



Japan External Trade Organization

2011 JETRO Global Trade and Investment Report
International Business as a Catalyst for Japan's Reconstruction

Presentation Document

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environment

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Note: This document is the translation of the Japanese version report published in August. Most of Data used in this document are those available as of July 2011.

Chapter 1

The World Economy, Trade and Direct Investment

The world economy is increasingly polarized and multi-polarized

Downside risks still remain

Since 2010, the world economy has generally been on track for recovery, although the pace of recovery has varied between developed countries and developing countries. According to the IMF's estimate as of April 2011, the world's real GDP growth (on a purchasing power parity (PPP) basis) was 5.0% in 2010, representing a rapid recovery from 2009 when the effects of the global financial crisis resulted in a drop of 0.5%; the rate is expected to keep rising in 4% range through 2011 and 2012. While developing countries particularly in Asia are generally expected to sustain steady growth, for developed countries, on the other hand, given efforts to reduce household debt in the U.S. and the worsening sovereign risk of southern European countries, downside risks still remain. In June, the IMF revised its estimated growth for 2011 down to 4.3%.

Fig. I - 1 GDP growth and contribution by country and region (%)

	2007		2008		2009		2010		2011 (Estimate)		2012 (Estimate)	
	Percent change	Contribution	Percent change	Contribution	Percent change	Contribution	Percent change	Contribution	Percent change	Contribution	Percent change	Contribution
U.S.	1.9	0.4	0.0	0.0	-2.6	-0.5	2.8	0.6	2.8	0.5	2.9	0.6
E U 27	3.2	0.7	0.7	0.2	-4.1	-0.9	1.8	0.4	1.8	0.4	2.1	0.4
Euro Zone	2.9	0.5	0.4	0.1	-4.1	-0.6	1.7	0.3	1.6	0.2	1.8	0.3
U.K.	2.7	0.1	-0.1	-0.0	-4.9	-0.2	1.3	0.0	1.7	0.0	2.3	0.1
Japan	2.4	0.2	-1.2	-0.1	-6.3	-0.4	3.9	0.2	1.4	0.1	2.1	0.1
East Asia	10.8	1.9	7.0	1.3	5.8	1.1	9.3	1.9	8.0	1.7	8.0	1.8
China	14.2	1.4	9.6	1.1	9.2	1.1	10.3	1.3	9.6	1.3	9.5	1.4
South Korea	5.1	0.1	2.3	0.0	0.2	0.0	6.1	0.1	4.5	0.1	4.2	0.1
ASEAN	6.7	0.3	4.4	0.2	1.4	0.1	7.5	0.3	5.4	0.2	5.6	0.2
Thailand	5.0	0.0	2.5	0.0	-2.3	-0.0	7.8	0.1	4.0	0.0	4.5	0.0
Singapore	8.8	0.0	1.5	0.0	-0.8	-0.0	14.5	0.1	5.2	0.0	4.4	0.0
Malaysia	6.5	0.0	4.7	0.0	-1.7	-0.0	7.2	0.0	5.5	0.0	5.2	0.0
Vietnam	8.5	0.0	6.3	0.0	5.3	0.0	6.8	0.0	6.3	0.0	6.8	0.0
India	9.9	0.4	6.2	0.3	6.8	0.3	10.4	0.5	8.2	0.5	7.8	0.4
Central and South America	5.7	0.5	4.3	0.4	-1.7	-0.1	6.1	0.5	4.7	0.4	4.2	0.4
Central and Eastern Europe	5.5	0.2	3.2	0.1	-3.6	-0.1	4.2	0.1	3.7	0.1	4.0	0.1
Russia	8.5	0.3	5.2	0.2	-7.8	-0.3	4.0	0.1	4.8	0.1	4.5	0.1
Middle East and Northern Africa	6.2	0.3	5.1	0.2	1.8	0.1	3.8	0.2	4.1	0.2	4.2	0.2
Sub-Saharan Africa	7.2	0.2	5.6	0.1	2.8	0.1	5.0	0.1	5.5	0.1	5.9	0.1
World	5.4	5.4	2.9	2.9	-0.5	-0.5	5.0	5.0	4.4	4.4	4.5	4.5
Reference												
Developed Countries	2.7	1.6	0.2	0.1	-3.4	-1.8	3.0	1.6	2.4	1.2	2.6	1.3
Developing Countries	8.8	3.7	6.1	2.7	2.7	1.2	7.3	3.4	6.5	3.1	6.5	3.2
ASEAN+6	8.6	2.5	5.2	1.5	3.6	1.1	8.2	2.6	6.8	2.2	6.9	2.3
BRICS (Including South Africa)	11.1	2.4	7.5	1.7	4.8	1.1	9.0	2.2	8.0	2.1	7.8	2.1
BRICS (Excluding South Africa)	11.3	2.3	7.6	1.7	5.0	1.1	9.2	2.2	8.1	2.0	8.0	2.1

Notes:

(1) The IMF calculates GDP growth using purchasing power parity (PPP).

(2) Contributions by country and region are calculated using the weighted PPP for 2009.

(3) East Asia refers to China, South Korea, Hong Kong, Taiwan and ASEAN.

(4) ASEAN+6 refers to ASEAN, Japan, China, South Korea, India, Australia and New Zealand.

(5) Figures may differ from elsewhere in this presentation due to revisions and differences in original statistics.

(6) The definitions of developed and developing countries follow the World Economic Outlook (IMF).

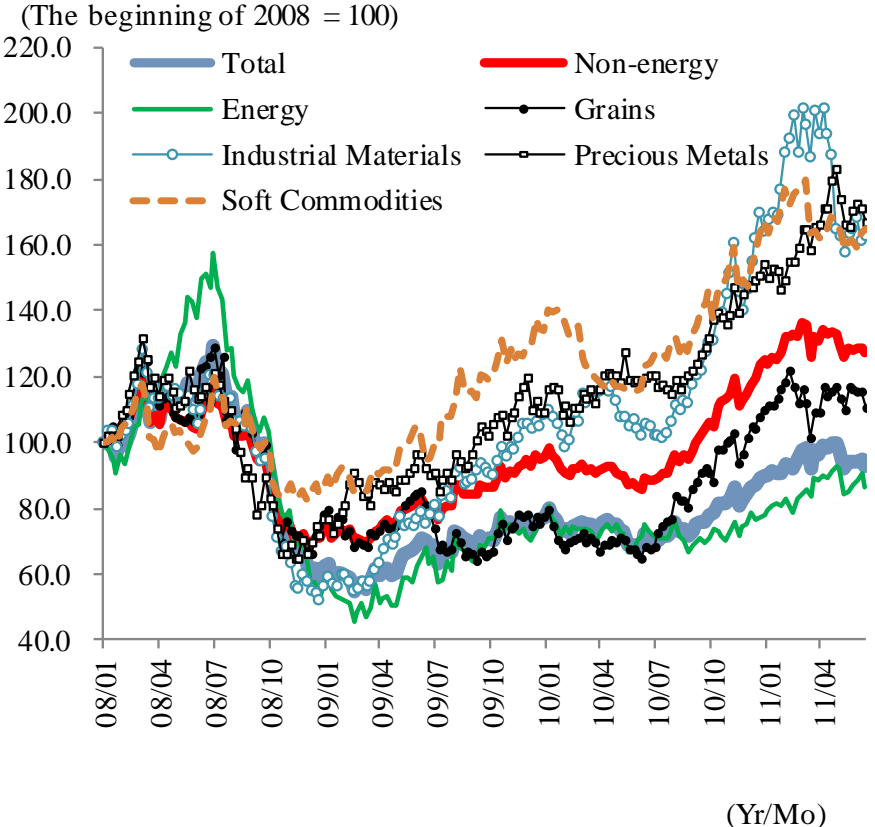
Source: WEO (IMF).

Disparities among countries and regions due to surging commodity prices

■ The high price of commodities increases inflationary pressure

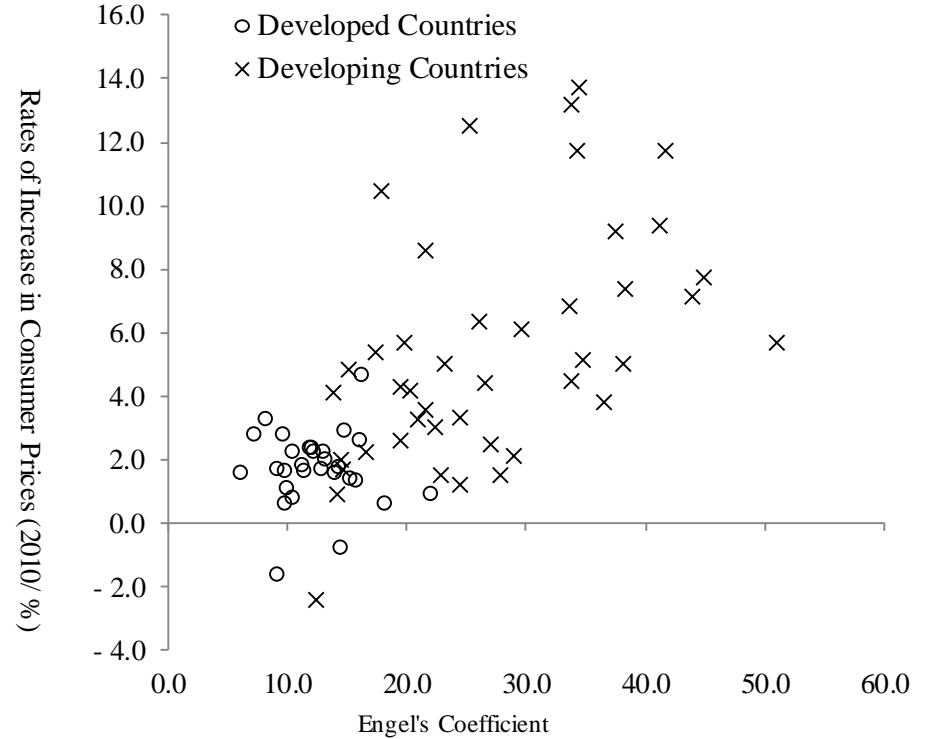
From 2008 to 2010, the increased public expenditures and monetary easing policies of various countries resulted in excessive liquidity in certain markets. Due to the weakened dollar, faltered performances of financial funds (stocks, bonds, etc.) and expectation of demand expansion in emerging countries, these excess funds flowed into commodity markets of gold and other precious metals, industrial materials and grains, resulting in rise of markets. The rise of commodity markets, through rise of imports price, have been causing inflation pressure to grow. Especially the rise of foodstuff prices may cause a serious effect on developing countries whose Engel's coefficients are high.

Fig. I – 2 International commodity market conditions



Note: Soft Commodities are coffee, cocoa, sugar, etc.
Source: Thomson Reuters.

Fig. I – 3 Major countries' Engel's coefficient and rates of increase in consumer prices



(The proportion of consumption expenditure spent on food, average for 2000 - 2010, %)

Note: Classification of developed countries and developing countries follows WEO standards.
Source: WEO (IMF), International Marketing Data and Statistics 2011

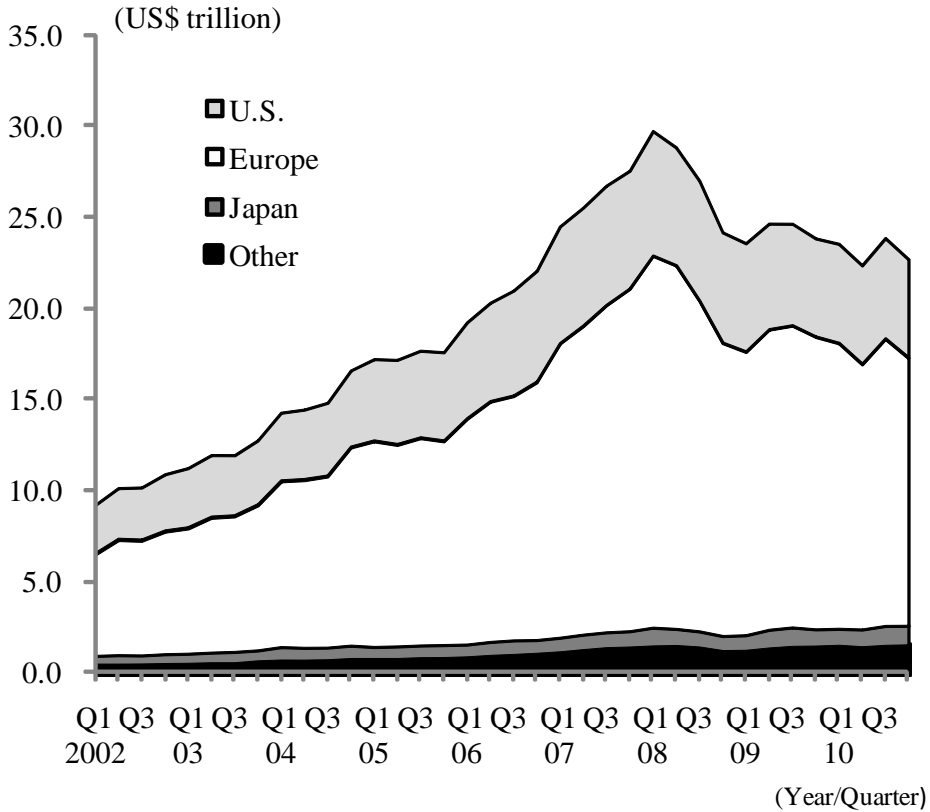
World money flows into developing countries

Money flow in international financial market is polarized as well

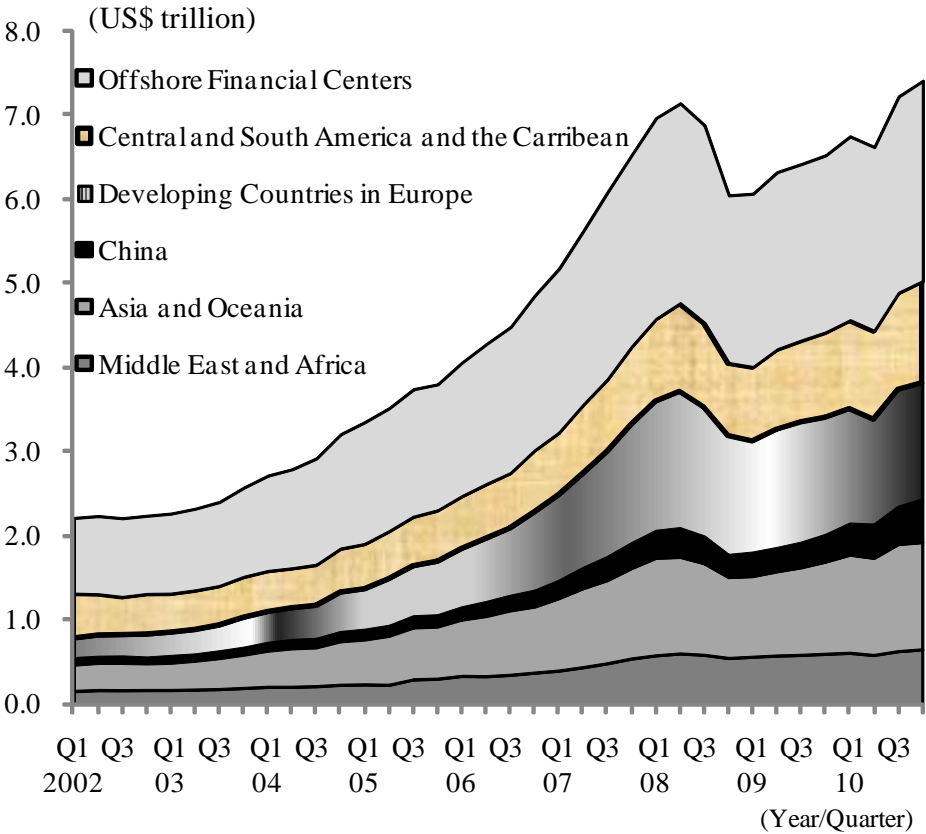
The excessive liquidity flows not only into international commodity markets, but also results in an inflow of funds to developing countries, through international financial markets. With respect to the balance of cross-border bank credit (direct transaction basis) as of the end of 2010 was US\$30.2 trillion, representing only 80% of the peak. Meanwhile, while cross-border bank credit towards developed countries continued to be sluggish, credit towards developing countries are strengthening overall, with credits towards Asia and Oceania, China, Central and South America and Middle East and Africa reaching their highest levels at the end of 2010. The rapid flow of funds towards developing countries may cause not only inflationary pressure, but also significant damage to the real economy.

Fig. I-4 Cross-border bank credit extension transactions (direct transaction basis)

(1) Developed countries and regions



(2) Developing countries and regions; offshore financial centers



Source: Consolidated banking statistics (BIS).

The global imbalance widening again

■ The global imbalance and Asian money flow return

The global imbalance (global imbalance of international balance of payments) that temporarily shrank after the financial crises in 2008 started to grow again starting from 2010. The U.S. current account deficit in relation to the GDP dropped to 2.4% in the fourth quarter of 2009, but thereafter started increasing. This was due to insufficient savings in the government sector, and thus the imbalance is structurally different from the pre-financial crisis period, when the current account deficit expanded due to increases in household consumption. Meanwhile, with respect to the financing of current account deficits, the presence of investment funds from Asian countries and regions is steadily expanding.

Fig. I-5 Current account balances by country and region
(US\$ billion)

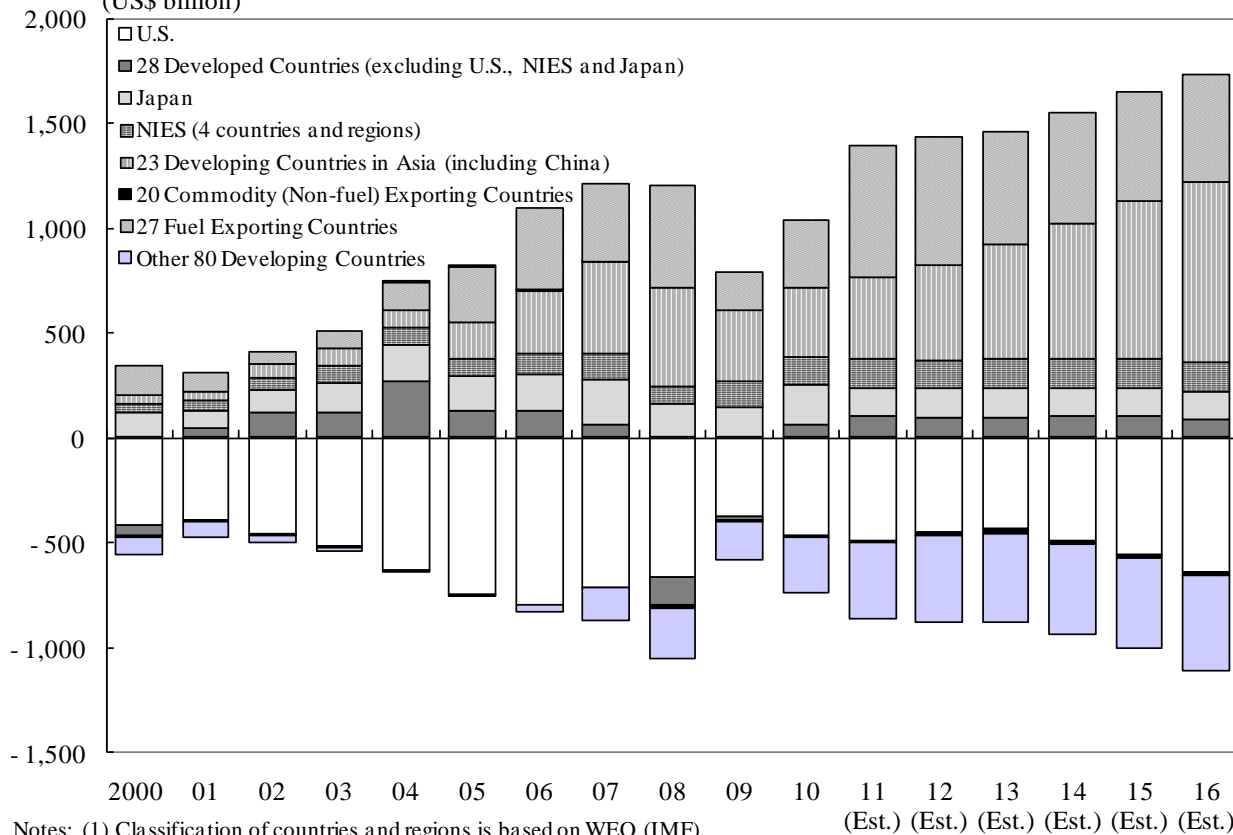
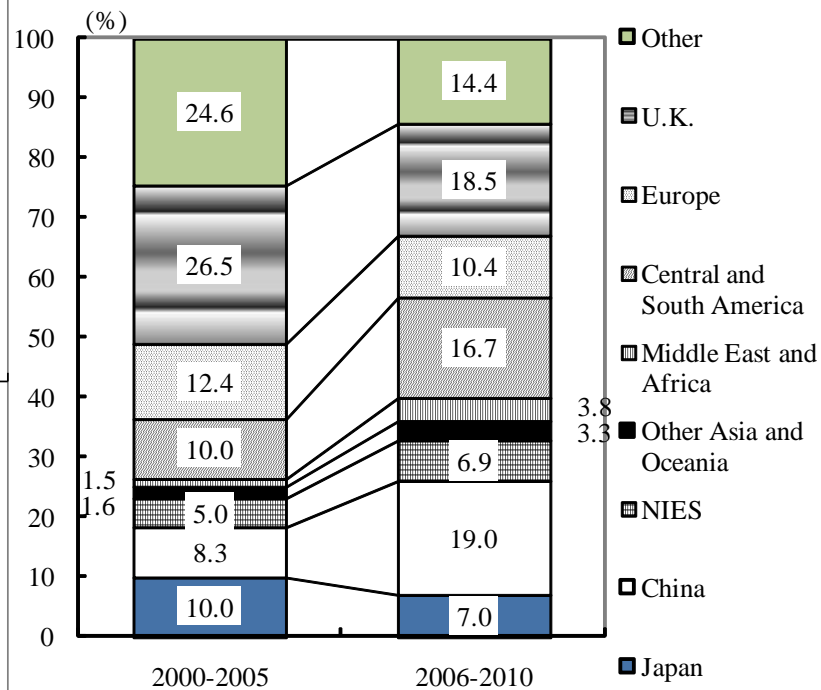


Fig. I-6 Composition ratio of U.S. inward investment amounts by region (flows; cumulative amount for each period)



Note: Investment amounts are the sum of direct investments, investment in securities, and other investments.
Source: U.S. International Transactions (U.S. Department of Commerce).

