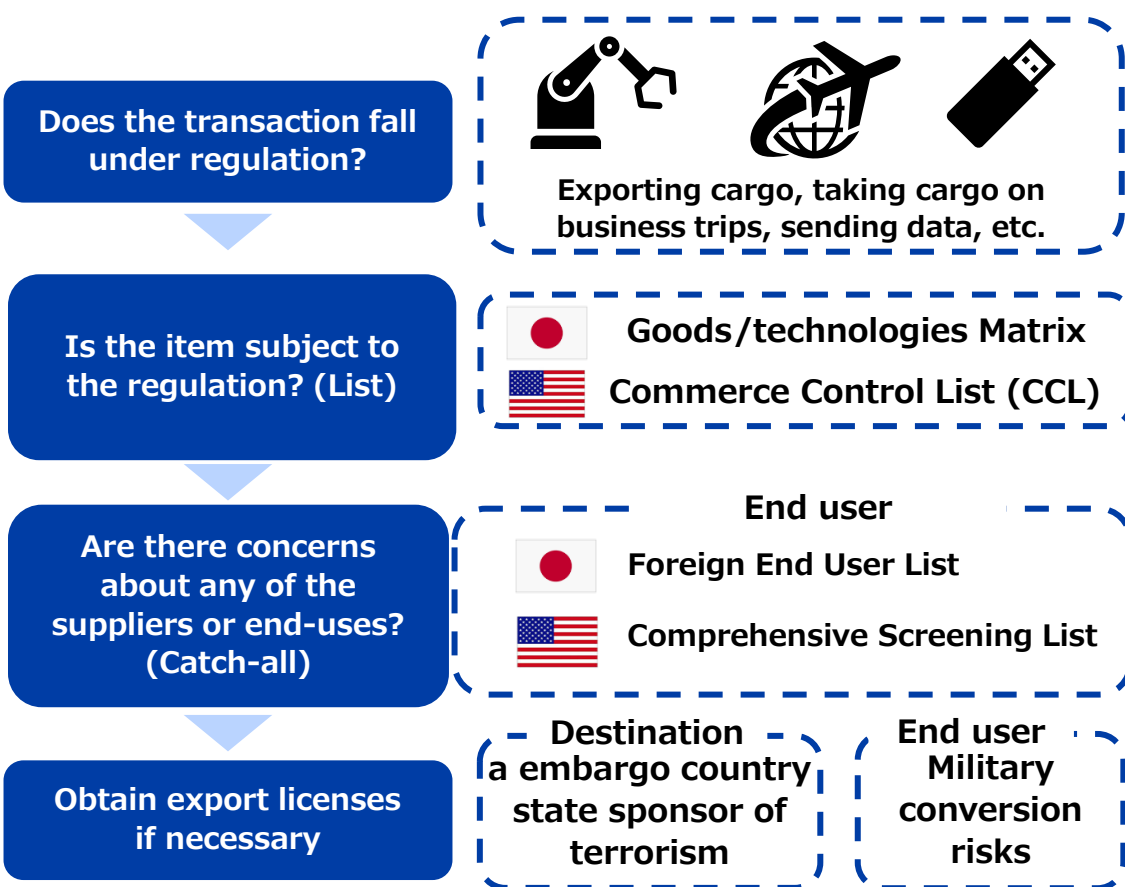
- ◆ Check whether license is required.
- In case of external procurement, inquire with the supplier about technical specifications and applicable regulations.**
- ◆ Verify the following
 - a) Is the product used for purposes other than those stated?
 - b) Are there any "red-flags" for customers or end-users?

(4) Evaluation and education/training

- ◆ Evaluation of whether management operations are being carried out in accordance with laws and regulations.
- *Recommended: once a year, preferably by an expert outside the sales department.**
- ◆ Training should be provided to all departments involved in export and technology transfer.

3 | One-Time Check for Japan and U.S. Controls

- **JETRO provided guidelines for simultaneous compliance with export controls in Japan and the U.S. laws and regulations.**
- Considering the re-export (extraterritorial controls) of the U.S. EAR, checking compliance both for Japan and U.S. controls is now becoming a new standard.



Source: Prepared based on JETRO's Guideline and U.S. and Japanese government materials.



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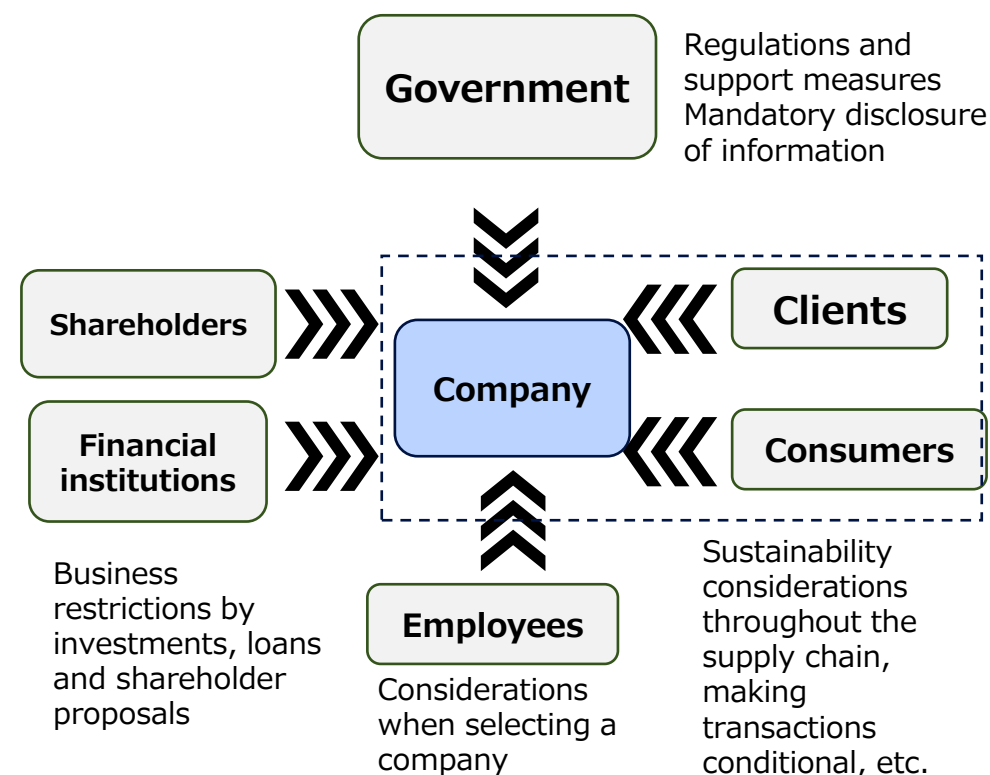
5. Sustainability and New Headwinds

- Changes to EU rules on human rights and the environment; anti-ESG movements affect related policies in the U.S.

1 | Growing Pressure to Address Sustainability

- Companies have come under scrutiny in recent years **from various stakeholders** regarding their sustainability initiatives in areas such as decarbonization and human rights.
- There is increasing demand for sustainability-related information disclosure. ISSB standards are the de facto international sustainability disclosure standards. More than 20 countries/regions have adopted (or have considered introducing) these standards.

Pressure on Companies to Act on Sustainability



Source: Ministry of Economy, Trade and Industry, Agency for Natural Resources and Energy

ISSB Standards (IFRS S1 and S2)

- In June 2023, the International Sustainability Standards Board (ISSB) issued **IFRS S1 (General Requirements)** and **IFRS S2 (Climate-related Disclosures)** international sustainability disclosure standards.
- The standards apply to annual reporting periods disclosed on or after January 1, 2024. However, Several transitional allowances will be granted in **the first year of reporting**.