Notes: (1) Classification of countries and regions is based on WEO (IMF).
(2) NIES are South Korea, Hong Kong, Taiwan and Singapore. (3) (Est.): estimate.
(4) Developing Countries in Asia excludes four countries that belong to fuel exporting countries and commodity (non-fuel) exporting countries.
Source: WEO (IMF).

World trade saw an increase of 22.2% in 2010 (1)

■ Nominal exports marked the second highest percent change of the past 30 years

JETRO estimates that World trade in 2010 based on merchandise trade and nominal exports rose by 22.2% over the previous year to US\$15.495 trillion. Due in part to the backlash from the previous year which had the largest rate of decrease since 1949, the percent change marked the second highest figure over the past 30 years, after 2004, when transactions showed significant growth under a global boom. Though the export price change are no higher than usual, significant volume increase of 16.5% contributed to the increase in trade value. Real exports, excluding the effect of price fluctuation, began recovering in June 2009, and in December 2010 surpassed the peak figures of April 2008 before the financial crisis.

Fig. I-7 World trade indices

	Units	2006	2007	2008	2009	2010
World merchandise trade, export basis	US\$ billion	12,107	13,829	16,030	12,379	15,050
percent change (nominal)	%	16.0	14.2	15.9	- 22.8	22.2
percent change (real)	%	11.6	5.8	5.5	- 12.1	16.5
percent change (price)	%	4.4	8.4	10.4	- 10.7	5.7
World merchandise trade, import basis	US\$ billion	12,261	14,131	16,310	12,530	15,470
percent change (nominal)	%	14.8	15.3	15.4	- 23.2	21.1
percent change (real)	%	9.5	7.3	3.3	- 10.3	14.6
percent change (price)	%	5.3	8.0	12.1	- 12.9	6.5
World trade in services, export basis	US\$ billion	2,832	3,409	3,840	3,384	3,664
percent change	%	13.4	20.4	12.7	- 11.9	8.3
World trade in services, import basis	US\$ billion	2,658	3,170	3,622	3,214	3,503
percent change	%	12.0	19.3	14.3	- 11.3	9.0
World real GDP growth	%	5.2	5.4	2.9	- 0.5	5.0
Industrial production index growth (developed countries)	%	3.1	2.9	- 2.4	- 13.0	6.7
Crude oil						
Average price	\$/barrel	64.3	71.1	97.0	61.8	79.0
Quantity of demand	million bbl/day	85.0	86.4	86.0	84.7	87.4

Notes: (1) 2010 trade value and growth rates are JETRO estimates.

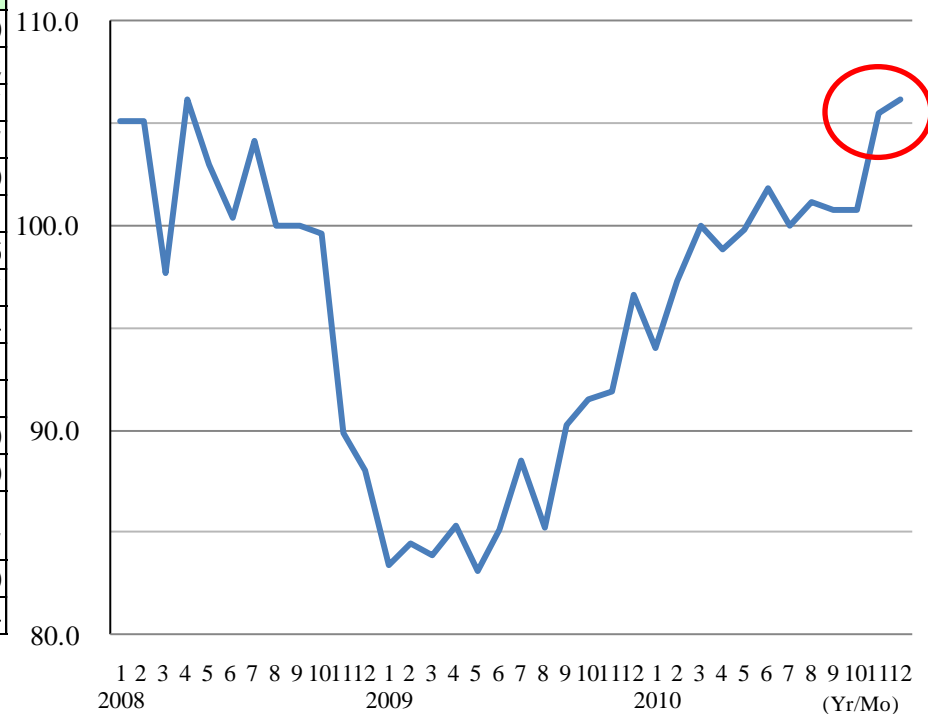
(2) Percent change (real) = percent change (nominal) - percent change (price).

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

(4) Definition of developed countries follows IFS classification.

Sources: IFS (IMF), WEO (IMF), WTO, BP.p.l.c and statistics of individual countries/regions.

Fig. I-8 Trends in world export volume (seasonally-adjusted figures; August 2008 = 100)



Source: The Global Economic Monitor (World Bank).

World trade saw an increase of 22.2% in 2010 (2)

Fig. I-9 World trade by country and region (2010)

(US\$ million, %)

	Exports				Imports			
	Total	Percent change	Share	Contribution	Total	Percent change	Share	Contribution
NAFTA	1,964,473	22.6	13.1	2.9	2,606,566	23.2	16.8	3.8
U.S.	1,278,263	21.0	8.5	1.8	1,913,160	22.7	12.4	2.8
Canada	387,979	22.5	2.6	0.6	391,925	21.9	2.5	0.6
Mexico	298,230	29.9	2.0	0.6	301,482	28.6	1.9	0.5
EU27	5,167,405	12.4	34.3	4.6	5,310,122	13.0	34.3	4.8
EU15	4,573,192	11.8	30.4	3.9	4,650,783	12.4	30.1	4.0
Germany	1,268,890	13.2	8.4	1.2	1,066,723	15.2	6.9	1.1
The Netherlands	573,831	15.1	3.8	0.6	517,154	16.6	3.3	0.6
France	520,889	7.5	3.5	0.3	605,919	8.2	3.9	0.4
Italy	447,418	10.0	3.0	0.3	484,000	16.7	3.1	0.5
Belgium	412,408	11.5	2.7	0.3	390,767	11.0	2.5	0.3
U.K.	419,399	18.2	2.8	0.5	588,070	14.4	3.8	0.6
Japan	767,025	32.1	5.1	1.5	691,447	25.2	4.5	1.1
East Asia	3,735,585	29.7	24.8	6.9	3,448,476	34.3	22.3	6.9
China	1,578,444	31.3	10.5	3.1	1,393,909	38.9	9.0	3.1
South Korea	466,384	28.3	3.1	0.8	425,212	31.6	2.7	0.8
Hong Kong	401,023	21.6	2.7	0.6	442,035	25.3	2.9	0.7
Taiwan	262,017	35.2	1.7	0.6	251,794	44.6	1.6	0.6
ASEAN	1,027,717	29.9	6.8	1.9	935,525	31.0	6.0	1.7
Singapore	352,076	30.4	2.3	0.7	310,973	26.5	2.0	0.5
Malaysia	198,941	26.3	1.3	0.3	164,847	33.0	1.1	0.3
Thailand	195,297	28.7	1.3	0.4	184,519	37.1	1.2	0.4
Indonesia	157,779	35.4	1.0	0.3	135,663	40.1	0.9	0.3
Russia	348,528	49.0	2.3	0.9	211,439	36.2	1.4	0.4
Switzerland	195,318	12.8	1.3	0.2	175,978	12.8	1.1	0.2
India	223,176	35.1	1.5	0.5	328,731	27.6	2.1	0.6
Australia	212,782	37.7	1.4	0.5	193,558	21.5	1.3	0.3
Brazil	201,915	32.0	1.3	0.4	181,649	42.3	1.2	0.4
South Africa	81,311	30.3	0.5	0.2	80,212	23.7	0.5	0.1
World trade (JETRO estimate)	15,049,538	22.2	100.0	22.2	15,469,552	21.1	100.0	21.1
Developed countries	9,087,362	17.6	60.4	11.0	9,612,084	17.8	62.1	11.3
Developing countries	5,962,176	30.0	39.6	11.2	5,857,468	27.0	37.9	9.8
BRICs	2,352,063	34.1	15.6	4.9	2,115,728	37.0	13.7	4.5

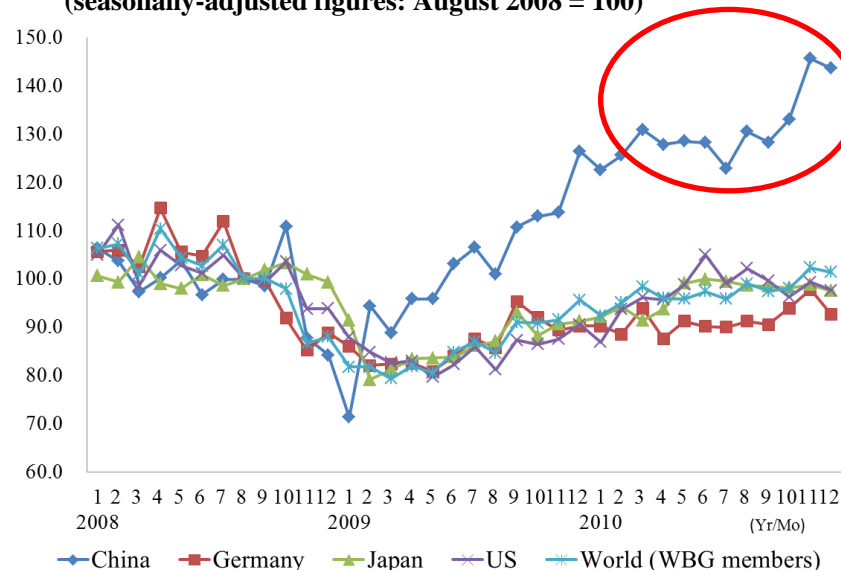
China leads world trade in both exports and imports

China's exports rose by 31.3% over the previous year to US\$1,578 billion. China maintained its largest export country position since 2009. Imports rose by 38.9% to US\$1,394 billion, second in the world after the U.S.. China has showed the highest degree of contribution to the increase in both exports and imports, and is serving to underpin the recovery of world trade. China's import volume began to grow as early as February 2009 and remained at a high level through 2010.

Exports of resource-rich countries grow

Due to a steep rise in international commodity prices, exports of resource-rich countries such as Russia and Brazil surged by over 30%. In addition to increases in energy and metal prices due to increasing demand, from mid-2010, the rapid price rises in food and agricultural raw materials because of weather conditions gave a boost to exports.

Fig. I-10 Import volumes for Japan, major importing countries and the world (seasonally-adjusted figures: August 2008 = 100)



Sources: The Global Economic Monitor (WBG), Real Exports and Real Imports (Bank of Japan).

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Notes: (1) Data for the world, EU27, developed countries and developing countries follow JETRO estimates.

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

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

(4) Definitions of developed and developing countries follow DOT (IMF) standards.

Source: Statistics from individual countries/regions.

Asia's production networks draw tighter around China

■ Asia's production network and trade

In Asia, production networks have been built with China on the center. Comparing the trade intensity index (exports) of 2000 and 2010, the relationships of Asian countries with the U.S. became weaker and those with China became closer. Meanwhile, China has tightened its relationship with the U.S. as a products final demand location.

■ The new image of production network presented by "value-added trade"

In East Asia, a mutually complementary production structure has been established, with Japan and South Korea producing goods that require advanced technology and China and other nations handling the labor-intensive production processes. In this regard, the analytical framework provided by "value-added trade," which breaks down the added value of trade goods into production processes not only gives a clearer picture of the current condition of production networks, but also shows a picture different from that of the traditional concept of balance of payments. For example, the U.S. trade deficit with China according to the "value-added trade" analysis will be significantly narrower than when based on usual calculations. This is a perspective that can replace the traditional concept of "country of origin."

Fig. I-11 Trade intensity index among major countries/regions 2000

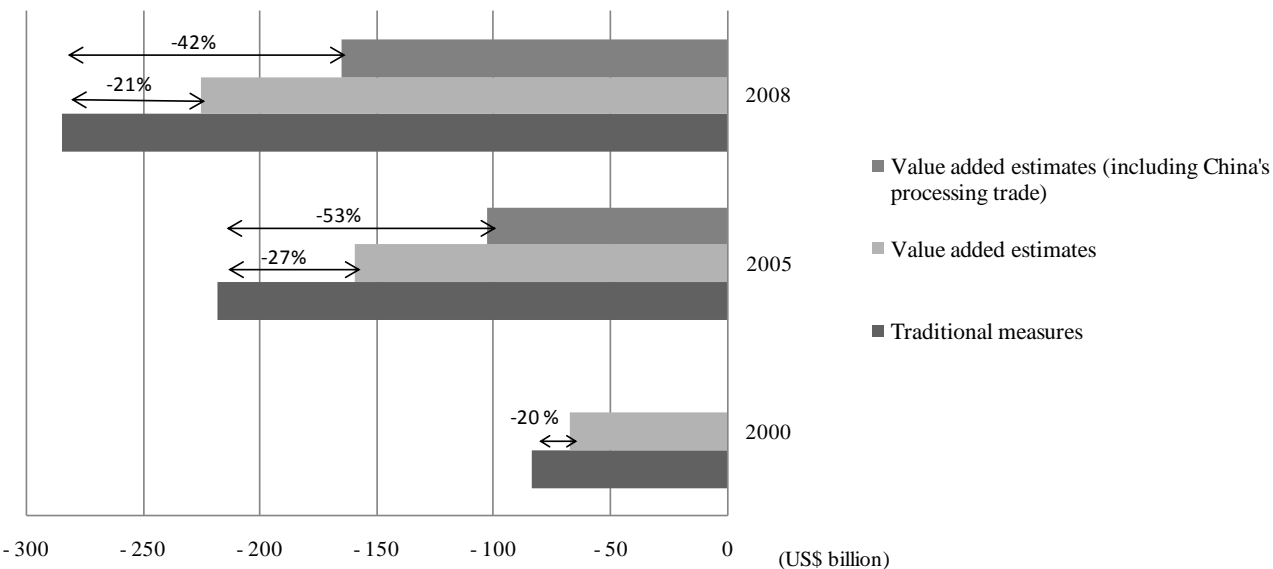
	Japan	China	U.S.	EU15
Japan	-	1.7	1.5	0.4
China	2.7	-	1.0	0.4
Hong Kong	0.9	9.3	1.2	0.4
South Korea	1.9	2.9	1.1	0.4
Taiwan	1.8	0.5	3.8	2.4
Singapore	1.2	1.1	0.9	0.3
Malaysia	2.1	0.8	1.0	0.4
Thailand	2.4	1.1	1.1	0.4
U.S.	1.3	0.6	-	0.6
EU15	0.3	0.3	0.5	-

2010

	Japan	China	U.S.	EU15
Japan	-	1.9	1.1	0.3
China	1.5	-	1.3	0.5
Hong Kong	1.2	2.5	0.8	0.2
South Korea	0.8	5.2	0.8	0.3
Taiwan	1.3	2.7	0.8	0.3
Singapore	0.9	1.0	0.5	0.3
Malaysia	2.1	1.2	0.7	0.3
Thailand	2.1	1.1	0.7	0.3
U.S.	0.9	0.7	-	0.5
EU15	0.2	0.3	0.5	-

Notes: (1) Degree of trade intensity calculated from exports data.
 (2) Cells in gray indicate degree of trade intensity below 1.0.
 Source: Based on statistics from individual countries/regions.

Fig. I-12 U.S. -China trade balance: Traditional statistics versus value added terms



Note: China's processing trade data not available for 2000.
 Source: "Trade patterns and global value chains in East Asia: From trade in goods to trade in tasks" (IDE-JETRO, WTO).

World Trade in Q1 2011 steadily grows

Exports in Q1 2011 expands by 21.2%

Exports of the major 22 countries/regions, where recent data available, increased steadily in the first quarter of 2011, up 21.2% over the same period of the previous year and surpassing the figure of the fourth quarter of 2010, which was 18.9%. The commodity prices rise dragged into 2011, contributing to an increase in export values. The WTO estimates that the world exports in real term, excluding the effect of price fluctuation, will increase by 6.5% for the full year of 2011, historically an average level.

Fig. I-13 World trade (by products, export/import) for major countries/regions

(US\$ million, %)

	Exports						Imports					
	22 major countries/regions' share of world total in 2010	2010				2011	22 major countries/regions' share of world total in 2010	2010				2011
		I	II	III	IV	I		I	II	III	IV	I
Total	64.5	2,177,771 (28.4)	2,392,256 (30.5)	2,483,985 (22.2)	2,660,360 (18.9)	2,638,651 (21.2)	63.5	2,218,444 (28.3)	2,418,105 (31.9)	2,524,770 (22.2)	2,662,953 (19.0)	2,722,766 (22.7)
Machinery and equipment	78.4	1,017,419 (29.1)	1,121,758 (30.0)	1,171,824 (23.6)	1,252,550 (16.1)	1,194,209 (17.4)	69.2	894,955 (28.6)	999,371 (31.2)	1,057,124 (25.0)	1,118,679 (18.2)	1,068,488 (19.4)
General equipment	75.7	305,965 (20.5)	334,719 (28.0)	351,702 (25.0)	377,716 (18.5)	360,962 (18.0)	67.5	274,725 (20.2)	303,094 (28.2)	320,931 (27.7)	336,551 (20.3)	330,442 (20.3)
Electrical equipment	81.4	346,430 (32.5)	392,868 (29.8)	425,931 (23.9)	444,129 (15.9)	406,793 (17.4)	75.7	343,329 (33.8)	391,925 (32.2)	429,468 (26.0)	445,675 (17.0)	409,392 (19.2)
Transport equipment	76.6	270,230 (34.3)	292,164 (33.8)	286,097 (22.6)	317,398 (14.2)	318,265 (17.8)	59.9	193,455 (32.1)	213,795 (35.6)	210,763 (21.0)	234,201 (17.8)	232,042 (19.9)
Precision instruments	81.6	94,794 (31.8)	102,007 (27.4)	108,095 (20.8)	113,307 (14.5)	108,189 (14.1)	74.1	83,447 (30.2)	90,556 (27.0)	95,962 (21.0)	102,252 (17.8)	96,611 (15.8)
Chemicals	64.1	311,359 (30.1)	320,884 (23.1)	329,513 (15.0)	342,034 (14.1)	366,239 (17.6)	61.2	301,751 (31.5)	314,537 (26.2)	325,205 (17.6)	336,375 (16.0)	356,244 (18.1)
Foodstuffs	53.8	117,369 (13.5)	124,855 (9.5)	131,261 (11.7)	146,025 (15.2)	142,948 (21.8)	55.9	128,581 (12.9)	136,082 (10.6)	135,681 (11.0)	152,225 (12.9)	150,348 (16.9)
Iron ore	80.1	12,544 (15.0)	20,417 (94.1)	25,880 (124.0)	27,615 (141.3)	25,048 (99.7)	87.8	20,956 (36.0)	27,795 (71.6)	32,013 (66.3)	35,848 (85.5)	38,892 (85.6)
Mineral fuels	40.8	195,317 (62.3)	216,975 (61.3)	211,606 (26.4)	237,267 (28.6)	253,757 (29.9)	65.7	343,207 (51.3)	369,204 (51.6)	370,075 (21.5)	386,715 (19.2)	456,163 (32.9)
Crude oil	26.3	65,481 (79.6)	74,402 (56.5)	70,973 (18.0)	79,582 (18.3)	81,787 (24.9)	71.1	195,640 (71.1)	216,371 (52.5)	213,456 (14.2)	218,058 (12.6)	261,390 (33.6)
Textiles and textile products	62.2	83,150 (13.3)	94,863 (20.4)	110,406 (18.8)	106,584 (20.6)	102,896 (23.7)	60.6	82,850 (8.4)	84,781 (14.7)	103,785 (15.8)	98,854 (19.0)	100,844 (21.7)
Steel	62.4	85,876 (16.0)	102,775 (43.1)	97,217 (24.0)	101,798 (20.6)	109,654 (27.7)	54.5	75,142 (11.4)	88,198 (45.4)	88,880 (34.1)	89,844 (22.1)	96,602 (28.6)

Notes: (1) Based on data available as of the end of June 2011.

(2) The 22 major countries/regions are Japan, US, Canada, Mexico, Argentina, Brazil, China, Hong Kong, Taiwan, South Korea, Singapore, Thailand, Malaysia, Indonesia, the Philippines, Australia, UK, Germany, France, Switzerland, Russia and South Africa.

(3) Figures in parentheses are YoY growth rates.

Source: Statistics from individual countries/regions.

Japan's trade significantly increased in 2010

■ Japan's trade significantly increased in 2010

Japan's trade on customs clearance basis showed a significant expansion in both exports and imports in 2010, following a serious decrease in 2009, with US\$767.0 billion in exports, up 32.1% year-on-year, and US\$691.4 billion in imports, up 25.2%. Because exports recovered earlier than imports, the trade surplus rose to US\$75.6 billion, US\$47.0 billion higher than the previous year. On a quantity basis, exports rose by 24.2% and imports by 13.9%, showing the first increases in three and four years, respectively. But imports and exports still have not reached pre-financial crisis levels.