Countries/regions that have decided to adopt or are considering adopting ISSB standards

Area	Country/Region
the Americas	Bolivia, Brazil, Canada, Costa Rica
Asia and Oceania	Australia, Bangladesh, China, Hong Kong, Japan, Malaysia, Pakistan, Philippines, Singapore, Korea, and Sri Lanka, Taiwan
Europe	EU, U.K.
Middle East & Africa	Kenya, Nigeria, Turkey

Note: As of May 28, 2024.

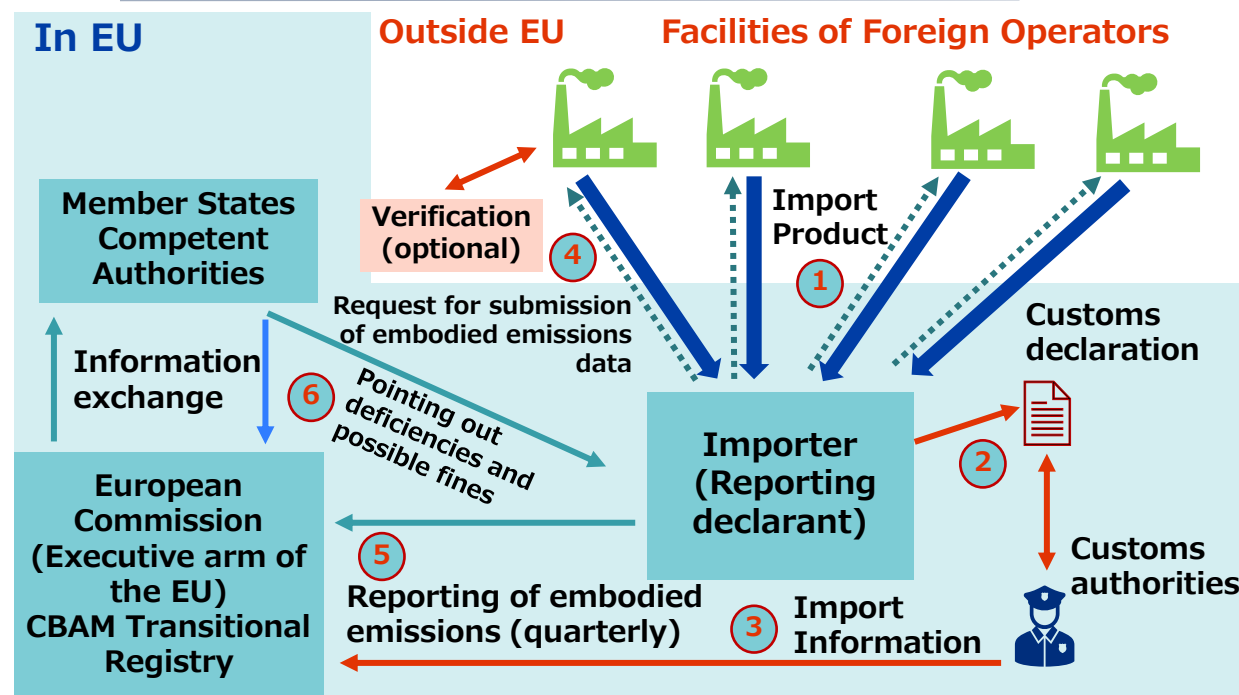
Source: International Financial Reporting Standards (IFRS) Foundation
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2 | Response to the EU's Carbon Border Adjustment Mechanism (CBAM)

- CBAM started in October 2023; during the transition period until 2025, importers of covered goods are obliged to report details such as **quarterly total emissions (direct and indirect), carbon price paid in the country of origin**. Full implementation will start in 2026.
- There are concerns about the enormous burden this will put on the manufacturing sector. It has been reported that **only 3% of import companies can get this information**, and there are concerns about its impact on emerging economies.

Reporting Procedures During the CBAM Transition Period

Reactions to CBAM (Industry, Government, International Organizations)



- It is estimated that due to CBAM profits in the manufacturing industry in Europe may decline by **45 billion euros per year**. In France alone, the decline is expected to be 4 billion euros per year.
- **94% of German companies said that their reporting burden is high**. Nearly half (46%) of companies foresee difficulties in obtaining emissions data for reporting from foreign companies outside the EU. **Only 3% said that emissions data is available**.
- Approximately 20% (18.9%) of India's exports to the EU are subject to CBAM. Its government is **considering filing for a dispute settlement with the WTO**.
- The World Bank has issued a report expressing **concerns about the impact on emerging economies whose** CBAM-covered products account for a high percentage of their exports to the EU. The report stressed the need for support to countries such as Zimbabwe (87% of the total) and Mozambique (73.7% of the total).

Source: World Bank, Stuttgart German Chamber of Commerce and Industry, private research institutions, various media reports

Note: In ④, "embodied emissions" refers to emissions from the production process. In ⑥: The European Commission informs the competent authorities of the reporting filers who are scheduled to submit CBAM reports. Spot checks of the reports are carried out and the competent authorities are notified of any deficiencies found. Competent authorities request importers to correct deficiencies or submit outstanding CBAM reports.

*If deficiencies are not corrected, a fine may be imposed.

Source: JETRO, "The EU Carbon Border Adjustment Mechanism (CBAM) Handbook (Basic Version)" (February 2024). Original source is European Commission, "Guidance document on CBAM implementation for installation operators outside the EU" (November 2023).

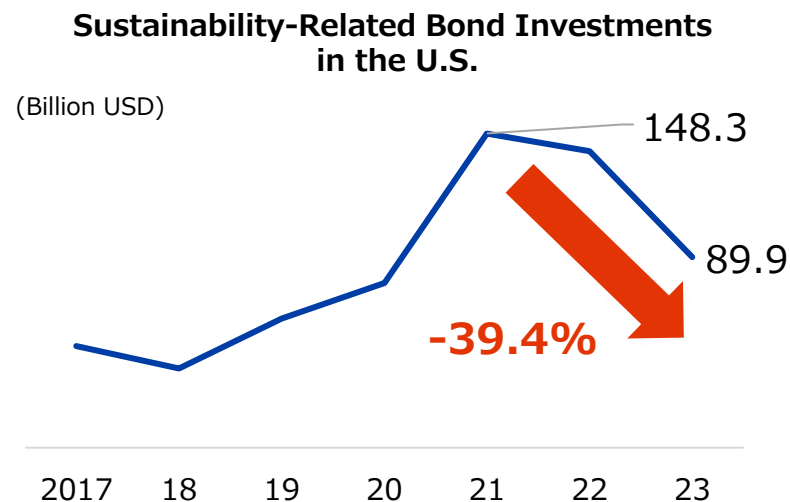
3 Growing Anti-ESG Movement Affecting Europe, U.S. Rule Formation

- The Corporate Sustainability Due Diligence Directive came into force in the EU on July 25. Due to industry opposition, it was **modified to make the scope of obligated companies more limited during the drafting process. This is an unusual revision after a political agreement had already been reached.**
- Sustainability-related bond investments in the U.S. have also declined by nearly 40% in two years. The anti-ESG movement is heating up, especially among Republicans; elections in November 2024 could affect ESG.

EU Corporate Sustainability Due Diligence Regulations

EU Corporate Sustainability Due Diligence Directive	
Enforcement	July 25, 2024 (Legislation to be enacted by Member States by July 26, 2026)
Subject (of taxation, etc.)	-Intra-EU companies: 1. Annual net worldwide turnover exceeding €450 million (proposed political agreement: exceeding €150 million) and 2. Companies with more than 1,000 employees -Companies established in a third country: Companies with annual net turnover of more than EUR 450 million in the EU
Obligation	-To conduct risk-based due diligence to prevent, mitigate, and end any corporate activities either it or its subsidiaries or business partners are engaged in with potential adverse impacts on human rights or the environment -To develop and implement a climate change transition plan in compliance with the Paris Agreement (1.5 degree target)
Penalties	-Fines of up to 5% of net worldwide turnover for non-compliance -Possible exclusion from EU public procurement
Civil Liability	Held liable for damages

ESG Trends in the U.S.