■ The Great East Japan Earthquake had a strong effect after April 2011

Japan's trade has been greatly affected by the Great East Japan Earthquake. Exports in April 2011 dropped by 2.4% over the previous year, showing the first decrease in 18 months. In May and June, the stronger yen inflated the dollar-denominated trade value and showed an increase year-on-year, while the yen-based trade value has been falling since March. With respect to imports, partly due to the continuing rise in crude oil price, the percent change have been over 20% since April. As a result, the trade balance turned to deficit in April and May.

Fig. I-14 Japan's trade (2009 to June 2011)

(US\$ million, billion yen, %)

		2009	2010	2010				2011				
				I	II	III	IV	I	II	April	May	June
Dollar-based	Total exports (US\$ million)	580,787	767,025	176,948	184,980	196,470	208,627	199,029	191,978	62,083	58,513	71,382
	(Percent change)	-25.2	32.1	46.4	40.9	28.1	19.0	12.5	3.8	-2.4	2.5	11.1
	Total imports (US\$ million)	552,252	691,447	159,030	166,418	177,722	188,277	194,623	207,228	67,779	68,950	70,499
	(Percent change)	-27.0	25.2	21.5	35.4	25.0	20.5	22.4	24.5	21.6	28.3	23.9
	Trade balance (US\$ million)	28,535	75,578	17,918	18,562	18,748	20,350	4,406	-15,249	-5,696	-10,437	883
	(Difference from same quarter, previous year)	8,703	47,043	27,996	10,168	7,602	1,278	-13,512	-33,811	-13,567	-13,797	-6,448
Yen-based	Total exports (billion yen)	54,171	67,400	16,028	17,066	17,031	17,274	16,421	15,692	5,157	4,760	5,776
	(Percent change)	-33.1	24.4	43.2	33.2	17.8	10.0	2.4	-8.0	-12.4	-10.3	-1.6
	Total imports (billion yen)	51,499	60,765	14,415	15,357	15,409	15,584	16,063	16,949	5,624	5,617	5,707
	(Percent change)	-34.8	18.0	19.2	28.1	14.9	11.3	11.4	10.4	9.0	12.4	9.8
	Trade balance (billion yen)	2,671	6,635	1,613	1,709	1,623	1,690	357	-1,256	-468	-857	69
	(Difference from same quarter, previous year)	608	3,963	2,516	892	574	-18	-1,256	-2,965	-1,197	-1,166	-602
	Export volume index	81.6	101.4	95.7	101.8	103.6	104.5	98.0	93.3	92.9	84.5	102.7
	(Percent change)	-26.6	24.2	43.7	32.8	18.5	8.6	2.5	-8.3	-11.6	-10.8	-2.7
	Import volume index	88.2	100.5	94.8	98.0	103.5	105.8	101.6	100.7	101.0	99.3	101.9
	(Percent change)	-14.4	13.9	13.2	19.2	14.5	9.6	7.2	2.8	1.3	5.5	1.7
	Crude oil import price (US\$/barrel)	60.7	79.2	77.7	81.3	75.7	82.2	96.8	115.0	111.9	118.7	114.7
	(Percent change)	-40.4	30.5	75.4	54.7	7.7	9.3	24.6	41.4	40.1	39.7	43.9
	Average exchange rate (yen/US\$)	93.5	87.8	90.7	92.0	85.9	82.6	82.3	81.7	83.4	81.2	80.5
	(yen appreciation, %)	10.5	6.6	3.2	5.7	9.0	8.6	10.1	12.6	12.0	12.9	12.9

Notes: (1) For volume indices, year 2005 = 100. (2) The exchange rates are interbank rate averages for each period.

(3) Percent change for quarterly data are year-on-year comparisons. (4) Figures of imports in June are nine-digit provisional.

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

Trade with East Asia remains strong

Exports to every major countries/regions expanded in 2010

Japan's exports to major countries/regions all expanded in 2010 over the previous year. When compared with 2008 data, prior to the contraction of trade, 2010 exports to Asian countries such as China, ASEAN and India and to Central and South America countries surpassed the results of 2008, while the exports to the U.S. and EU are still below the 2008 level, reflecting the fact that there is a difference in recovery speed.

Imports from East Asia continue to expand

Imports from most major trading partners also increased. Imports from the U.S. and EU in 2010 fourth quarter expanded slower than previously recorded, whereas imports from China and other East Asian countries continued to grow, resulting in East Asia contributing roughly half of the imports increase in 2010. Furthermore, since crude oil prices have been on rising trend since the beginning of 2009, imports from Middle East largely contributed to the increase.

Fig. I-15 Japan's trade with major trading partners

(US\$ million, %)

			2009	2010	2010				2011	
					I	II	III	IV	I	II
World	Exports	Total	580,787	767,025	176,948	184,980	196,470	208,627	199,029	191,978
		Percent change	-25.2	32.1	46.4	40.9	28.1	19.0	12.5	3.8
	Imports	Total	552,252	691,447	159,030	166,418	177,722	188,277	194,623	207,228
		Percent change	-27.0	25.2	21.5	35.4	25.0	20.5	22.4	24.5
U.S.	Exports	Total	93,653	118,199	26,535	27,610	30,791	33,263	29,485	26,633
		Percent change	-31.2	26.2	36.9	31.2	25.2	16.2	11.1	-3.5
		Percent change (volume)	-35.7	21.2	31.0	28.2	18.7	12.3	6.0	-11.1
	Imports	Total	59,044	67,171	15,931	16,858	16,937	17,446	17,153	19,098
		Percent change	-23.3	13.8	8.0	20.6	18.8	8.7	7.7	13.3
		Percent change (volume)	-23.1	11.0	4.8	23.5	15.6	1.8	5.9	6.6
EU27	Exports	Total	72,374	86,735	20,104	20,511	21,773	24,347	23,271	22,220
		Percent change	-33.8	19.8	21.5	22.0	22.6	14.5	15.8	8.3
		Percent change (volume)	-35.6	24.4	19.3	31.3	29.0	19.5	14.5	-6.2
	Imports	Total	59,130	66,187	15,924	15,771	17,202	17,289	18,075	19,769
		Percent change	-15.4	11.9	8.3	15.4	16.4	8.2	13.5	25.4
		Percent change (volume)	-20.3	12.7	9.4	19.7	16.7	5.3	2.8	6.7
East Asia	Exports	Total	305,621	417,953	95,142	101,586	107,346	113,879	107,976	107,662
		Percent change	-17.7	36.8	62.1	44.9	28.7	21.9	13.5	6.0
	Imports	Total	241,916	306,468	68,479	73,963	79,610	84,416	84,999	89,862
		Percent change	-19.6	26.7	20.4	35.5	27.8	23.9	24.1	21.5
China	Exports	Total	109,630	149,086	32,964	35,458	37,888	42,776	40,004	38,198
		Percent change	-11.6	36.0	60.1	36.7	27.3	28.4	21.4	7.7
		Percent change (volume)	-15.4	25.2	47.2	29.7	18.3	13.8	11.1	-6.1
	Imports	Total	122,545	152,801	33,104	36,874	39,791	43,032	41,592	43,357
		Percent change	-13.9	24.7	15.9	32.8	26.0	24.2	25.6	17.6
		Percent change (volume)	-12.6	18.3	17.9	25.6	17.3	13.2	13.6	5.4
ASEAN	Exports	Total	80,449	112,461	25,872	27,051	29,264	30,274	28,531	29,249
		Percent change	-21.7	39.8	67.7	54.9	29.8	21.1	10.3	8.1
		Percent change (volume)	-24.0	27.9	67.2	39.8	16.9	4.8	-1.6	-2.4
	Imports	Total	77,936	100,619	23,293	24,163	26,213	26,950	28,639	30,293
		Percent change	-26.6	29.1	21.3	39.5	31.6	25.3	23.0	25.4
		Percent change (volume)	-15.1	16.9	17.0	20.4	18.2	12.3	6.5	0.5
Middle East	Exports	Total	21,650	25,182	6,586	6,023	6,246	6,327	6,124	4,897
		Percent change	-35.8	16.3	22.2	42.7	15.7	-4.8	-7.0	-18.7
	Imports	Total	92,850	118,009	30,462	28,366	27,490	31,691	37,658	38,309
		Percent change	-43.9	27.1	61.4	55.5	4.4	7.8	23.6	35.1
South and Central America	Exports	Total	33,116	43,966	11,100	10,812	11,365	10,689	10,989	11,283
		Percent change	-18.6	32.8	31.6	57.0	40.5	10.2	-1.0	4.4
	Imports	Total	20,160	28,359	6,015	6,268	7,462	8,614	8,318	8,687
		Percent change	-26.6	40.7	21.1	42.3	44.8	52.9	38.3	38.6

Note: East Asia includes China, ASEAN, South Korea, Taiwan and Hong Kong. Source: "Trade Statistics" (Japan's Ministry of Finance).

After the earthquake, imports of chemicals and foodstuffs have risen

■ In 2010, exports of automobiles and IT products surged

Automobiles made the greatest contribution to the exports increase in 2010; while the main export market for automobiles remains the U.S. and Europe, exports towards China surged by 82.1%. At the same time, due to the increase in demand associated with the world economy's recovery, IT products such as semiconductor manufacturing equipment increased strongly as well. With respect to imports, due to the rise in crude-oil price, contribution of mineral fuel was high, while machinery and equipment such as TV and air conditioner performed strong as well.

■ After the Earthquake, due to goods domestic supply shortage, imports of chemicals and foodstuffs rose

Due to the Great East Japan Earthquake, production activity was stalled and exports of transport equipment has been declining from March 2011, and exports of electric equipment also contributed negative in April due to suspended production of semiconductors and other electric components such as IC. With respect to imports, mineral fuel continued to increase, while due to domestic supply shortage after the Earthquake, chemicals and foodstuffs imports remarkably rose.

Fig. I-16 Japan' export on monthly percent change (contribution by product, year-on-year comparison, dollar-based)

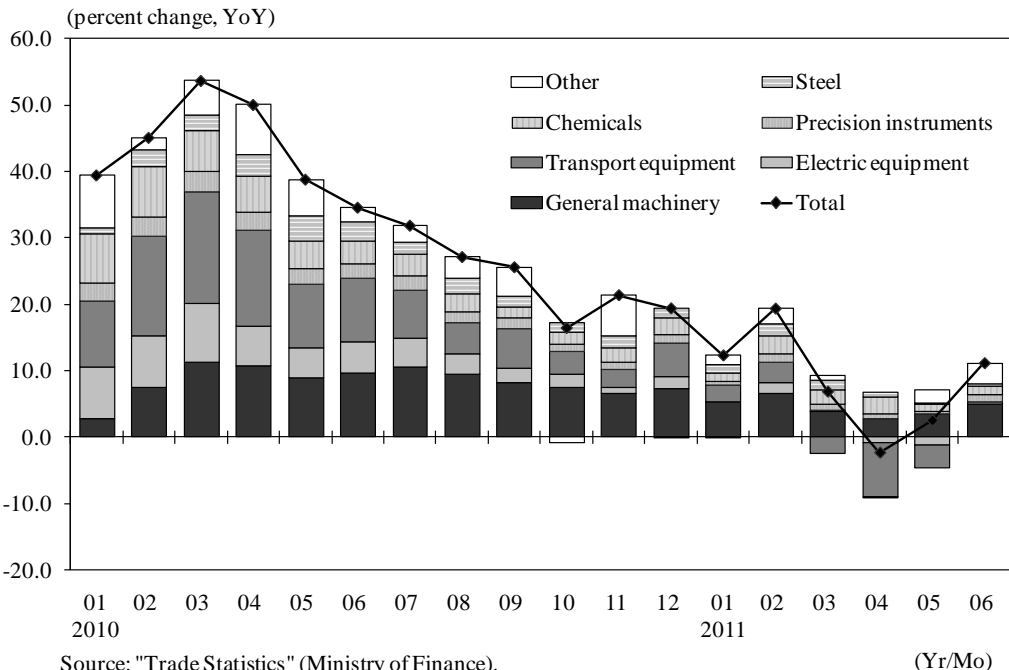
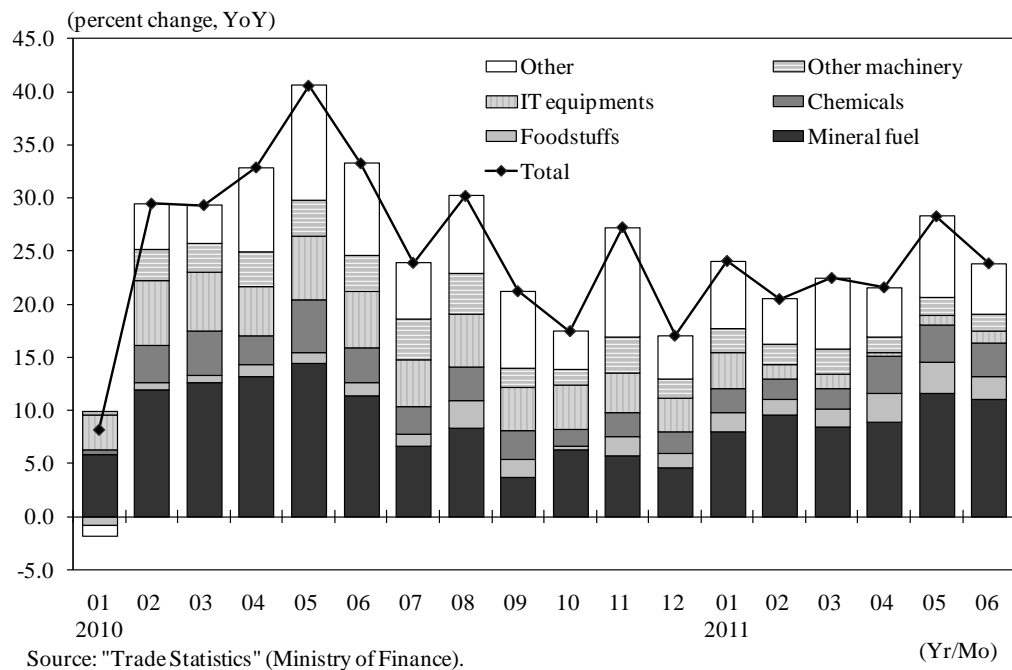


Fig. I-17 Japan' import on monthly percent change (contribution by product, year-on-year comparison, dollar-based)



Global FDI fell 4.4% in 2010

Investment in developing countries has steadily gained more share

In 2010, Global FDI (on an inward FDI basis) fell 4.4% over the previous year to US\$1,224.9 billion, recording a decline for the third consecutive year. However, the decline is shrinking, and investment is showing signs of the bottoming out. Factors for the improvement include: (i) in conjunction with the recovery of world economy, corporate profits of overseas subsidiaries recovered; and (ii) companies that looked for sales channels aggressively began to expand business to developing countries. The proportion of overall FDI directed towards developing countries has been steadily expanding since 2000.

China enhances its presence in both inward and outward investments

China's inward FDI rose solidly by 62.0% to US\$185.1 billion, surpassing the FDI of Luxembourg which includes many transit-type investments, making China's inward FDI the world's second highest in 2010. In recent years, the industries and regions targeted for investment have expanded from the manufacturing industry to cover the service industry, and from coastal areas to inland areas. China's outward FDI has also continued to expand, with a view towards securing resources and energy, moving in rank from ninth to sixth.

Fig. I-18 Global FDI and cross-border M&As

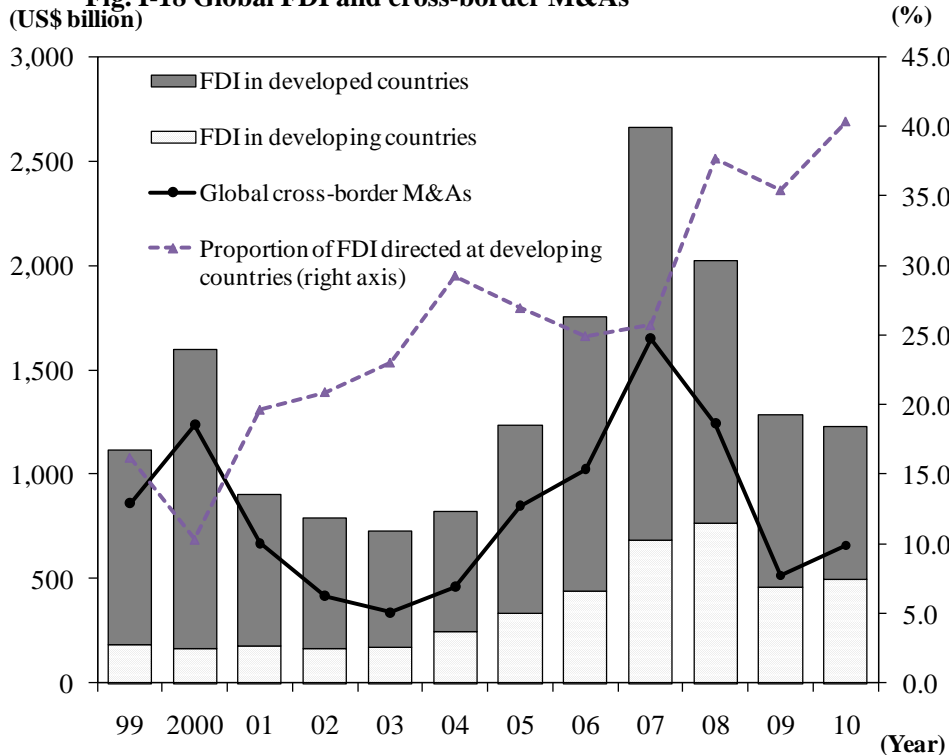


Fig. I-19 Top 10 countries/regions in FDI

	Inward direct investment				Outward direct investment			
	2009		2010		2009		2010	
	Rank	Country	Rank	Country	Rank	Country	Rank	Country
1	Luxembourg	209,746	U.S.	236,226	U.S.	303,606	U.S.	351,350
2	U.S.	158,581	China	185,081	Luxembourg	234,295	Luxembourg	130,176
3	China	114,215	Luxembourg	152,255	France	102,949	Germany	104,857
4	U.K.	71,140	Hong Kong	68,904	The Netherlands	100,571	France	84,112
5	Hong Kong	52,394	Belgium	52,803	Germany	78,200	Hong Kong	76,077
6	Germany	37,627	Brazil	48,438	Japan	74,650	China	60,151
7	Russia	36,500	Germany	46,134	Hong Kong	63,991	Switzerland	58,253
8	Saudi Arabia	36,458	U.K.	45,908	U.K.	44,381	Japan	57,223
9	India	35,649	Russia	42,868	China	43,898	Russia	52,476
10	France	34,027	Singapore	38,638	Russia	43,665	Canada	38,585

Sources: Balance of payments statistics, BOP (IMF) and Thomson Reuters.

Note: FDI here is on inward FDI basis.
Sources: Balance of payments statistics, BOP (IMF) and Thomson Reuters.

27.8% increase in global cross-border M&As

■ About 20% of acquirers are U.S. companies

In 2010, the total value of global cross-border M&As increased 27.8% compared to 2009 to US\$659.1 billion while the number of deals completed also rose by 19.9% to 8,795, both the first year-over-year increases seen in three years. The increase in corporate value on the stock markets as a result of global economy recovery and the fact that it became easier for companies with good financial condition to obtain financing for M&As compared to the situation during the financial crisis were among the factors contributing to the resurgence in M&A activity. The share of U.S. companies in total global acquisitions rose to 21.1%.

■ Emerging countries target European and U.S. markets

If one looks at the trends in M&A activity by region, between the two five-year periods of 2001 through 2005 and 2006 through 2010, a marked increase in M&A activity by companies other than North America and Europe ones is also apparent. M&A activity targeting the markets of the developed countries by Middle Eastern and African countries supported by plentiful oil money and by Asian, Oceanian and Central Asian countries experiencing rapid economic growth gained momentum. In 2010 for the first time the value of M&A transactions initiated by Asian countries exceeded 20% of the global transactions.

Fig. I-20 Global cross-border M&A deal value trends

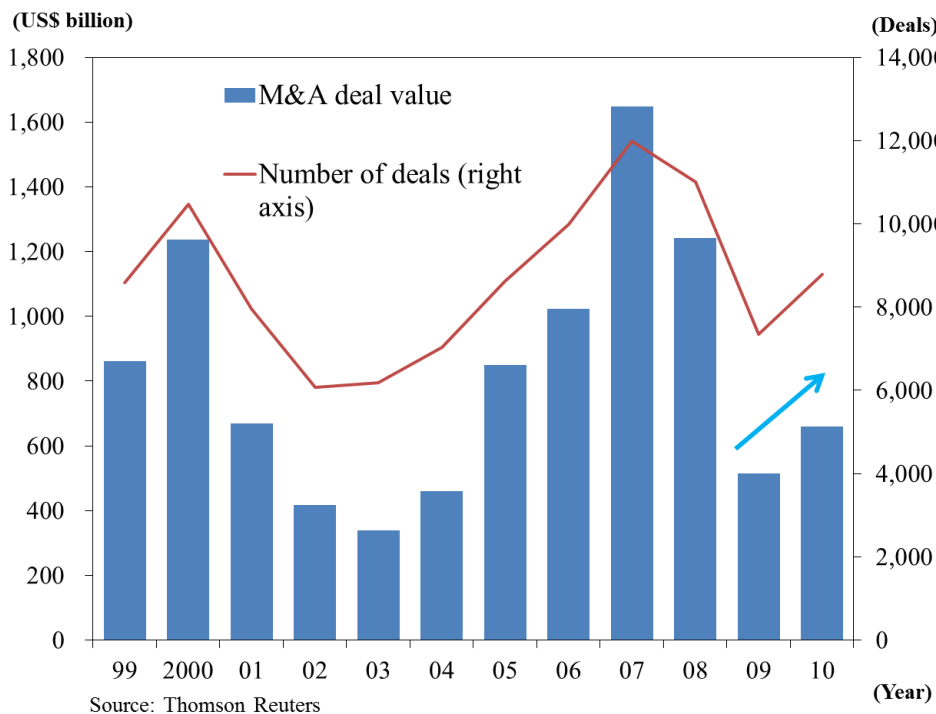


Fig. I-21 Trends in M&A by region

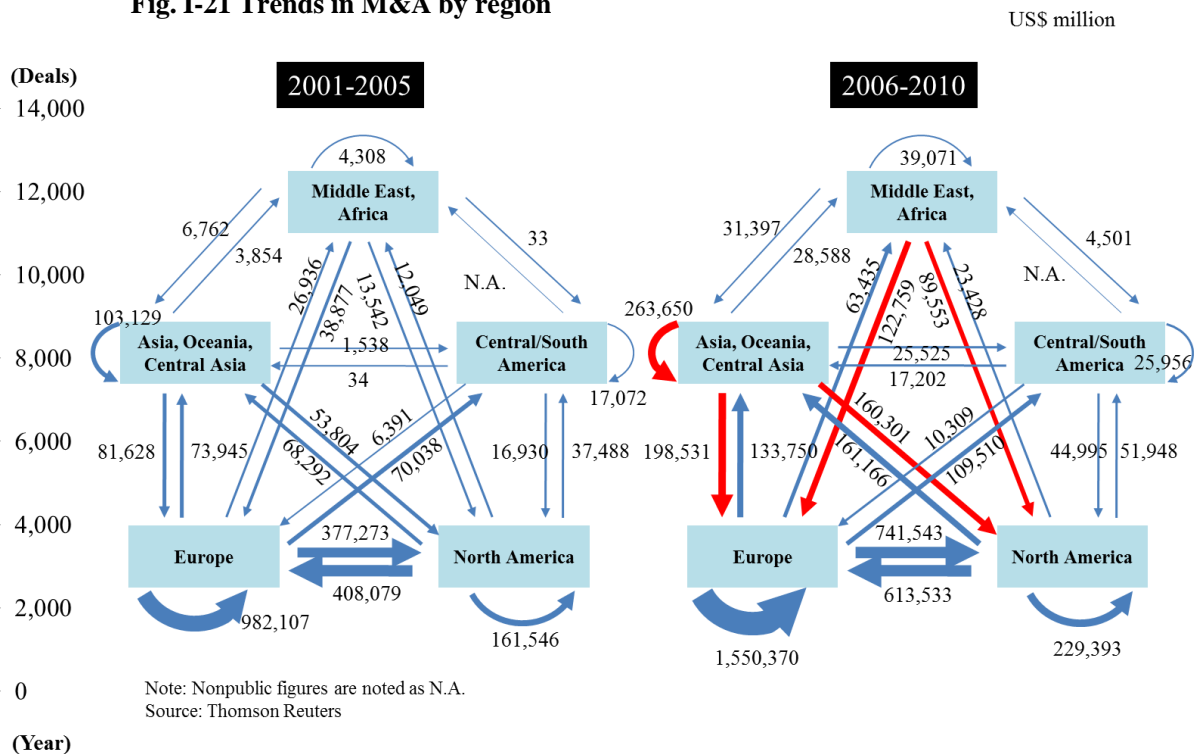


Fig. I-22 FDI of major countries/regions
(net flows, based on balance of payments)

	(US\$ million, %)			
	Inward		Outward	
	Value	Percent Change	Value	Percent Change
U.S.	236,226	49.0	351,350	15.7
Canada	23,413	9.4	38,585	- 7.4
EU27	292,384	- 43.8	407,692	- 38.2
EU15	305,266	- 37.2	442,451	- 31.5
France	33,905	- 0.4	84,112	- 18.3
Germany	46,134	22.6	104,857	34.1
Italy	9,497	- 52.7	21,009	- 1.3
Luxembourg	152,255	- 27.4	130,176	- 44.4
The Netherlands	- 65,679	n.a.	12,267	- 87.8
Spain	21,086	130.8	22,268	128.7
U.K.	45,908	- 35.5	11,020	- 75.2
12 new EU member states	- 12,882	n.a.	- 34,758	n.a.
Switzerland	- 6,561	n.a.	58,253	75.2
Australia	32,472	26.3	26,431	63.6
Japan	- 1,359	n.a.	57,223	- 23.3
East Asia	325,405	62.6	208,169	26.9
China	185,081	62.0	60,151	37.0
South Korea	- 150	n.a.	19,230	11.8
Hong Kong	68,904	31.5	76,077	18.9
ASEAN 5	69,078	142.2	41,529	25.5
Singapore	38,638	152.9	19,739	6.9
India	24,640	- 30.9	14,626	- 8.2
Brazil	48,438	86.7	11,519	n.a.
Russia	42,868	17.4	52,476	20.2
33 developed countries/regions	730,841	- 11.7	1,121,295	- 10.9
Developing countries	494,057	9.0	187,590	15.7
World	1,224,897	- 4.4	1,308,885	- 7.8

Notes: (1) JETRO estimates for "World" and "Developing countries" figures.

The figures for developed countries are the totals for the 33 countries/regions as classified by BOP (IMF).

(2) The ASEAN 5 are Thailand, Malaysia, Indonesia, the Philippines and Singapore.

(3) The figures for East Asia are the total for China, South Korea, Taiwan, Hong Kong and the ASEAN 5.

Sources: Balance of payments statistics, BOP(IMF) and other sources.

Fig. I-23 10 Largest cross-border M&A deals (2010 and January-June 2011)

							(US\$ million)	
	Acquiring company			Target company			Value	ownership % after transaction
		Country	Industry		Country	Industry		
April	Kraft Foods Inc	U.S.	Foodstuffs	Cadbury PLC	U.K.	Foodstuffs	21,418	100.0
June	Bharti Airtel Ltd	India	Telecommunications	Zain Africa BV	Nigeria	Telecommunications	10,700	100.0
September	Telefonica SA	Spain	Telecommunications	Brasilcel NV	Brazil	Telecommunications	9,743	100.0
October	Investor Group	Hong Kong	Investor Group	EDF Energy PLC-UK Power Distribution Business	U.K.	Electric, Gas and Water Distribution	9,056	100.0
August	Newcrest Mining Ltd	Australia	Mining (gold ore)	Lihir Gold Ltd	Papua New Guinea	Mining (gold ore)	8,578	100.0
April	Orange PLC	France	Telecommunications	T-Mobile(UK)Ltd	U.K.	Telecommunications	8,496	100.0
February	Abbott Laboratories	U.S.	Drugs	Solvay Drugs SA	Belgium	Drugs	7,603	100.0
April	Heineken	The Netherlands	Foodstuffs	FEMSA-Beer Op	Mexico	Foodstuffs	7,325	100.0
December	China Petrochemical Corp {Sinopec}	China	Oil and Natural Gas	Repsol YPF Brasil SA	Brazil	Oil and Natural Gas	7,111	40.0
July	Merck KGaA	Germany	Drugs	Millipore Corp	U.S.	Precision Machinery Manufacturing	6,869	100.0

January-June 2011

							Value	ownership % after transaction
	Acquiring company			Target company				
		Country	Industry		Country	Industry		
February	International Power PLC	France	Electric, Gas and Water Distribution	GDF Suez Energy Europe & International	Belgium	Electric, Gas and Water Distribution	25,056	100.0
April	VimpelCom Ltd	The Netherlands	Telecommunications	Weather Investments Srl	Italy	Telecommunications	22,382	100.0
April	Sanofi-Aventis SA	France	Drugs	Genzyme Corp	U.S.	Drugs	20,856	100.0
May	EnSCO PLC	U.K.	Oil and Natural Gas	Pride International Inc	U.S.	Oil and Natural Gas	8,685	100.0
June	Barrick Canada Inc	Canada	Mining (gold ore)	Equinox Minerals Ltd	Australia	Mining (gold ore)	7,460	100.0
April	PPL Corp	U.S.	Electric, Gas and Water Distribution	Central Networks PLC	U.K.	Electric, Gas and Water Distribution	6,505	100.0
April	TD Bank NA	Canada	Banking	Chrysler Financial Corp	U.S.	Finance	6,300	100.0
March	Banco Santander SA	Spain	Banking	Bank Zachodni WBK SA	Poland	Banking	5,629	95.7
June	Telecomunicacoes de Sao Paulo SA	Spain	Telecommunications	Vivo Participacoes SA	Brazil	Telecommunications	5,524	100.0
March	Vodafone Group PLC	U.K.	Telecommunications	Hutchison Essar Ltd	India	Telecommunications	5,000	100.0

Notes: (1) Year and month indicate the completion date of the transaction. (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 transaction.

(5) If the acquirer is a single purchasing unit of a business corporation, the business corporation name is cited; if there is more than one business corporation, the industry is denoted as Investors.

(6) The Investor Group consists of Cheung Kong Infrastructure Holdings Ltd., Hong Kong Electric Holdings Ltd. and Li Ka Shing Foundation Ltd.

(7) "FEMSA-Beer Op" stands for Fomento Economico Mexicano SAB de CV [FEMSA]-Beer Operations.

Source: Thomson Reuters

Japan's outward FDI showing recovery

Fourth quarter of 2010 showed first increase in five quarters

Japan's outward FDI in 2010, net flows based on balance of payments, declined for the second straight year, falling by 23.3% over 2009 to US\$57.2 billion. As was the case since last year, a key factor was reinvestment earnings decrease of Japanese overseas subsidiaries as their operating profit worsened. However, the fourth quarter of 2010 data turned the first year-over-year increase in five quarters and the trend continues in 2011.

Increased investment in Asia

By region of destination, Asia was the only major region seeing an increase of FDI, which expanded by 7.2% to US\$22.1 billion. Investment in Singapore was active and investment in China, the largest target of Japanese investment in Asia, registered a record high for the second straight year.

Fig. I-24 Japan's outward FDI by type

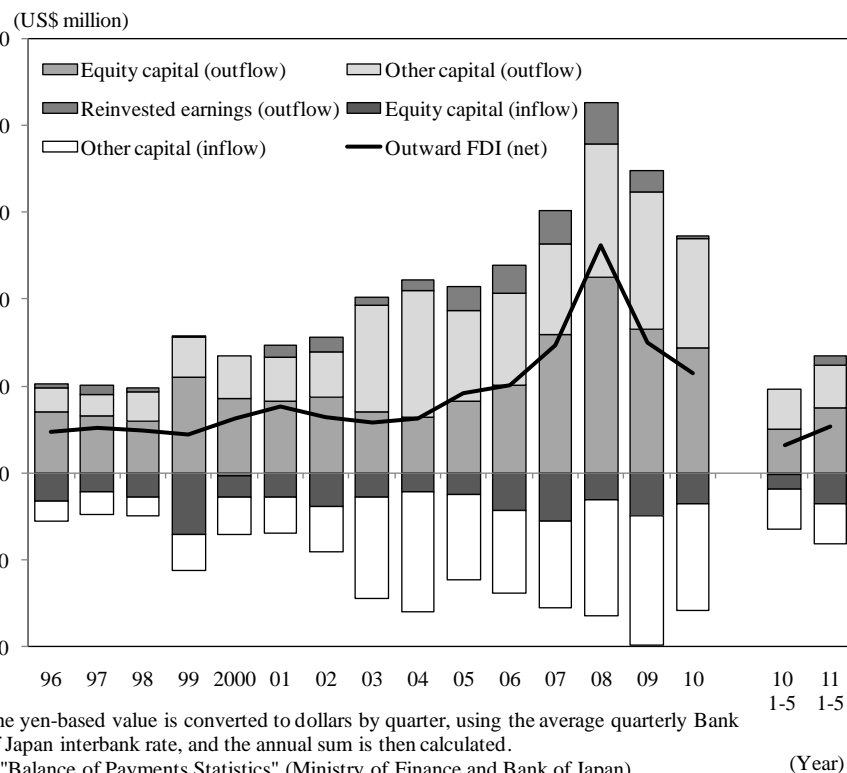


Fig. I-25 Japan's outward FDI by country/region (balance of payment basis, net, flows)

(US\$ million, %)

	2009	2010	Share	Percent Change	2011 1-5	Share	Percent Change
Asia	20,636	22,131	38.7	7.2	11,373	43.1	126.2
China	6,899	7,252	12.7	5.1	4,340	16.5	127.1
ASEAN	7,002	8,930	15.6	27.5	5,114	19.4	171.4
India	3,664	2,864	5.0	-21.9	173	0.7	-67.4
North America	10,889	9,016	15.8	-17.2	1,869	7.1	-25.0
U.S.	10,660	9,193	16.1	-13.8	1,728	6.5	-27.6
Central/South America	17,393	5,346	9.3	-69.3	92	0.3	-96.7
Brazil	3,753	4,316	7.5	15.0	1,703	6.5	9.4
Oceania	7,629	6,407	11.2	-16.0	4,297	16.3	28.3
Australia	7,136	6,371	11.1	-10.7	3,746	14.2	10.9
Europe	17,830	15,043	26.3	-15.6	7,825	29.7	178.4
EU	17,039	8,359	14.6	-50.9	7,103	26.9	195.5
World	74,650	57,223	100.0	-23.3	26,380	100.0	67.2

Note: The yen-based quarterly value is converted to dollars, using the average quarterly Bank of Japan interbank rate.

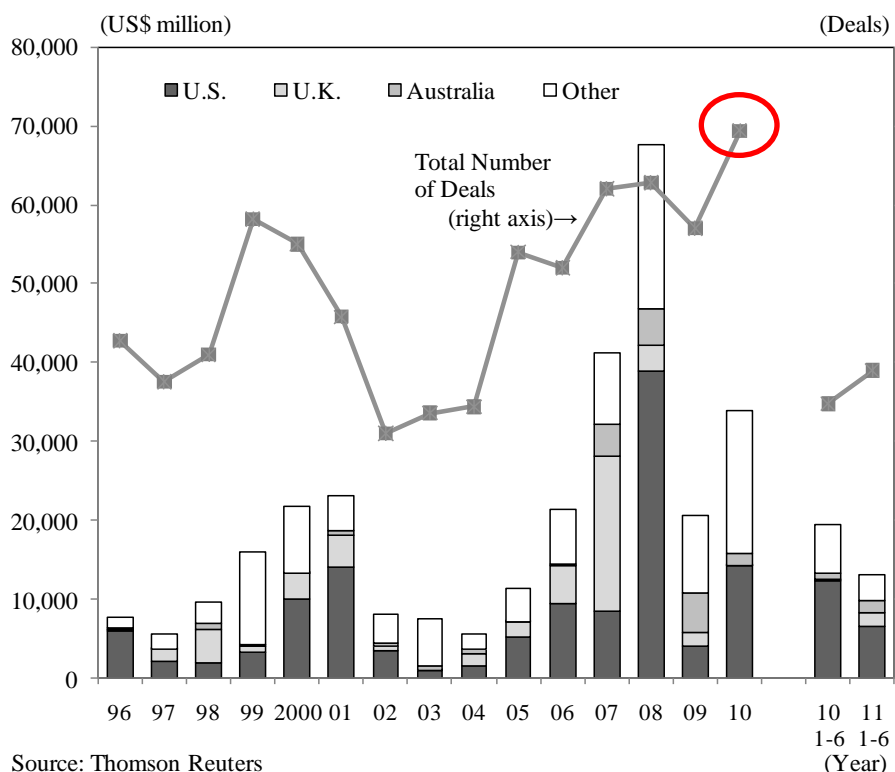
Source: "Balance of Payments Statistics" (Ministry of Finance and Bank of Japan).

Large increase in outward M&As by Japanese companies

Upward trend in number of overseas M&A transactions by Japanese companies in recent years

There was a sharp increase of 64.5% in the value of outward M&A by Japanese companies, to US\$34.0 billion. The number of deals was 347, second only to the record high of 427 registered in 1990 and continuing the upward trend that has been in progress since 2005. The country seeing the highest total value of Japanese acquisitions was the U.S., with US\$14.1 billion, three and half times the amount of the preceding year, followed by South Africa (US\$2.7 billion), Brazil (US\$2.0 billion) and India (US\$1.7 billion). Outward M&A continued at a strong pace through the first half of 2011 totaling 195 deals with a total value of US\$13.2 billion.

Fig. I-26 Trends in Japan's outward M&A value and number of deals



Source: Thomson Reuters

Fig. I-27 Japan's top 10 outward M&A transactions (2010 - June 2011)

Transaction completed	Acquiring company		Target company			Amount (US\$ million)
		Industry		Country	Industry	
Jun-2010	Astellas Pharma Inc.	Pharmaceuticals	OSI Pharmaceuticals Inc.	U.S.	Pharmaceuticals	3,838
Dec-2010	NTT	Telecommunications	Dimension Data Holdings	South Africa	Business services (computer related)	2,730
Apr-2011	Terumo	Healthcare Equipment	CaridianBCT Inc.	U.S.	Healthcare Equipment	2,625
Dec-2010	Sumitomo Corporation	Trading	Mineracao Usiminas	Brazil	Mining	1,930
Mar-2010	Shiseido Co Ltd	Soap and cosmetics products	Bare Escentuals Inc.	U.S.	Soap and cosmetics products	1,522
May-2010	Mitsui Oil Exploration Co.,Ltd.	Oil and natural gas	Anadarko Petro Corp-Shale Assets (*2)	U.S.	Oil and natural gas	1,500
Jun-2010	Mitsui & Co./ Tokyo Gas & Co., Ltd	-	Natural Gas Thermal Power Plant of Gas Natural (Spain) (*3)	Mexico	Electric, gas and water distribution	1,465
Jan-2011	NTT DATA	Telecommunications	Keane International Inc	U.S.	Business services (computer related)	1,368
May-2011	Dai-ichi Life Insurance	Insurance	Tower Australia Group	Australia	Insurance	1,203
Jun-2011	Itochu	Trading	Kwik Fit Ltd	U.K.	Retail sales (tires)	1,040

Notes: (1) Rankings are based on the amount of single transaction. (*2) Acquired a 32.5% stake in Anadarko Petroleum's shale gas project in Marcellus Shale Area, PA. (Shale gas refers to natural gas contained in mudstone, an unconventional natural gas.) (*3) Five natural gas thermal power companies and natural gas pipeline companies. (4) The transaction wherein KDDI acquired (for US\$4 billion) from a subsidiary group of Liberty Global (U.S.) shares of Jupiter Telecom (J.com), a major cable TV provider, is regarded as an investment in a domestic company, and hence is excluded.

Source: Thomson Reuters

Companies targeting expansion to emerging countries

■ Type of business widening

The aggressive overseas business development by Japan's domestic demand-led industries such as foodstuffs and pharmaceuticals, which gained momentum in 2009, expanded to other industries as well in 2010, including retail, food services, transport and other services. 2010 was also characterized by an increased activities focused on expansion into emerging economies including China, India, Russia, Eastern Europe and Central and South American countries.

Fig. I-28 Examples of Overseas expansion of Japanese companies in emerging countries (after 2010)

Industry	Target Country	Overview
Food services	China, India, Thailand, etc.	The <i>soba</i> and <i>udon</i> noodle chain, Kazokutei, established joint venture companies first in China and then subsequently in India and Thailand. The company plans to extend overseas business centered on Asia through franchise outlets. In 2010 opened two <i>soba</i> and <i>udon</i> restaurants in Shanghai, China, one in Singapore and four in Thailand, and has a plan to set up a business in India in 2011. Is also considering an extension into Russia, Vietnam, Indonesia, Canada and Australia.
Transport	China, Hong Kong, Singapore, Malaysia	The major small parcel delivery service, Yamato Holdings, bought a 65% stake of a Chinese government related logistics company, Shanghai Bus Logistics, for US\$37.0 million, and began parcel delivery service in January 2010. Aims to capture demand from wealthy consumers in conjunction with the growth in online shopping. Has already started services in Singapore and Hong Kong and has plans for starting in Malaysia as well in the second half of 2011.
Retail	China	Yamada Denki, a major home appliances retailer, opened its first overseas store in Shenyang, China in December 2010 and China's second outlet in Tianjin in June 2011. Aims to differentiate itself from Chinese mass retailers by Japanese-style retail service characterized by separate sales areas for each type of product. Plans to open five stores in China within three years and launching online sales covering whole China by the end of 2011.
Industrial gas	India	Taiyo Nippon Sanso, Japan's largest industrial gases supplier, acquired the Indian industrial gases company, K-Air India Gases (acquisition value not disclosed). Plans to start producing industrial gas in 2012. This is the first case of a Japanese industrial gas manufacturer starting business in India (March 2010).
Ceramics	India	Krosaki Harima, a refractory manufacturer, acquired for US\$100 million shares in India's largest refractory manufacturer, Tata Refractory. Krosaki has been exporting products from its manufacturing site in China but with the growth of the Indian market moved to establish a production base. Aims to expand sales to neighborhood regions including the Middle East (May 2011).
Insurance	Turkey	Sompo Japan Insurance Inc. acquired the mid-size Turkish non-life insurance company Fiba Sigorta for US\$343 million. Turkey is seen as an up-and-coming market next to BRICs (November 2010).
Foodstuffs	Russia	Sanyo Foods acquired a 49.99% stake (acquisition value not disclosed) in KL Sanyo Foods (headquarters in Cyprus), the holding company for Russia's third ranking instant noodle manufacturer, King Lion Group. Ultimately looking into local sales of "Sapporo Ichiban" and other brands (April 2011).
Foodstuffs	Poland	Lotte Holdings (the holding company for the confections Lotte) acquired a Polish chocolate maker Wedel from Kraft Foods of the U.S. (acquisition value not disclosed). In addition to securing a foothold for entering the markets of Middle and Eastern Europe, aim is to strengthen overall European business (September 2010).
Chemicals (fragrance)	Brazil	Takasago International bought from Givaudan, the largest Swiss fragrance manufacturer, a flavor and fragrance plant in Brazil for US\$10 million. Together with existing plants, this strengthens the company's manufacturing base for Central and South America. Plans to export to neighboring countries as well (July 2010).
Online sales	Brazil	Rakuten bought a stake (75% of outstanding shares, acquisition value not disclosed) in Ikeda, a leading Brazilian electronic commerce servicing company. Aims to startup a virtual shopping mall business some time in 2011. With Brazil's online sales sharply growing, expansion in the market ahead of the leading U.S. and European competitors (June 2011).

Notes: Values are from Thomson Reuters. The dates shown in parentheses are the dates transactions were completed.

Sources: Thomson Reuters, company press releases and news reports.