Note: Total of green, social and sustainability bonds.

Source: Climate Bonds Initiative

Anti-ESG regulations passed in Republican states

19 states (e.g., Florida)	Statement issued in opposition to the Biden administration's promotion of ESG
Florida, Texas, Kansas, etc.	Prohibits ESG considerations in investment evaluations of state agencies and pension funds

Outline of JETRO World Trade and Investment Report 2024

Chapter I: World and Japanese Economy and Trade

Section 1 Trends in the World Economy

Section 2 Global Trade

Section 3: Current State of Japan's Economy and Trade

[Column I] Japan's Exports of Agricultural and Fishery Products and Foodstuffs

Chapter II: Global FDI and Japan's FDI

Section 1: Global FDI

[Column II] Chinese Firms Advancing Near-Shoring in Mexico

Section 2: Industry Trends in Major Countries and Regions

Section 3: Japan's FDI and Corporate Trends

Chapter III: Trends in Global Trade Rulemaking

Section 1: Trade Policies of Major Countries and Regions

Section 2: Trends in Global Rulemaking

Section 3: Efforts Toward a Sustainable Society

[Column III] British Companies' Consumer Decarbonization Business



You can find the full text, including the report available here.

For more information, please use the QR code/URL below.



<https://www.jetro.go.jp/world/gtir/>

Key Points of JETRO Global Trade and Investment Report 2024

I. World and Japanese Economy and Trade

- World trade declined in both value and volume in 2023. With easing inflationary pressures, import demand is expected to grow in 2024, but it is highly uncertain whether trade will recover due to geopolitical tensions and increasing protectionist measures.
- Among major countries, there is a noticeable declining trend in trade between the U.S.-China and Japan-China. On the other hand, China is expanding its global market share in three major export items: lithium-ion batteries, EVs, and solar PV cells. Western countries are becoming increasingly wary of an oversupply of Chinese products.
- It has been three years since the yen began to depreciate, and Japanese exports have been generally sluggish despite the acceleration of the yen's fall. Export volume will continue to decline in 2024. On the other hand, automobile exports have shown underlying strength since 2023. Exports of foodstuffs are also expanding, driven by the weak yen.

II. World and Japanese Direct Investment

- Global FDI declined in 2023. Cross-border M&As hit a 10-year low due to a deteriorating financing environment and other factors. Tighter screening of FDI by Western countries also contributed to restrained investment.
- Since the COVID-19 pandemic, the number of investments between Western countries, Japan and China has declined significantly in both directions. There is fragmentation and restructuring in new investment flows. On the other hand, Chinese companies are accelerating investment in the Middle East and ASEAN.
- Japanese outward FDI increased in 2023, with a recovery in M&A, as well as the announcement of new greenfield investments for the first time in four years. Investments to Vietnam and India both reached record highs. Combined they exceeded the amount of investment to China for the first time.

III. Trends in Trade Rules Development

- Policy interventions related to economic security are increasing. Subsidies, export controls, tariffs, and other policies for resilient supply chains and achieve technological leadership have resulted in trade and investment uncertainty.
- Semiconductors and EVs are at center stage as strategic industries. While promoting domestic production, protectionist rulemaking is being pursued to reduce dependence on countries of concern in the security manner.
- There is a growing backlash to policies related to sustainability: In the EU, environmental and human rights due diligence regulations have been softened due to industry opposition; in the U.S., the anti-ESG movement is growing. Risk of recession of sustainability policies due to political situations in major U.S. and European countries has also emerged.

JETRO World Trade and Investment Report 2024

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- **Note:** The original report is available only in Japanese. Figures may not sum up to the total due to fractional units.
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