Overseas earnings continued on a firm footing

■ Asia steadily increases its importance as a source of earnings for Japanese companies

According to JETRO's tabulation of corporate overseas profits, compiled from consolidated financial results posted by listed 375 companies with fiscal years ending between December 2010 and March 2011. The results show that out of Japanese global business sales (not including exports from Japan) and operating profits, 42.4% comes from overseas sales and 53.1% from overseas profit, meaning that overseas operating profits exceeded those from domestic market. Looking at the 362 companies for which comparisons to the previous year are possible, operating profits recovered in Europe (up 143.8%) and the Americas (up 75.3%) while earnings in Asia/Oceania continued on a firm footing, up by 43.5%. The overall rate of increase in operating profit after adjustments for consolidation was 67.1%, well exceeding the 47.2% for all companies listed on the Tokyo Stock Exchange (1,551 companies with fiscal years ending in March), meaning that the recovery of firms having overseas business units was much faster.

Fig. I-29 Overseas operating profits of Japanese listed companies

(1) Proportion of profits by region

(2) Percent change, year-on-year

Fiscal Year (Number of companies)	Sales share by region (%)					
	Domestic	Overseas	Sales share by region (%)			
			Americas	Europe	Asia/ Oceania	Other
FY 2000 (668)	71.9	28.1	12.6	5.2	6.4	3.9
FY 2005 (804)	66.1	33.9	12.5	6.3	10.1	5.0
FY 2006 (832)	66.2	33.8	12.6	6.9	10.3	4.1
FY 2007 (866)	63.1	36.9	13.0	8.5	12.0	3.5
FY 2008 (890)	63.8	36.2	11.0	7.0	14.8	3.4
FY 2009 (887)	65.0	35.0	11.1	6.9	13.3	3.7
FY 2010 (375)	57.6	42.4	15.3	7.3	15.0	4.8

Fiscal Year (Number of companies)	Sales percent change (Year-on-year, %)						
	World	Domestic	Overseas	Sales percent change			
				Americas	Europe	Asia/ Oceania	Other
FY 2005 (748)	10.3	7.8	15.4	13.7	10.5	28.0	4.2
FY 2006 (773)	13.9	14.3	13.0	10.3	18.7	16.7	3.9
FY 2007 (786)	7.9	6.4	10.5	7.5	19.1	15.0	- 8.5
FY 2008 (841)	- 13.0	- 12.3	- 14.2	- 18.8	- 16.0	- 11.1	- 7.4
FY 2009 (854)	- 12.8	- 12.5	- 13.4	- 12.8	- 22.0	- 8.0	- 15.2
FY 2010 (362)	8.3	6.2	11.1	4.9	- 0.4	27.0	8.1

Fiscal Year (Number of companies)	Operating profit share by region (%)					
	Domestic	Overseas	Operating profit share by region (%)			
			Americas	Europe	Asia/ Oceania	Other
FY 2000 (668)	79.9	20.1	10.4	0.7	6.0	3.0
FY 2005 (804)	70.8	29.2	10.8	4.7	10.0	3.7
FY 2006 (832)	73.5	26.5	9.1	4.1	8.3	5.1
FY 2007 (866)	67.1	32.9	8.7	6.8	12.2	5.2
FY 2008 (890)	47.5	52.5	1.9	3.6	39.4	7.6
FY 2009 (887)	56.5	43.5	9.5	3.0	23.8	7.1
FY 2010 (375)	46.9	53.1	14.1	3.4	24.6	11.1

Fiscal Year (Number of companies)	Operating profits percent change						
	World	Domestic	Overseas	Operating profits percent change			
				Americas	Europe	Asia/ Oceania	Other
FY 2005 (748)	14.6	12.4	20.3	16.1	18.2	33.7	5.4
FY 2006 (773)	28.2	33.4	14.9	6.5	38.2	2.9	47.8
FY 2007 (786)	11.3	7.4	20.3	- 10.0	55.0	41.2	12.5
FY 2008 (841)	- 55.0	- 65.5	- 38.7	- 89.8	- 69.9	- 20.0	- 10.8
FY 2009 (854)	20.1	25.2	14.1	335.5	- 19.7	7.1	- 28.4
FY 2010 (362)	59.5	71.7	50.6	75.3	143.8	43.5	25.9

Notes:

- (1) The data cover listed companies whose fiscal years end between December and March (excluding banks and insurance companies), and whose consolidated financial statements included segment information by region.
- (2) For fiscal year 2010, the data include corporations that had released their consolidated financial results for FY 2010 by June 5, 2011.
- (3) Total sales include inter-segment sales.
- (4) The data include some listed subsidiaries and thus are duplicated in some cases.
- (5) "Other," in regions, includes data covering multiple regions, such as "Europe and the U.S." or "overseas."
- (6) Year-over-year percent changes are only calculated for companies whose previous year figures were available and allowed for comparison.
- (7) Regional composition ratios are calculated based on figures before adjustments for consolidation.

Sources:

Toyo Keizai Inc. "CD-ROM of Corporate Financial Records" (for FY 2005 and prior years), published earnings digests and securities reports (FY 2006-2010)

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Asian FDI in Japan increases

Investment in manufacturing remains steady

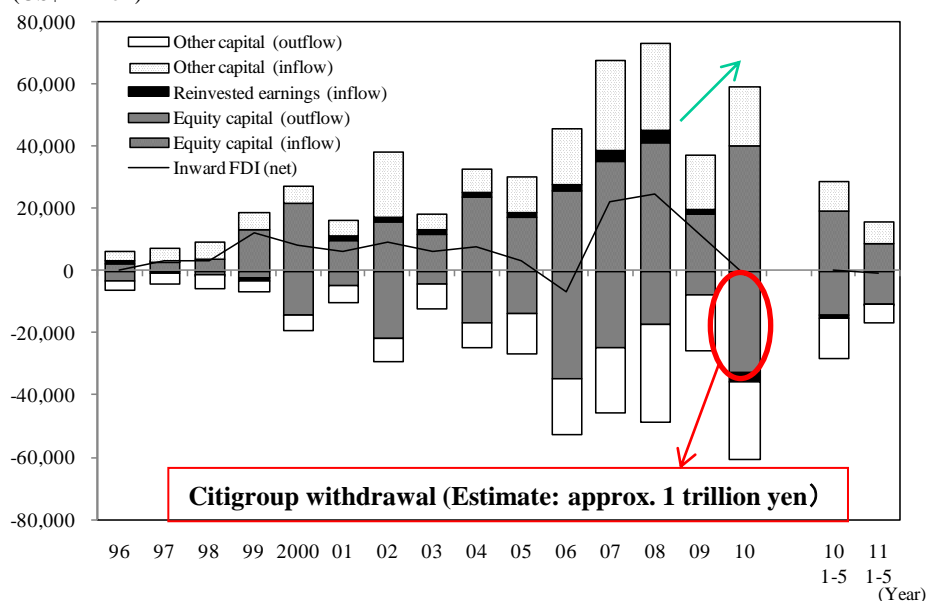
In 2010 Japan's net inward FDI (net flows based on balance of payments) was a negative (withdrawal) US\$1.4 billion. This was in large part due to the fact that the withdrawal from Nikko Cordial Group by the U.S. Citigroup, which actually took place in 2009, was reflected in the statistics for 2010. Looking at inflows by region, there was large investment from Asia and by industry, there was large investment in transportation equipment and general machinery. Japan's inward FDI in the manufacturing sector topped US\$1 billion for the fourth consecutive year.

Japan's industrial concentration and the attractiveness of the Japanese market stokes inward FDI from Asia

Asian FDI in Japan reached US\$3.1 billion, about three times the level of the previous year, and exceeded that from any other major region. In areas of advanced technologies such as renewable energy, technical cooperation with Japanese companies and Japan's industrial concentration were factors that spurred investment into Japan by Asian companies in 2010, while in such cases as the real estate investment by Singapore's state-owned enterprises or the opening of Japan routes by Asian low-cost air carriers (LCCs) the Japanese market was the attraction for Asian investors.

Fig. I-30 Breakdown of Japan's inward FDI by type

(US\$ million)



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

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

Fig. I-31 Major investment cases by Asian companies to Japan in 2010

Nationality	Company	Industry	Investment value (Estimates)	Investment form	Overview
China	Liaoning Hi-Tech Energy Group (A Power Energy)	Wind power generator manufacture	4.8 billion yen	M&A	Acquired Evatech (Kyoto), an LCD manufacture and sales company. Evatech's facilities will survive as R&D center.
	Shandong Ruyi Group	Textiles	4.0 billion yen	M&A	Acquired 41.25% share of Renown, an apparel and textile manufacture and sales company.
	CITIC Group	Investment fund	4.1 billion yen	M&A	Acquired HYNT, an industrial film production company through funds established in Belgium.
Taiwan	AUO	Liquid crystal panel manufacture	15.0 billion yen	M&A	Acquired M.SETEK (Tokyo), which manufactures silicon wafer for solar batteries.
	Motech	Solar battery manufacture	0.27 billion yen	Venture	With Itogumi Construction (Hokkaido), a general contractor, established a joint company, Itogumi Motech. Manufactures photovoltaic modules.
Singapore	Mapletree	Real estate investment fund	20.0 billion yen	M&A	A subsidiary company of Temasek Holdings, a government investment corporation. Acquired six facilities in 2010, including an industrial warehouse in Kashiwa-city, Chiba.
	Parkway Life REIT	Real estate investment fund	7.0 billion yen	M&A	From 2008, acquired domestic nursing homes. In 2010, acquired eleven facilities.
Malaysia	YTL Hotels & Properties	Hotels	6.0 billion yen	M&A	YTL, a Malaysian conglomerate, acquired Niseko Village (facilities such as Hilton Hotel, Hokkaido).
	AirAsia	Airlines	—	Flight services	AirAsia X, long-flight division of AirAsia (LCC), the largest discount airline in East Asia, introduced a new route between Kuala Lumpur and Haneda.
South Korea	Air Busan	Airlines	—	Flight services	Introduced Busan - Kansai Airport route and Busan - Fukuoka Airport route. Fukuoka mayor looks forward to the "construction of cross-border economic sphere."
	NHN	Software services	6.3 billion yen	M&A	Acquired all shares of Livedoor. NHN is the operating company of "Naver," the largest portal site in South Korea.

Sources: JETRO SENSOR (May 2011), company press releases and news reports.

Chapter 2

World Trade Rules under the new economic environment

WTO Doha Round negotiations at a turning point

■ Seeking an early harvest focused on issues important for the Least Developed Countries (LDCs)

With no resolution in sight for the major issues confronting the WTO Doha Round, WTO Director-General Pascal Lamy has proposed a plan for an early harvest (antecedent agreement) for LDC related issues, covering a limited number of issues. It appears that the Doha Round, which was launched 10 years ago based on the principle of a single undertaking covering inclusively every area of negotiation, is at a turning point. At the same time even agreement on an early harvest plan is encountering difficulties.

■ The role of the WTO as enforcer of trade rules and its challenges ahead

The role of the WTO in the enforcement of trade rules remains important. One example of this is the important role it has in subsidy rules, which is an area difficult to agree on a bilateral basis given the increasing complexity of the policies of individual countries supporting specific industries. Against the backdrop of the steep rise in prices for natural resources and the increase in the number of countries adopting export restrictions, clarification of trade rules regarding exports is now also a pressing issue.

Fig. II-1 The Doha Round Early Harvest Proposal

Classification	Main Issues
First track (for LDCs)	<ul style="list-style-type: none"> • In principle duty-free and quota-free market access for LDC products and related rules of origin • Waiver of obligations for LDCs (liberalization of services, etc.) • Cotton Subsidies (reduction of subsidies by developed countries)
Second track (LDC-Plus)	<ul style="list-style-type: none"> • Trade facilitation • Agricultural exports subsidies • Fisheries subsidies • Implementation issues (relaxation and waiver of existing obligations of developing countries under WTO agreements) • Special and different treatment (strengthening and review of consideration given to developing countries) • Reduction of duties on environmental goods or agreement to maintain present applied tariff rates
Third track	<ul style="list-style-type: none"> • Non-agricultural market access (tariff reductions, elimination by sector, etc.) • Agricultural market access and domestic subsidies • Liberalization of services • Review of rules on subsidies and countervailing measures and anti-dumping • Intellectual property rights (expansion of protections for certain geographic indications, etc.)

Sources: WTO Secretariat materials, WTO Reporter (BNA), Inside U.S. Trade (Inside Washington Publishers)

Fig. II-2 WTO rules: significance and issues

Significance and Issues	Description
Enforcement of trade rules and securing compliance	As a result of WTO Agreements such as the Sanitary and Phytosanitary Measures (SPS) Agreement and the Agreement on Subsidies and Countervailing Measures, etc., the clarification of trade rules has progressed since the GATT era; and through strengthened dispute settlement procedures and committee deliberations, measures for securing compliance with the WTO rules have improved.
Progress in issues that are difficult to resolve on a bilateral basis	For matters such as subsidies and developing countries issues, multilateral agreements are more effective than bilateral agreements. Multilateral discussions are also indispensable in regard to such issues as discipline in adopting export restriction measures.
Post-Doha Round issues	WTO rules have been formulated with a focus on import rules, but now, in respect to the issues confronting the 21 st century such as assuring supplies of natural resources and food, clarification and strengthening of the obligations of exporting countries must also be sought. There are also other issues such as the strengthening of enforcement rules for the Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPS) and expansion of coverage of the Agreement on Government Procurement.

Source: Hearings and studies, etc.

Incentive policies for industries lead to WTO disputes

Some industry support policies may be linked to subsidies; those for environmental industries in particular draws attention

Environmental industries such as renewable energy and green cars are sectors which many countries actively support. As seen in the establishment of a WTO Dispute Settlement Panel in July 2011 on the basis of a complaint by Japan that the Renewable Energy Feed-in Tariff Program implemented by the Province of Ontario in Canada fell under a prohibited subsidy under the WTO Agreement on Subsidies and Countervailing Measures, national incentive policies can become the subject of WTO disputes.

Interpretations by the WTO Dispute Settlement Body serve to strengthen and clarify the regulation of subsidies

Many cases before the WTO where the illegality of subsidies has been argued have been disputes relating to prohibited (so-called "red light") subsidies under the Agreement on Subsidies and Countervailing Measures. However, in decisions handed down by the WTO Dispute Settlement Body in recent years, the grounds for finding violations have broadened and even so-called "yellow light" subsidies, which do not fall under prohibited subsidies, where they have had adverse effects such as causing substitution for other countries' imports, have been deemed violations of the Agreement. This trend may possibly lead to an increasing number of subsidy-related disputes at the WTO.

Fig. II-3 Major disputes at the WTO relating to subsidies
(Colored sections refer to 2010 environment-related disputes.)

Case Name (Year)		Summary of Dispute	Current Status
Respondent	Complainant		
U.S.	U.S.	There exists "serious prejudice" due to increases in the market price of cotton being prevented due to various domestic subsidies provided for under U.S. laws relating to agriculture, and some of the subsidies fall under subsidies favoring the use of domestic products.	Panel and Appellate Body compliance reports adopted
U.S.	Brazil		
Civil aircraft (Airbus)		Various subsidies by the EU have given rise to "serious prejudice" by causing substitution of Boeing exports in EU and third-country markets. The Appellate Body reversed the findings of the Panel in regard to the correspondence to export subsidies.	Panel and Appellate Body reports adopted
EU	U.S.		
Civil aircraft (Boeing)		The Panel found Boeing's profits resulting from tax exemptions on offshore income fell under an export subsidy and also found "serious prejudice" due to Airbus export substitution in third country markets.	Proceedings by Appellate Body
U.S.	EU		
China preferential tax treatment		Assertion that preferential tax treatment (refunds, reductions, exemptions, etc.) in regard to products including steel, lumber and paper, fall under export subsidies. A memorandum of understanding was signed with China agreeing to abolish the treatment.	Agreement on withdrawal of proceedings
China	U.S., Mexico		
Chinese brand development subsidies		Assertion that government support for home appliances, textile products, etc., aimed at the development of domestic brands was given contingent upon export performance, and thus this falls under export subsidies. A memorandum of understanding was concluded among the concerned countries.	Panel proceedings frozen
China	U.S., Mexico		
Province of Ontario Feed-in Tariff program		Japan asserted that the added value requirement for procurement, etc., of materials in Ontario as a condition for participation in the Province of Ontario Renewable Energy Feed-in Tariff Program falls under subsidies favoring the use of domestic product.	Panel established
Canada	Japan		
Chinese wind power equipment		U.S. asserted that preferential measures granted by the Chinese government to companies establishing wind power plants in China are subsidies favoring the use of domestic products. In June 2011 China agreed to make rectification.	Termination foreseen under bilateral consultations
China	U.S.		

Notes: The year shown in parentheses is the year in which the request for consultation was made. Only disputes regarding illegality of subsidies are included; disputes regarding countervailing duties are not included.

Sources: WTO Secretariat materials, *Case Book - WTO Law* (Yuhikaku Publishing Co., 2009)

Fig. II-4 Overview of subsidies covered under the WTO Agreement on Subsidies and Countervailing Measures

Type	Overview	Clause
Subsidy	There is a financial contribution by a government or any public body or any form of income or price support and a benefit is thereby conferred.	Art. 1.1
A subsidy having specificity	The subsidy is granted to a specific enterprise or industry or group of enterprises or industries. A prohibited subsidy is deemed to have specificity.	Art. 2
Prohibited ("Red light") subsidies	If the Dispute Settlement Body finds the subsidy to be a prohibited subsidy, the subsidizing country shall withdraw the subsidy without delay.	Art. 3
Export subsidy	Subsidy granted contingent, in law or in fact, upon export performance.	1 (a)
Subsidy favoring the use of domestic goods	Subsidy granted contingent upon the use of domestic over imported goods.	1 (b)
Actionable ("Yellow light") subsidies	In the case of subsidies found to have adverse effects to the interests of other countries, either the adverse effect shall be removed or the subsidy withdrawn. Or if injury to the domestic industry of the importing country is found, countervailing duties may be imposed.	Art. 5
Injury to domestic industry	Effect on domestic market of importing country by the subsidy. Selection of either remedy based on dispute settlement proceedings or implementation of countervailing measures.	(a)
Serious prejudice	Cases, for example, in which the subsidy displaces the imports of another country in the market of the subsidizing country or of a third country market, impedes a rise in market price or significantly reduces sales in the same market.	(c)
Non-specificity	A non-specific subsidy is not subject to the discipline of the Agreement on Subsidies and Countervailing Measures.	Art. 1.2

Source: WTO Agreement on Subsidies and Countervailing Measures

The need to establish rules covering export restrictions heightens

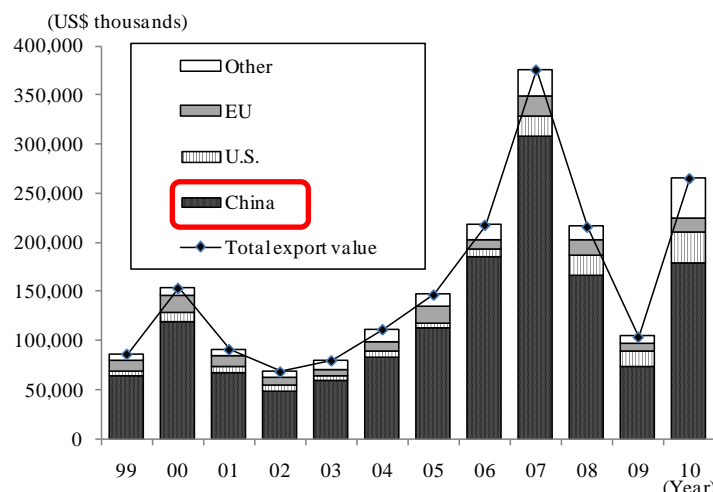
With the growing demand for mineral and food resources and the limited number of producing countries, new focus on export restrictions

As seen in the case of rare earths, where China alone accounts for a majority of global exports, supplies of mineral resources often come from a limited number of countries and any measures restricting exports by those countries can have a significant impact on importing countries. In July 2011 the Dispute Settlement Body of the WTO found that China's restrictions on exports of raw materials violated WTO rules; it is likely that the future will see additional disputes before the WTO involving export restrictions.

Present trade rules formulated with a focus on the treatment of imports; the extent to which exceptions are allowed for exports is unclear

The WTO's basic principles of most-favored-nation treatment and prohibition of quantitative restrictions apply not only to imports but to exports as well; however, because there are many exceptions and few precedents of WTO decisions in regard to export restrictions, the scope of exceptions is not sufficiently clear. From the perspective of resource-importing countries, a clarification by the WTO of rules on export restrictions is desirable. At the same time it is also necessary to consider revamping FTA-based export rules in areas outside the scope of current WTO rules.

Fig. II-5 Share of global rare earth metals exports value by country



Note: Rare earth metals, defined as HS code 2805.30, is a collective term for the 17 rare earth metals including yttrium, lanthanum, europium, neodymium and others.
Sources: Trade statistics of individual countries/regions.

Fig. II-6 Principal export regulations and exceptions under WTO rules

	Item	Description
Principles	General most-favored-nation treatment	Shall be granted immediately and unconditionally to like products directed to the territory of all treaty countries in respect to the method of collection of export duties and surcharges and all related rules and procedures.
	General prohibition of quantitative restrictions	In regard to sales for export or for import, no prohibitions or restrictions other than tariffs and surcharges shall be established or maintained, whether quotas, export licenses or other procedures.
Exceptions	Prevention of critical shortages of foodstuffs, etc.	Temporarily applied export prohibitions or export restrictions for the purpose of preventing or relieving critical shortages of products essential to the exporting country.
	Establishment of prohibitions or restrictions of exports of foodstuffs	When establishing export prohibitions or restrictions adequate consideration shall be given to the food security of importing countries and provide necessary information as requested.
	Protection of life or health	Export prohibition, etc., of materials harmful to the health of humans and animals.
	Conservation of exhaustible natural resources	Only to be implemented in conjunction with restrictions on domestic production and consumption.
	Maintenance of essential quantities pursuant to a stabilization plan by the government	Measures to impose restrictions on the export of raw materials needed domestically in order to ensure essential amounts for domestic processing industries.
	Maintenance of products for which there are supply shortages	Essential measures for the acquisition or distribution of products for which there are supply shortages either generally or locally.
	Important security interests	The taking of necessary measures for maintaining national security shall not be precluded.
(Reference) Examples of FTA rules	Prohibition in principle of export duties	No export duties whatsoever shall be established or maintained. (Common to Japan's major FTAs)
	Quantitative export restriction clause	The export quantity shall not as a result of the export restriction be lower than the exporting country's share of the supply over the past three years. (NAFTA)
	Export price clause	An export price higher than the domestic price at the time of export shall not be imposed by means of export licenses, tariffs or other surcharges or establishment of a minimum export price. (NAFTA)

Sectors covered by trade rules broaden (environment, intellectual property)

2010 trade in environmental goods reaches US\$235.3 billion, hopes for the Doha Round negotiations

Tariff reductions for environmental goods may be among the sectors included in a WTO Doha Round early harvest package. WTO member countries are aiming for across-the-board reductions and ultimately the elimination of tariffs on environmentally friendly products and products having light environmental footprints. Global trade in environmental goods (the 43 items designated by the World Bank, on an export basis) was US\$235.3 billion, an increase of 27.4% over 2009. With solar panels as the driver, China led all other countries in the export of environmental products.

Content of the Anti-Counterfeiting Agreement (ACTA) completed, hopes for signing and implementation within next few years

The strengthening of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) enforcement rules has been cited as a major issue for the WTO. Developing countries in general have been unenthusiastic about strengthening intellectual property protection rules and ACTA is a multilateral framework led by developed nations for supplementing TRIPS. There are hopes, however, that ACTA will not simply be enforced just among the participant countries but that it will also serve as a standard for intellectual property protection provisions in future FTAs negotiated around the world.

Fig. II-7 Environmental goods export value by country/region (43 item basis)

	(US\$ million)				
	2007 Value	2008 Value	2009 Value	2010 Value Growth	
NAFTA	24,849	27,585	25,605	30,644	19.7
US	17,119	18,630	17,645	21,064	19.4
EU15	76,205	94,882	75,777	84,816	11.9
Germany	28,796	36,792	28,282	32,530	15.0
Italy	10,497	12,456	10,048	9,903	- 1.4
Japan	17,440	19,750	15,854	19,316	21.8
East Asia	32,919	47,527	43,498	72,318	66.3
China	16,174	27,371	24,397	42,572	74.5
South Korea	4,389	5,744	6,738	9,241	37.1
Taiwan	4,141	5,820	5,145	9,403	82.8
ASEAN5	8,214	8,592	7,218	11,102	53.8
World (JETRO estimates)	173,843	218,820	184,659	235,273	27.4

Notes: (1) The ASEAN-5 countries are Indonesia, Malaysia, The Philippines, Singapore and Thailand.

(2) The figures for East Asia are China, South Korea, Hong Kong, Taiwan and the ASEAN-5 countries.

Source: Trade statistics of individual countries/regions.

Fig. II-8 Principal TRIPS-Plus provisions of ACTA

Subject	Item	Description
Civil enforcement	Lighter burden of proof for amount of damages	In claims for damages the amount of the profit of the infringer may be presumed to be the amount of the damages.
	Broadening the power to issue injunctions	Broadening of the scope of authority for issuing orders preventing the inflow of counterfeit goods, from imports only to exports as well.
Criminal enforcement	Punishment of trade in illegal labels	Criminalization of the import or domestic use of illegal labels, prevention of means for importing them separately from the counterfeit products themselves.
	Ex officio enforcement authority	Granting of ex officio investigative power to the authorities in respect to illegal use of trademarks and illegal copying of copyrighted materials.
Border measures	Mandatory enforcement by authorities	Mandatory enforcement by authorities at time of customs clearance, which was voluntary under TRIPS.
	Control of export cargoes	Expand control on request of victim from just imports to export cargoes as well when appropriate.
Enforcement of intellectual property rights in digital environments	Civil and criminal enforcement	Implement civil and criminal enforcement against intellectual property rights infringement in a digital environment.
	Clarification of "technical means"	Provisions for legal protection and remedies for preventing the start-up of illegally reproduced programs.

Sources: Ministry of Economy, Trade and Industry materials

Outstanding increase of cross-regional FTAs

Japan's FTA coverage ratio is 18.2% , but South Korea's FTA coverage ratio now surpasses Japan

As of June 2011, around the world there are 199 Free Trade Agreements (FTAs), including customs unions, notified to WTO. In recent years, with the intra-regional FTA network almost completed in many regions, there has been a remarkable increase in cross-regional FTAs. At the same time, FTAs between regions or countries with large trade volumes have also become more common.

Looking at the progress of Japan's FTAs, the Economic Partnership Agreement (EPA) with India took effect in August, lifting Japan's FTA coverage ratio (the share of a country's trade with FTA partners) to 18.2%. However, for South Korea, with the FTA with the EU into force in July, its ratio rose to 25.2%, thus surpassing Japan's level. With the pending U.S.-Korea FTA approved in their Congress, South Korea's ratio will jump another 10.1 points. China has Economic Cooperation Framework Agreement (ECFA) in force with Taiwan, its FTA coverage ratio is now 16.6%, catching up the Japan's level.

Fig. II-9 Number of world's FTAs by period and region

Year	(number of agreements)						Total
	Europe	Russia, CIS	Middle East, Africa	North America	Asia, Oceania	Cross-region	
1955-59	1						1
60-64	1			1			2
65-69							0
70-74	1			1		2	4
75-79					2	1	3
80-84				1	2		3
85-89				1		2	3
90-94	4	5	2	2	3	2	18
95-99	3	17	2	5		6	33
2000-04	8	4	5	8	9	18	52
2005-09	5	2		7	20	34	68
2010-	5				4	3	12
Total	28	28	9	26	40	68	199

Source: WTO website.

(<http://rtais.wto.org/UI/PublicAllRTAList.aspx> : as of June 1, 2011)

Fig. II-10 FTA coverage rate in major countries/regions

	FTA coverage rate			Top countries/regions for trade value (Exports + Imports)	
	Exports + Imports	Exports	Imports	First	Second
Japan	18.2	18.4	18.0	ASEAN (14.6)	India (1.0)
U.S.	34.9	40.8	31.0	NAFTA (28.8)	DR-CAFTA (1.5)
Canada	68.2	77.5	59.0	NAFTA (65.9)	EFTA (1.2)
Mexico	80.9	92.6	69.4	NAFTA (67.2)	EU (7.8)
Chile	89.0	87.6	90.9	China (20.6)	EU (16.2)
Peru	69.0	69.2	68.7	US (17.7)	China (16.2)
EU	Total trade value	74.8	77.4	EU (65.0)	Switzerland (2.4)
	External trade	26.4	29.5	Switzerland (6.6)	EEA (4.0)
South Korea	25.2	26.9	23.4	ASEAN (10.9)	EU (10.3)
China	16.6	12.0	21.7	ASEAN (9.8)	Taiwan (4.9)
India	17.9	21.0	15.7	ASEAN (9.3)	South Korea (2.4)
Singapore	66.1	66.3	65.9	ASEAN (27.3)	China (10.6)
A S E A N	60.1	57.9	62.3	ASEAN (25.6)	China (13.6)
Australia	26.5	18.1	35.6	ASEAN (14.2)	US (7.2)
New Zealand	48.7	48.1	49.3	Australia (20.6)	China (13.5)

Notes: (1) "FTA coverage rate" shows how much a country's trade is done with trading partners with which the country has FTA (as of August 1, 2011), the data based on year 2010 Trade Statistics.

(2) DR-CAFTA: the U.S. FTA with the Dominican Republic and Central American countries / EEA: the European Economic Area.

(3) China excludes the ratio for Hong Kong (7.7%) and Macau (0.1%).

(4) Not all ASEAN countries have yet gone into effect with all ASEAN-related FTAs, but all involving countries trade amounts are added.

Sources: Government documents, DOT (IMF), trade statistics of individual countries.

Japan and EU start pre-FTA consultations

The Japan's next FTA negotiations will be with the EU; preliminary talks have begun

At the 20th regular Japan-EU Summit Meeting held in May Japan agreed on the start of preliminary talks with EU, so-called scoping, possibly followed by official FTA negotiations. Under the Japan-EU FTA, with large bilateral trade volumes, any progress made in trade liberalization and trade rules development have implications for multilateral negotiations. The EU has an interest in Japan's non-tariff barriers. 68.7% of Japan's imports from the EU are already duty-free, a very high ratio when compared to the ratio of EU imports from Japan of only 35.9%. Japan's agricultural imports from the EU mainly includes prepared food stuff, beverages and alcoholic drinks, and primary agricultural products are not major items.

The EU-South Korea FTA came into provisional force in July, and competition environment between Japanese and Korean products in EU market may alter. Looking at Japan-Korea export competitiveness in the EU market by product, Japan is particularly ahead in vehicles (HS code 87). However, under the FTA the 10% duty on automobiles will be eliminated in stages and the impact is a concern to Japan. The U.S.-South Korea FTA are likely to be approved later this year by the U.S. congress, which has been the greatest obstacle.

Fig. II-11 Japan's imports from the EU by tariff level (2010)

Japan's import from EU (US\$ million): 66,187									Total
	Duty free	0.1-5%	5.1-10%	10.1-15%	15.1-20%	20%-	Non-ad valorem	Unclassifiable	
Agricultural products	5.5%	4.5%	1.2%	1.3%	0.2%	0.8%	1.1%		14.6%
Non-agricultural products	63.2%	14.9%	4.9%	0.8%	0.2%	0.5%	0.1%		84.5%
Total	68.7%	19.3%	6.2%	2.0%	0.4%	1.3%	1.2%	0.9%	100.0%

Fig. II-12 EU's imports from Japan by tariff level (2010)

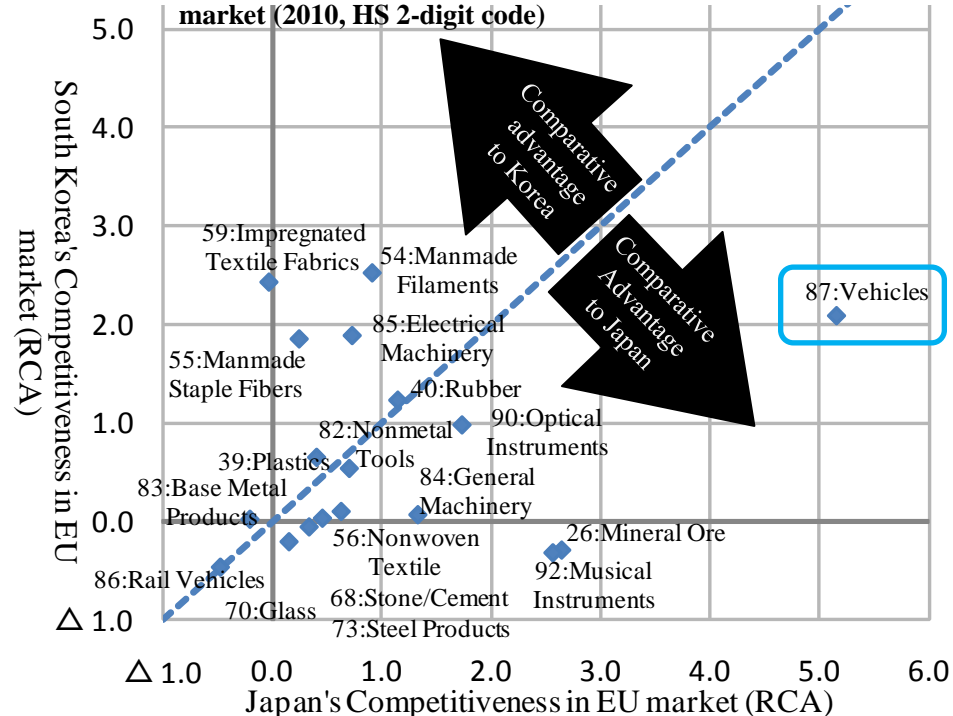
EU's import from Japan (US\$ million): 85,564									Total
	Duty free	0.1-5%	5.1-10%	10.1-15%	15.1-20%	20%-	Non-ad valorem	Unclassifiable	
Agricultural products	0.1%	0.0%	0.1%	0.0%	0.0%	0.0%	0.0%		0.4%
Non-agricultural products	35.8%	37.9%	24.3%	0.7%	0.0%	0.0%	0.1%		98.8%
Total	35.9%	37.9%	24.4%	0.8%	0.0%	0.0%	0.1%	0.9%	100.0%

Notes: (1) "Agricultural products" are products defined in the WTO Agreement on Agriculture, plus fishery products (HS03 etc.) and lumber (HS44 etc.). "Non-agricultural products" are the remaining products.

(2) "Non-classifiable" is reimports and others.

Sources: Trade Statistics of Japan, Customs Tariff Table of Japan, Trade Statistics of EU, Customs Tariff Table of EU and WTO Tariff Analysis Online.

Fig. II-13 Competitiveness of Japan and South Korea in the EU market (2010, HS 2-digit code)



Note: RCA..... Revealed Comparative Advantage Index
Source: EU Trade Statistics.

TPP negotiations underway

Final outlines of the agreement still not in sight

The Trans-Pacific Partnership (TPP) Agreement, a multilateral FTA, is under negotiation led by the U.S. initiatives. Nine participating countries have already completed seven negotiating rounds. Reaching to an agreement by November 2011 appears difficult, but TPP is a milestone ahead in the process of establishing the Free Trade Area of Asia-Pacific (FTAAP), which is the long-term goal of the Asia-Pacific Economic Cooperation (APEC).

A large number of FTAs are already in force among the nine countries in the negotiations. The question of how TPP relates to these existing FTAs, whether just follow the existing FTAs schedule or instead negotiate a new tariff concessions regardless of existing FTAs, will change the nature of the TPP agreement. In existing FTAs there are several items excluded from liberalization, which means that any participating country has its own sensitive areas. This is not limited to goods tariffs, but also includes other areas such as government procurement and investment chapters.

Fig. II-14 Existing FTAs among TPP negotiating countries

		Participating countries									non-member
		Singapore	N Z	Chile	Brunei	U.S.	Australia	Peru	Vietnam	Malaysia	Japan
Participating countries	Singapore		(+)	(+)	(+)	(+)	(+)	(+)	(+)	(+)	(+)
	N Z	(+)		(+)	(+)		(+)		(+)	(+)	
	Chile	(+)	(+)		(+)	(+)	(+)	Negotiations concluded (bilateral)	+ (bilateral)	(+)	
	Brunei	(+)	(+)	(+)			(+)		(+)	(+)	(+)
	U.S.	(+)		(+)			(+)	(+)			
	Australia	(+)	(+)	(+)	(+)	(+)		(+)	(+)	under Negotiations (bilateral)	
	Peru	(+)		(+)		(+)					+ (bilateral)
	Vietnam	(+)	(+)	Negotiations concluded (bilateral)	(+)		(+)		(+)	(+)	(+)
	Malaysia	(+)	(+)	+ (bilateral)	(+)		(+)		(+)	(+)	(+)
non-member	Japan	(+)		(+)	(+)		under Negotiations (bilateral)	+ (bilateral)	(+)	(+)	

(+) FTA in effect + FTA signed (not yet in effect) New negotiations under TPP

Fig. II-15 Major items excluded from liberalization in existing FTAs among TPP negotiating countries (goods)

Country	FTA	Items	Measures
U.S.	U.S.-Australia	Sugar, dairy products, etc.	Maintain the current tariff-quota system.
	U.S.-Peru	Sugar	Maintain the current tariff-quota system.
Chile	Chile-Malaysia (not yet in effect)	96 items such as wine, alcoholic beverages, rice, tobacco, wheat, sugar, honey and used tire	Excluded from liberalization.
Malaysia	ASEAN-Australia-NZ (AANZFTA)	Meat (including pork, chicken)	Maintain the current tariff-quota system.
		Some passenger cars, cargo vehicles, and motorcycles	Maintain the 5% tariff even ten years after the FTA into force.
	Chile-Malaysia (not in effect yet)	Steel products (rolled steel plates)	Maintain the 10% tariff even ten years after the FTA into force.
		138 items such as fireworks, explosives, alcoholic beverages, rice and tobacco	Excluded from liberalization.
Vietnam	AANZFTA	Some passenger cars, cargo vehicles, and motorcycles	Maintain the 5-50% tariff even twelve years after the FTA into force.

A year after ASEAN+1 FTAs completed, more Companies use FTAs

Japanese companies aggressively making use of FTAs among third countries

With the ASEAN+1 FTAs (between ASEAN and Japan, China, Korea, Australia, New Zealand and India, respectively) all coming into force in 2010, Japanese companies are making use of such FTAs. Not only more companies use ASEAN-China FTA, but the number of companies having a trade between ASEAN and China has also risen by 1.5 times. The ASEAN-India FTA, even in the first year, already has a high utilization rate of 21.4%.

Significant rise in the ASEAN+6 intra-regional trade ratio

The proportion of intra-regional trade in the Asia-Pacific region continues to be higher. The ASEAN+6 intra-regional trade ratio (excluding re-exports) rose 2.1 percentage points over last year to 45.9%. Intraregional trade ratios are continuing their rise and particularly with the ratio for ASEAN+6 exceeding that of NAFTA. The integration of ASEAN+6 economies is accelerating.

Fig. II-16 ASEAN+1 FTA utilization rate by Japanese companies
(based on number of companies)

FTA	Status	2009	2010
AFTA (n=135→198)	existing user	33.3	32.3
	potential user	18.5	23.7
ASEAN-China (n=189→287)	existing user	15.9	19.5
	potential user	22.8	23.3
ASEAN-South Korea (n=114→165)	existing user	13.2	16.4
	potential user	17.5	18.8
Thailand-India (n=80→94)	existing user	21.3	19.1
	potential user	18.8	25.5
ASEAN-India (n=79→103)	existing user	-	21.4
	potential user	46.8	29.1
Thailand-Australia (n=65→70)	existing user	24.2	27.1
	potential user	12.9	14.3
ASEAN-Australia-NZ (n=77→80)	existing user	-	17.5
	potential user	33.8	18.8

Notes: (1) Percentage is per (n), which is the number of companies engaged in trade in respective FTA participating countries.

(2) ASEAN-India and ASEAN-Australia-NZ FTAs were not in effect in 2009, no data.

(3) The number of companies that responded to the survey is 935 for FY 2009 and 1002 for FY 2010.

Source: "Survey on the International Operations of Japanese Firms: FY 2009/2010" (JETRO)

Fig. II-17 Intra-regional trade ratio in the world's major economic frameworks

		2000	2005	2008	2009	2010
Asia	ASEAN+6 (Re-export adjusted)	41.9	44.1	43.1	43.8	45.9
	ASEAN+6	40.6	43.0	42.5	43.0	45.0
	ASEAN+3	37.4	39.1	37.4	37.8	39.6
	ASEAN	22.7	24.9	25.0	26.1	25.6
	ASEAN+China	20.1	20.7	20.4	20.3	22.0
	ASEAN+India	22.3	23.8	24.2	24.7	24.4
	ASEAN+Japan	26.4	26.0	26.0	27.0	27.3
	ASEAN+6+Taiwan	44.9	47.7	46.4	46.8	49.0
	ASEAN+3+Taiwan	41.9	44.2	41.7	42.0	44.0
Americas	NAFTA	46.8	43.0	40.0	39.5	40.4
	EU27	65.1	65.0	64.8	65.1	65.0
APEC		72.3	69.3	64.7	66.8	66.9
TPP (Trans-Pacific Strategic Economic Partnership)		13.0	12.6	12.4	12.9	12.8

Notes: (1) The share of intra-regional trade (export+import) is calculated as follows:

$(\text{intra-regional exports} + \text{intra-regional imports}) / (\text{exports to the world} + \text{imports from the world}) * 100$

(2) In calculating "ASEAN+6 (Re-export adjusted)", adjustments are made to exclude re-exports which would cause double counting, using the methods below.

-For Singapore's export, domestic-export value is used in order to exclude re-exports.

-For Singapore's import, import minus re-export is used as "a net import."

-Hong Kong's trade imported from a ASEAN+6 country and re-exported to a ASEAN+6 country is added in intra-regional trade, although trade flow from China to China via Hong Kong is regarded as China's domestic trade, and hence is excluded.

Sources: DOT (IMF), Trade Statistics of Taiwan, Hong Kong and Singapore.

Chapter 3

International Business towards Reconstruction

Impact on the domestic and foreign supply chains

■ The regions hit by the earthquake are highly competitive producers of materials and components

In terms of value of shipments by products or industries, the six prefectures affected seriously by the Great East Japan Earthquake — Aomori, Iwate, Miyagi, Fukushima, Ibaraki and Chiba - hold a large share of Japan’s overall production of the materials and components forming the basis of finished products. The items produced by affected companies are supplied to users throughout not only Japan but also the world. For instance, regarding such industries as semiconductors, liquid crystal panels and materials for lithium ion batteries manufacturers having worldwide large shares operate in the affected prefectures.

■ Industries both inside and outside Japan depend on the Tohoku region

Many items based on materials and components from the Tohoku region are demanded not only within that region but are also in large demand in the Kanto region too. For example, more than half of the automobile components and accessories produced in the Tohoku region and more than 40% of its communication equipment and communication-related devices are used in the Kanto region. Since its intermediate and final products exported worldwide, the decrease in production capacity resulting from the earthquake and subsequent power shortages have had an adverse impact worldwide.

Fig. III-1 Regional shipping share of six Tohoku/Kanto prefectures by industry

Product/Industry	Share (%)
Petroleum and coal products	28.9
Non-ferrous metals and products	20.6
Chemical and allied products	17.7
Iron and steel	17.0
Beverages, tobacco and feed	16.7
Lumber and wood products except furniture	16.4
Food	16.0
Fabricated metal products	13.9
Ceramic, stone and clay products	13.1
Plastic products except otherwise classified	13.0
Business oriented machinery	13.0
Electronic parts, devices and electronic circuits	12.7
Pulp, paper and paper products	12.7
Information and communication electronics equipment	12.3
Total manufacturers	12.5

Note: The six prefectures are Aomori, Iwate, Miyagi, Fukushima, Ibaraki and Chiba.
Source: "Census of Manufactures (2009, final version)" (Ministry of Economy, Trade and Industry)

Fig. III-2 Regional breakdown of users of Tohoku-made material products (Regional production basis)

	Hokkaido	Tohoku	Kanto	Chubu	Kinki	Chugoku	Shikoku	Kyushu
Agriculture, forestry and fishery	4.5	55.9	24.9	2.9	7.5	1.0	0.9	2.3
Beverages and foods	5.2	45.4	34.3	4.6	5.9	1.2	1.0	2.5
Pulp, paper, paperboard, building paper	2.1	47.8	33.1	4.1	10.6	0.8	0.4	1.0
Non-ferrous metals	1.0	45.2	39.0	4.8	5.3	3.6	0.1	1.0
Metal products	2.7	43.9	38.2	6.2	4.6	1.9	0.5	2.0
General machinery	1.3	44.0	34.5	6.6	5.8	2.4	0.7	4.7
Household electronics equipment	2.3	26.7	42.1	6.0	10.4	3.3	2.0	7.2
Computers and accessory devices	1.1	54.2	27.6	6.9	3.6	3.8	0.8	2.0
Electronic components	0.9	61.0	26.4	5.0	2.7	1.0	0.8	2.2
Motor vehicle parts and accessories	0.0	28.8	55.1	6.6	2.6	0.9	0.0	5.9

Notes: (1) The top ten categories in sales value are shown.
(2) "Kyushu" includes Okinawa.
Source: "2005 Inter-Regional Input-Output Table" (Ministry of Economy, Trade and Industry).

Most products produced in the Tohoku region are consumed in the Kanto region. The earthquake revealed that the suspension of operation at factories in the Tohoku region affects industries not only over Japan but also around the world.

Auto exports fall following the earthquake

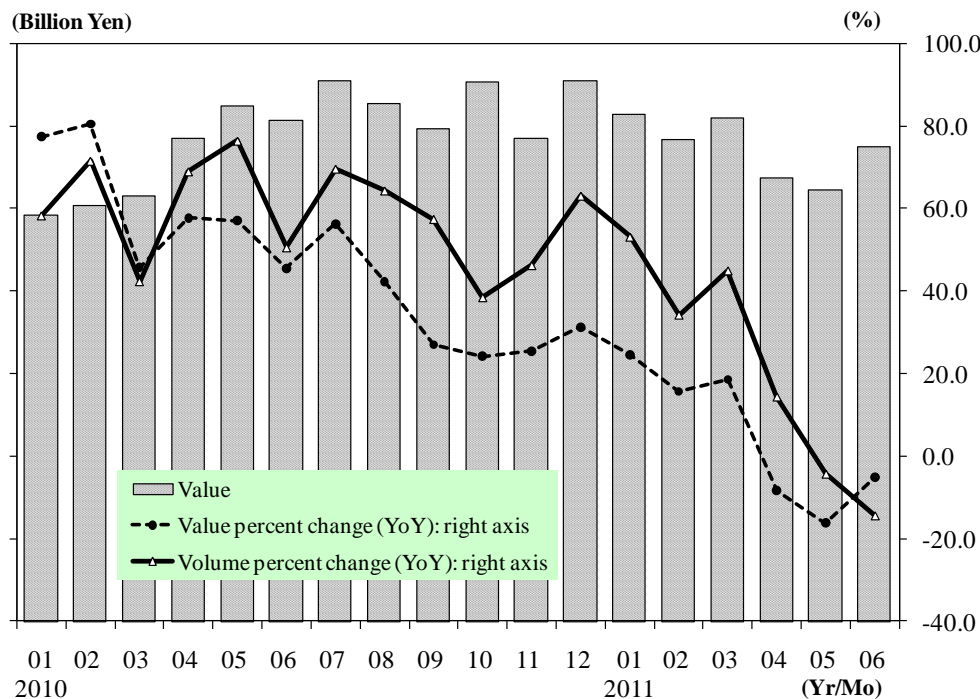
Exports of key materials and components slow down

The Great East Japan Earthquake cut the supply chain to overseas customers. Due to damage from the quake to the factories of major manufacturers, the export of microcontrollers, a key component in automobiles, fell on a volume basis 11.7% in March, 27.8% in April and 38.7% in May, with the size of the decreases growing month by month. Exports of silicon wafers which are basic materials for semiconductors, also on a yen value basis were down in April year-over-year for the first time in 17 months and on a volume basis are down year-over-year in May for the first time in 20 months. In June, however, the decreases began to be moderate.

The impact from material and component shortages spreads to intermediate and finished products

The slowdown in the production of materials and components led to a fall in intermediate and finished products exports too. Looking at Japan's total global exports for March and April, immediately after the earthquake, by HS four digit product categories, the products which registered the largest contribution to drop in exports were automobiles (HS8703) and integrated circuits (HS 8542). Although export volume sharply dropped immediately following the earthquake, the subsequent speed of the recovery of the supply chain exceeds expectations. As a result, for example, the decline in automobile exports hit bottom in April and since then the extent of the decline has shown rapid improvement.

Fig. III-3 Trends in silicon wafer export



Source: "Trade Statistics" (Ministry of Finance)

Fig. III-4 The twenty items most contributing to the decrease in exports

Rank of negative contribution	HS code	Category	Share of Japan's total exports (%)
1	8703	Passenger vehicles	11.7
2	8542	Integrated circuits	4.5
3	8704	Cargo vehicles	1.3
4	8525	Visual apparatus	1.2
5	8708	Automobile components	4.6
6	8901	Vessels	3.3
7	8443	Printing machines, parts and accessories	2.0
8	2710	Oil and bituminous oil other than crude-oil, preparation for such products and waste oil	1.5
9	8407	Piston-type internal combustion engines	0.7
10	8517	Communication devices	0.7
11	8529	Audio and visual device components	0.7
12	7403	Refined copper and copper alloys ingot	0.5
13	8429	Construction and mining machinery	1.2
14	9001	Optical fibers and other optical goods	0.7
15	8541	Diodes, transistors and other similar semiconductor devices	1.6
16	9018	Medical and veterinary devices	0.5
17	7210	Iron and non-alloyed steel flat-rolled products	0.7
18	4011	Rubber pneumatic tires	0.9
19	8532	Fixed, variable or adjustable condenser	0.7
20	8536	Switching, protective or connection devices for electric circuits	1.0

Notes: (1) Categories are listed in order of minus contribution, with the sum of March-April 2011 compared by YoY.

(2) "Share of Japan's total exports" is for 2010.

(3) The product categories listed here have shares in excess of 0.5% of 2010 exports.

Earthquake also affects foodstuffs exports

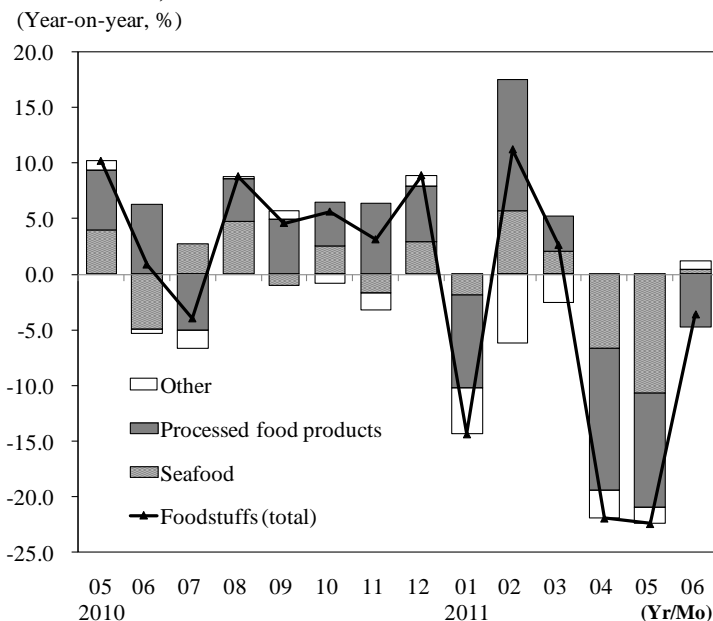
Sharp fall in exports immediately following the earthquake

April exports of foodstuffs fell 21.9% to 29.7 billion yen, the largest decrease seen since August 2009. Products which were subjected to the greatest disruption of exports in March and April, immediately following the earthquake, were frozen fish such as sauries and swordfish as well as prepared baby foods and tobacco, which also fell markedly. The fall in the value of exports continued into May with a drop of 22.4%. However, in June, buoyed by increased exports to Thailand and Vietnam, exports of foodstuffs returned to a level approximately the same as the prior year, registering a decline of only 3.6%.

National and regional import restrictions also impede export recovery

The slowdown of foodstuffs export is caused not only by infrastructure impairment and harmful rumors about radioactivity, but also by various types of import restrictive measures. However, the reactions of importing countries have begun to moderate. For example, on June 13, Canada completely rescinded the special measures it had implemented following the earthquake for more stringent inspection including requiring the submission of test certificates regarding radioactivity and exports to Canada, which had suffered double digit declines in April and May rebounded to a double digit gain in June.

Fig. III-5 Japan's Foodstuffs exports on monthly percent change (contribution year on year, yen-based)



Source: "Trade Statistics" (Ministry of Finance)

Fig. III-6 Import restrictive measures on Japan's agricultural/fishery products by major countries/regions

	Local authority	Targeted prefectures	Products	Measures	Other information
U.S.	FDA	Kanagawa, Gunma and Chiba	Tea leaves	Imports suspended	
		Fukushima, Tochigi and Ibaraki	Products for which domestic sale and exports are restricted: some vegetables, milk, mushrooms, bamboo shoots, greens and sand lance from Fukushima, spinach from Tochigi and tea leaves from Ibaraki and Tochigi		
		Other prefectures (including Kanagawa, Gunma and Chiba)	Milk and dairy products and vegetable, fruits and their processed products		
EU	European Commission	Fukushima, Gunma, Tochigi, Ibaraki, Miyagi, Nagano, Yamanashi, Saitama, Tokyo, Chiba, Kanagawa and Shizuoka (12 prefectures)	Foodstuffs and feed	Inspection of samples in U.S.	Radiological inspection certificate may be issued by U.S. inspection agency.
		Other prefectures	All foodstuffs and feed	Government-issued radiation inspection certificate required and inspection of samples in importing countries	
China	AQSIQ	Fukushima, Gunma, Tochigi, Ibaraki, Miyagi, Niigata, Nagano, Saitama, Tokyo, Chiba (10 prefectures)	All foodstuffs and feed	Government-issued certificate of origin required and inspection of samples in importing countries	Production date certificate required for foodstuffs and feed produced or processed before March 11.
		Other prefectures	All foodstuffs and feed	Government-issued radiation inspection certificate and certificate of origin	
		Other prefectures	Vegetables and such products, milk and dairy products, fishery products and aquatic animals, tea leaves and such products, fruits and fruit products and medical plant products	Government-issued certificate of origin	
Taiwan	Department of Health, Executive Yuan	Fukushima, Gunma, Tochigi, Ibaraki, Chiba (5 prefectures)	Foodstuffs, food crops and feed other than those listed above	Imports suspended	• Foreign exporters of Japanese foodstuffs or their agents are required to register. • Import and sale record system imposed on Chinese importers of Japanese foodstuff.
		Other prefectures	All foodstuffs (shipped March 26, 2011 or later)	Inspection of all lots	
		Other prefectures	Fruits, vegetables, fishery products (live, chilled, frozen), dairy products, baby foods, mineral and other water and seaweed	Inspection of samples	
			Processed food (produced March 12, 2011 or later)		

Note: Restrictions shown here are based on reports as of July 12.

Sources: Reports from JETRO overseas offices and documents from Ministry of Agriculture, Forestry and Fisheries.

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“Reconstruction open to the world”

The Reconstruction Design Council in Response to the Great East Japan Earthquake
“Towards Reconstruction” (Excerpts)

“In reconstruction, it is important to absorb the vitality of other countries in various ways.”

“One of the means of achieving that is through promoting foreign direct investment. In particular, it would be desirable to encourage global companies to establish research bases and Asian headquarters functions in Japan by developing an environment that has international appeal.”

“Japan should promote the acceptance of foreign nationals who can contribute to the revitalization of Japan.”

“At the same time, markets for Japanese products must be sought not only within Japan, but also from across Asia and the world.”

“Japan will make its efforts to ensure a level playing field in the world for Japanese enterprises and Japanese products through the continued promotion of the free trade system.”

“Seek to generate employment and develop the economy in disaster-affected areas through the expansion of overseas sales routes for products from the affected areas.”

Adopted June 25, 2011,
Submitted to the Prime Minister

Expansion of overseas sales is crucial for reconstruction not only for the disaster-affected areas but for all Japanese businesses, especially small-and-mid-sized businesses.

Many Strengths Increase Location Attractiveness of Japan

Research and development underpinning high quality products

High productivity keeps intermediate goods competitive

Japan's technical prowess for solving common problems

Contribute to Reconstruction through Expanding Overseas Business with Japan's Strengths

Unchanged priority

-Capturing overseas demands especially in the emerging countries

Japan's presence in emerging markets

-Expanding, but dwarfed by China and Korea

- Capturing overseas markets by leveraging Japan's meticulous product development and high factory productivity
- Using Japan's own experience to enter Asia's graying markets
- Strengthen energy conservation and other environmental technologies for deploying overseas
- All-out effort to revitalize and enhance the “Japan Brand”

Many Strengths Increase Location Attractiveness of Japan

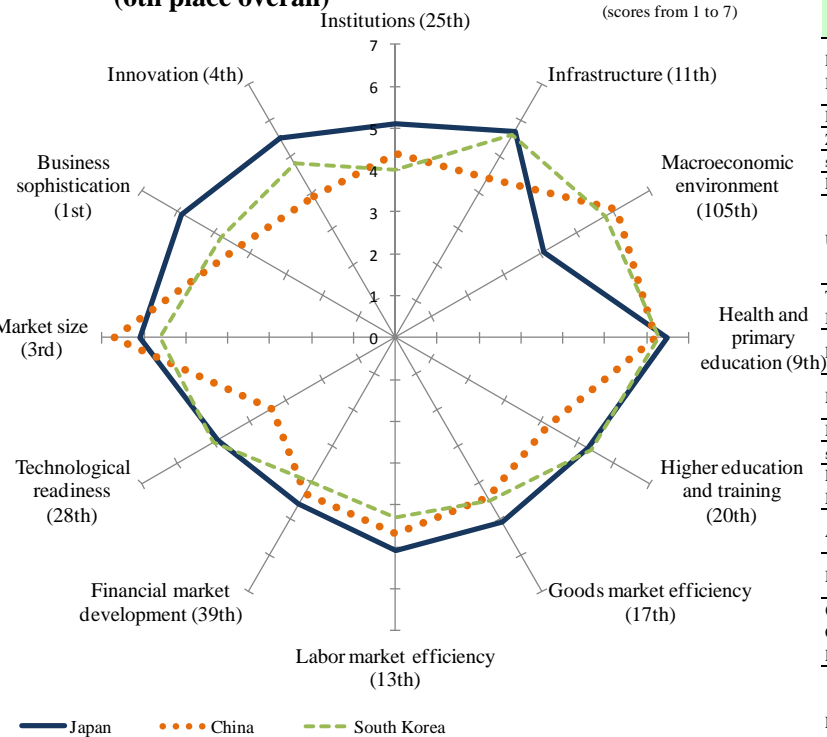
■ Japan's strengths — Key to post-earthquake reconstruction

The Great East Japan Earthquake had a sweeping impact on goods flow and many other aspects in Japan. There are also concerns about its effect on Japan's brand image. In order to overcome the situation and to achieve rapid reconstruction, it is crucial to fully leverage Japan's unique strengths and capture overseas demand.

Japan's core strengths can be categorized as i) its capacity for research and development underpinning high quality products and ii) factory production capacity coming from industrial agglomeration. In addition, areas in which strengthened initiatives are sought in the wake of the earthquake are expected to be Japan's strengths, including iii) energy efficiency and other environmental technologies, iv) disaster prevention technologies. The medium- to long-term challenge of iv) establishing measures for dealing with an aging society has the potential to be turned into new strength of Japan, as other countries will be facing the same issue.

Japan's overall competitiveness has always received highest ratings in the annual *Global Competitiveness Reports* of the World Economic Forum. In particular, the areas of "business sophistication" and "innovation" drive the high rank. Continuing inward foreign direct investment to Japan even after the earthquake shows that Japan has location attractiveness stemmed from the strengths just listed as well as the size of its market and other contributing factors.

Fig. III-7 Japan in "Global Competitiveness Report" (6th place overall)



Note: Numbers in parantheses show Japan's rank among 139 countries/regions.
Source: The Global Competitiveness Report 2010-2011 (World Economic Forum).

Fig. III-8 Major investment in Japan after the earthquake

Company/Industry	Industry	Country of Global HQ	Overview
Dou Yee International Pte. Ltd.	Liquid crystal display	Singapore	On June 21 the company decided to establish a manufacturing and R&D base for film LCDs in Shobara, Hiroshima Prefecture. Selected as a beneficiary of Subsidy Program for Projects Promoting Asian Site Location in Japan. Total amount of initial investment expected to be roughly one billion yen.
Dyesol Japan	Next-generation photovoltaic cells	Australia	Also selected by METI under Subsidy Program for Projects Promoting Asian Site Location in Japan (announced April 23). All are investments in R&D attracted by the many manufacturers and research centers in Japan.
Zydus Pharma	Pharmaceuticals	India	
salesforce.com	IT services	U.S.	
Eurocopter Japan T&E	Special-purpose helicopter	France	
Umicore	Nonferrous metal	Belgium	In April 2011, using Employment Generating Low Carbon Enterprise and Regional Development Subsidy, opened a plant in Kobe for the manufacture of cathodes for lithium ion batteries. The planned investment amount is 4 billion yen. On June 22 announced plans to open a design, R&D and manufacture base for platinum glass melt systems in Yokohama.
Teva Pharmaceutical Industries	Generic drugs	Israel	On May 16, announced acquisition of Taiyo Pharmaceutical (Nagoya). On July 14 announced that it had completed the acquisition of effectively 100% outstanding shares for US\$934 million.
Prologis	Logistics	U.S.	On June 2, construction of a dedicated logistics facility for the Miyagi Cooperative in Tomiya, Kurokawa-gun, Miyagi. The effects from the earthquake were kept to a minimum, and construction was completed as initially scheduled.
Mexichem	Chemicals manufacture	Mexico	On May 9, plans to expand investment in Japan and South Korea were announced. With a total investment of US\$150 million, it plans to produce refrigerants (fluorine compounds) in Japan and hydrofluoric acid in South Korea.
Microsoft	IT services	U.S.	Toyota Motors agreed to strategic alliances with Microsoft (April) and salesforce.com (May). The three firms plan to invest one billion yen in total in a Toyota affiliate.
salesforce.com	IT services	U.S.	
LaSalle Investment Management	Real estate investment	U.S.	On April 26, announced that it had acquired land in the Tokyo Metropolitan inland area. To be developed as a large multi-tenant logistics facility by the fall of 2012; total investment of over 10 billion yen estimated.
Amazon Japan Logistics	Logistics	U.S.	On April 1, opened a new logistics center in Tokoname, Aichi, to support increasing scale of distribution by Amazon.co.jp and to provide prompt delivery service.
Mapletree	Real estate fund	Singapore	On March 25 announced that it had acquired a logistics facility in Hiroshima for 7.3 billion yen. With this deal, the fund's investment in Japan covered 15 facilities for a total of around 65.2 billion yen.
Qingdao Jinlong Plastic Compound Color Printing Co., Ltd	Packing material manufacture	China	On March 1, signed agreements for the construction of plants with Tottori Prefecture and the town of Daisan-cho. Preparing to establish a Japanese corporation, with the goal of constructing a system for the full production of plastic bags and other goods for the Japanese domestic market.
Low cost carriers	Airline services	Asian countries	<ul style="list-style-type: none"> •Spring Airlines (China): Launched Shanghai-Takamatsu route on July 15. •Eastar Jet (South Korea): Launched Seoul-Shinchitose route on May 5, and Seoul-Narita route on July 1. •Jin Air (South Korea): Launched Seoul-Shinchitose route on July 15. •Air Busan (South Korea): Following new routes to Fukuoka and Kansai airport in 2010, launched route to Narita on June 12, 2011.

Sources: Press releases and news reports.

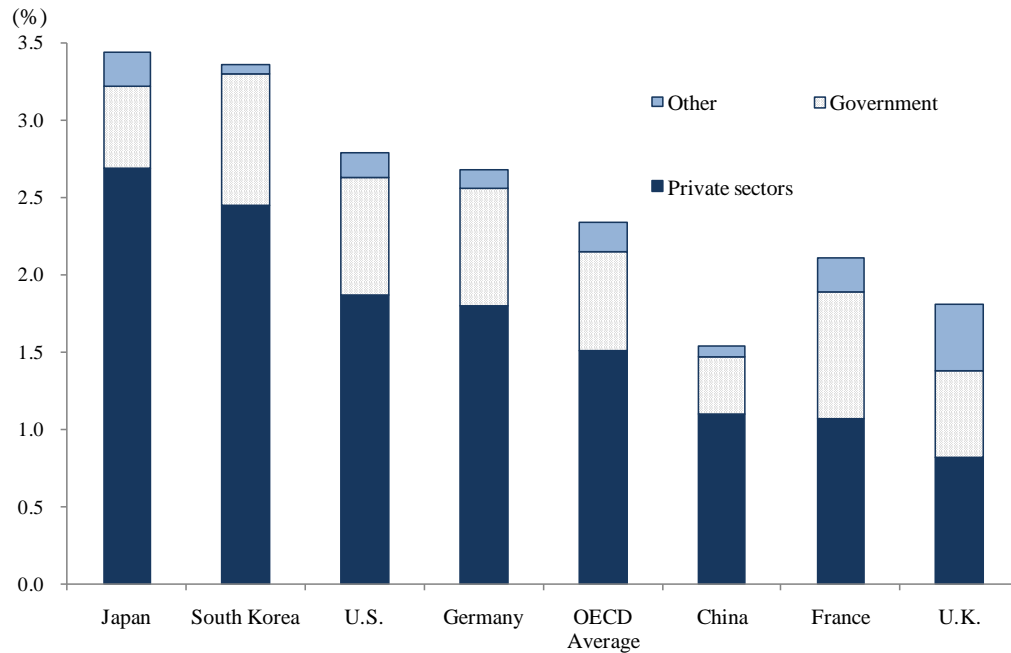
Research and development underlies high quality products

Japan's R&D led by private sector

Japan's R&D expenditure remains among the highest in the world. Private sector expenditure on R&D in Japan is particularly high; Japan's R&D as a percentage of GDP reaches 2.69%, compared to the average for all OECD countries of 1.51%. This is a major factor underpinning Japan's competitiveness.

Against this background of active R&D by private sector companies, Japan has a large number of patent applications, making up about 20% of all international patents filed under the Patent Cooperation Treaty (PCT). The number of Japan's international patent applications has seen an increasing trend over the last several years and in February and March of 2011 surpassed the U.S. By technical field, large number of patents are applied in optical equipment, audio and video technology and semiconductors, which make up nearly half of total patent application. Among companies, Panasonic is top ranking; in 2008 it ranked number two behind a Chinese company, but in 2009 (1,891 patents) and 2010 (2,154 patents) it regained the top spot.

Fig. III-9 R&D expenditure in major countries by funding source as a percentage of GDP



Notes:

- (1) The figures for U.K. are from 2010 and the rest are from 2008.
 - (2) The financial sources for "Other" are higher education institutions, private nonprofit institutions, foreign sources, etc. Figures for OECD Average and China were calculated backward from total.
- Source: Main Science and Technology Indicators, Vol. 2010/2 (OECD).

Fig. III-10 Major countries' shares of PCT applications in selected fields (sum of 2009 and 2010)

	Japan (%)	U.S. (%)	Germany (%)	China (%)	South Korea (%)
Optics	47.4	21.8	7.6	2.2	4.0
Audio-visual technology	45.5	18.3	5.5	3.4	6.4
Semiconductors	43.2	29.2	7.9	1.8	5.1
Electrical machinery, apparatus, energy	32.7	20.6	16.0	4.2	4.1
Telecommunications	24.7	22.8	3.3	9.5	13.4
Organic fine chemistry	15.7	29.1	12.1	2.9	2.8
Digital communication	13.0	25.0	2.9	20.5	7.4
Medical technology	11.6	45.3	7.8	1.6	2.2
Biotechnology	11.5	39.7	7.1	2.1	3.4
Pharmaceuticals	10.1	38.2	6.4	2.7	2.4
Total (2010)	19.6	27.4	10.7	7.5	5.9

- Notes: (1) The top five fields and bottom five fields for Japan's share of applications in those fields among WIPO's 35 technical field classifications having at least 6,000 applications in 2009
- (2) Figures for applications by field in 2010 are totals up to September.
- (3) Applications that belong to multiple fields are counted in each field.

Source: WIPO Database (as of May 2011).

High productivity keeps intermediate goods competitive

Intermediate goods produced by high production capacity maintain competitiveness, as Asian production networks expand

Japanese companies, exploiting advanced technical capabilities, continue to create the highest quality parts and materials, and are maintaining strong competitive positions in expanding and deepening production networks in Asia. Japan's trade balances vis-à-vis China, Korea, Taiwan and ASEAN countries are all surplus and the size of the surpluses continue to grow (based on import statistics of each country). In terms of the composition of imports and exports, Japan imports primary goods from Southeast Asia and consumer goods from China while exporting intermediate goods to those countries and the ASEAN region. Although Taiwan and Korea are in a similar position, Japan enjoys trade surpluses with both of these countries. Taking into account the fact that transactions with overseas Japanese-affiliated companies are included, Japanese companies are in a position to prosper in the growing Asian market by exploiting their strengths in high productivity of components and materials.

In order to maintain and strengthen the competitiveness, efforts should be continue for facilitating trade liberalization and improving Asia's regional connectivity, while in Japan the ceaseless endeavor of Japanese companies must be supported through initiatives aimed at improving production and business environment.

Fig. III-11 Japan's trade balance with East Asia (2007 and 2010)

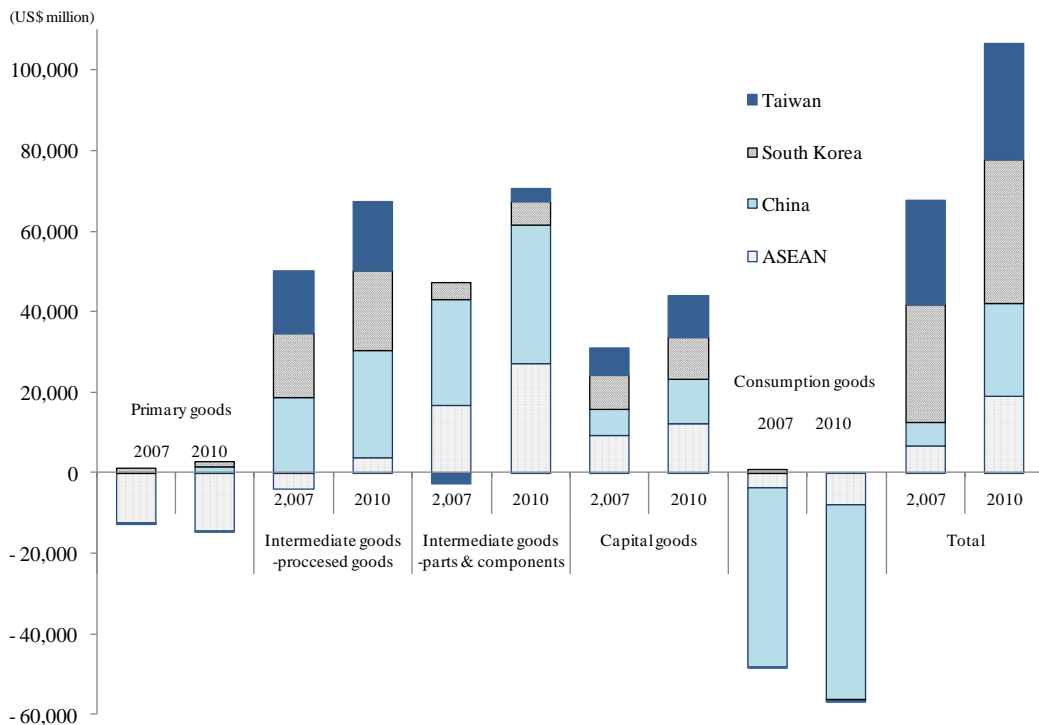
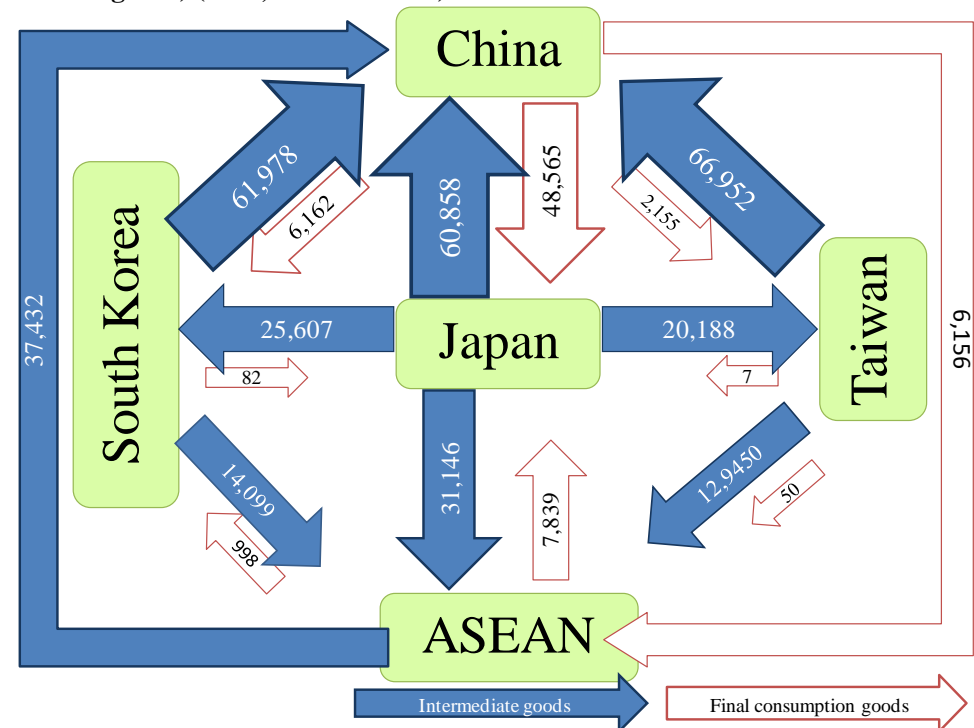


Fig. III-12 Trade flow in East Asia (intermediate goods and final consumption goods) (2010, trade balance)



(Notes) (1) Definition of trade goods classification is based on the RIETI-TID. (2) ASEAN here refers to the five countries of Indonesia, Singapore, Malaysia, the Philippines and Thailand.

(Source) Fig. III-11 and 12 are both based on import statistics of individual countries/regions.

Japan's high-level technology for solving common problems

Further advances expected in Japan's energy conservation and other environmental technologies

Having experienced two oil shocks, Japan's public and private sectors worked together to promote efficient energy use. Currently Japan is facing power supply shortages, but the upside may be that this challenge will induce further advances in energy conservation technologies. There are many countries abroad facing the challenge of inefficient energy use, and tackling climatic change is truly a shared challenge. If Japan overcome energy problems it now confronts, it will open up new business opportunities abroad.

Increasing Attention on Japan's disaster prevention technologies as it strives to build a society resistant to natural disasters

Despite the immense force of the Great East Japan Earthquake and the ensuing tsunami, there are disaster prevention technologies whose advanced capabilities gained worldwide reputation. One example was the earthquake early detection system of the Shinkansen bullet trains which worked to stop all trains before any derailments occurred. Disaster prevention is a common challenge shared by many countries, especially in Asia, which suffers frequent damage from natural disasters, especially from earthquakes and tsunamis. In seeking to meet these common challenges, much hope is place on the disaster prevention technologies that Japan has developed in its long history of tackling the issue.

Fig. III-13 Total energy consumption per US\$1 million of value added by industries

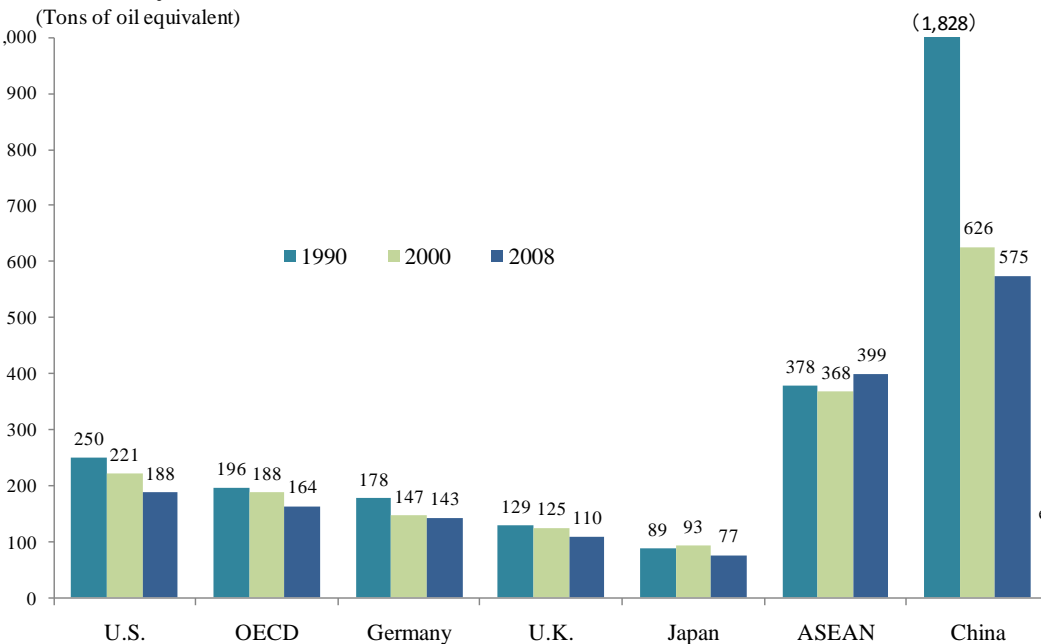
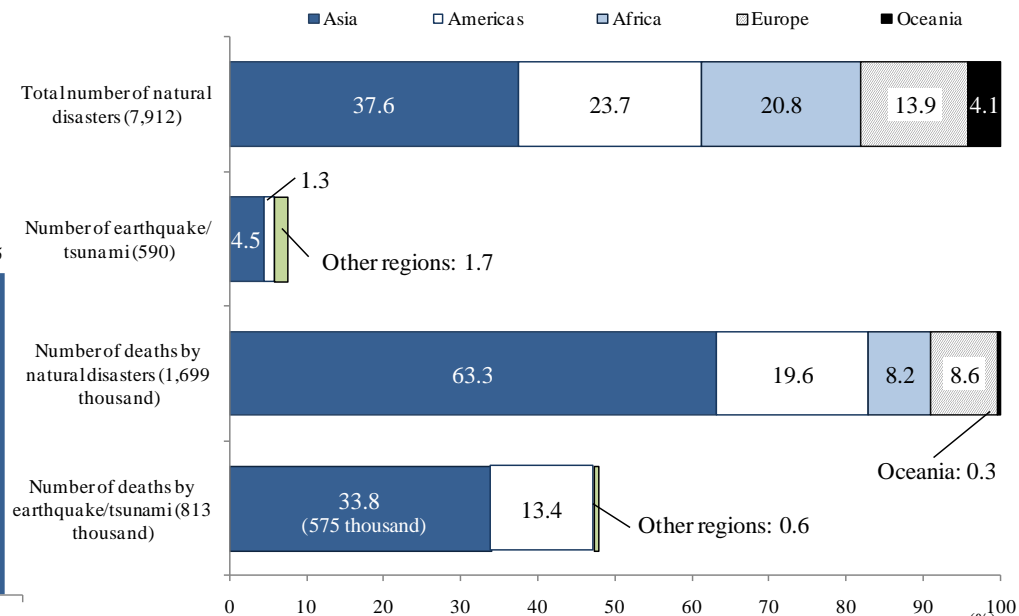


Fig. III-14 Natural disaster by regions: 1990-2011



Source: "EM-DAT: The OFDA/CRED International Disaster Database - www.emdat.be - Université catholique de Louvain - Brussels - Belgium" as of May 10, 2011.

Note: Total industry consumption of energy (including non-energy use) per value added in industry (constant 2000 US\$).
 Source: Energy Balances of OECD Countries, Energy Balances of Non-OECD Countries (IEA, 2010) and World Development Indicators (World Bank).

Unchanged priority - capturing overseas demands especially in the emerging countries

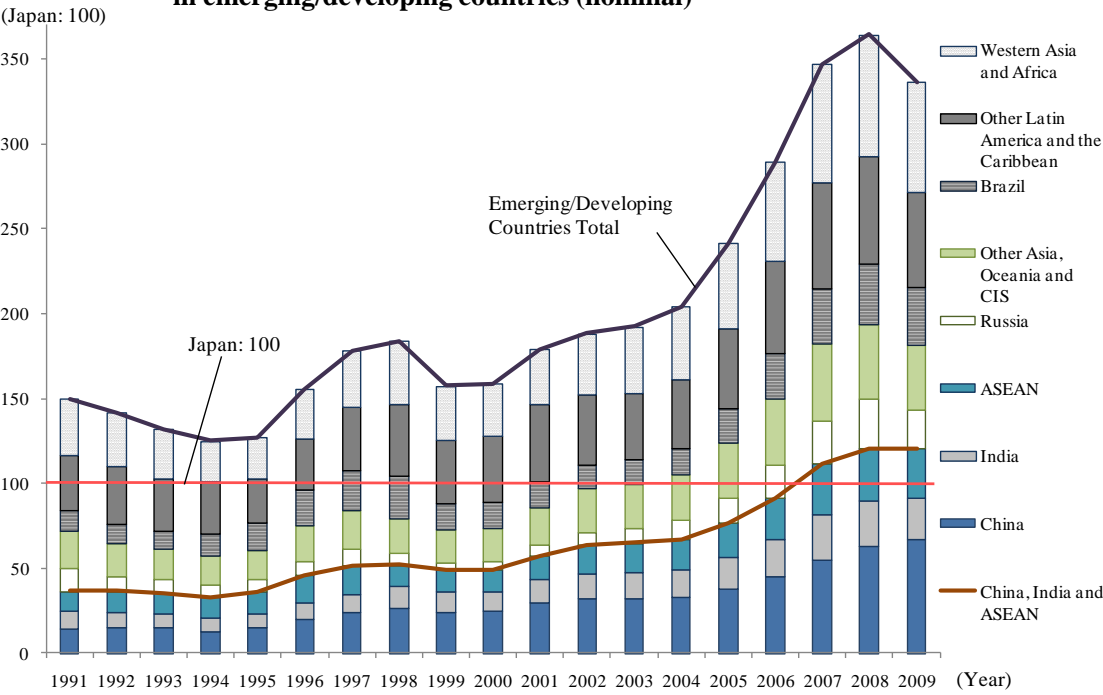
Markets in emerging countries continue to expand

In carrying out reconstruction, it will surely prove crucial to capture overseas demand by leveraging strengths of Japan which are laid out in the preceding section. The emerging countries, especially in Asia, are of immense importance. As their economies grow, the purchasing power of the emerging nations has grown steadily. The household consumption expenditure in emerging and developing nations rising sharply since the middle of the first decade of this century and is now over three times that of Japan.

With the rise in income levels, more sophisticated consumption

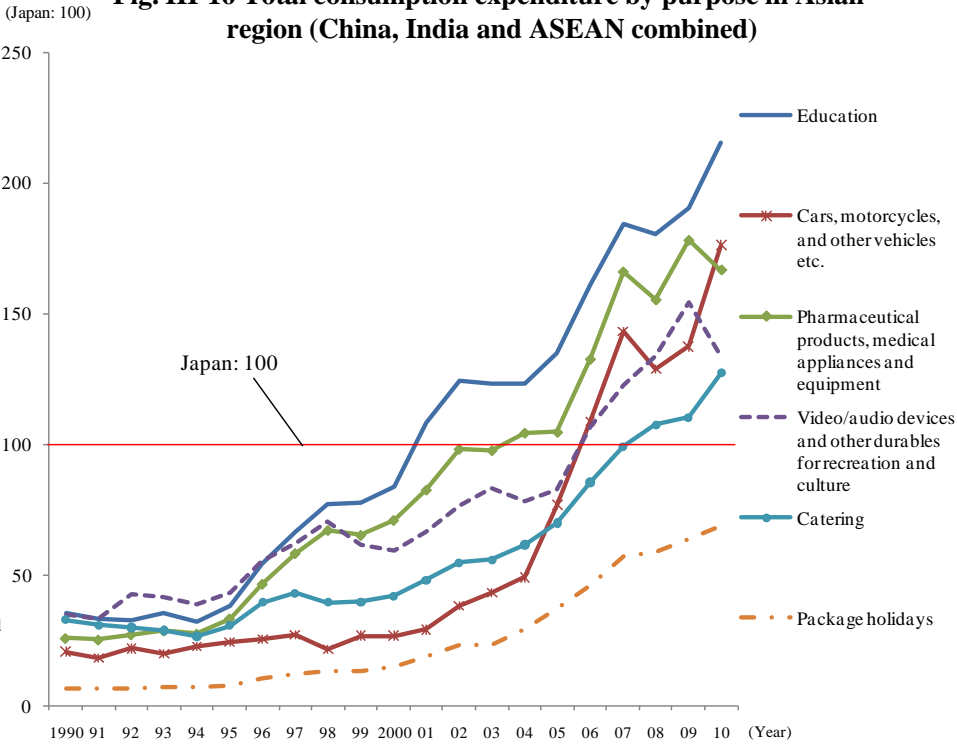
Looking at trends in consumer spending by purpose in the Asian region (China, India and the ASEAN), expenditures on education, vehicles and medical services have increased rapidly and, in the current decade, the combined spending of these countries have surpassed the respective amounts of Japan. Luxurious spending such as package holidays has also been increasing. As income levels rise, markets for many products and services that Japanese companies can target are growing.

Fig. III-15 Scale of household consumption expenditure in emerging/developing countries (nominal)



Note: "Emerging/Developing Countries" here are the countries as classified by the UN for statistical convenience, plus Russia and the CIS countries.
Source: National Accounts Main Aggregate Database (UN).

Fig. III-16 Total consumption expenditure by purpose in Asian region (China, India and ASEAN combined)



Source: Consumer Asia Pacific and Australasia 2011 (Euromonitor International).
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Japan's presence in emerging markets - expanding but dwarfed by China and Korea

Japan's export and investment to emerging countries are both expanding, but still lag behind the rapid pace of China and South Korea

As emerging countries has shown strong economic growth, Japan's export to those countries has also grown. Since 2009 exports to Asian countries make up more than half of Japan's total exports, with a large share goes to China and the ASEAN countries. Percent change of exports to Russia, CIS, China and India exceed the average. However, China's and South Korea's exports are growing at an even faster rate, far surpassing that of Japan; and there are countries and regions where the value of China and South Korea's exports exceed that of Japan.

Looking at foreign direct investment, Japan has shifted its concentration in Europe and U.S. toward Asia and Latin America, but China and Korea have concentrated even greater percentages of their investments in emerging and developing countries. In 2009 China's investment in Africa reached 11.1% of its total FDI, excluding FDI from China to Hong Kong, and now the FDI stock in Africa reaches approximately US\$9.0 billion, surpassing that of Japan.

Fig. III-17 Japan, China and South Korea's exports by country/region (2010, export basis)

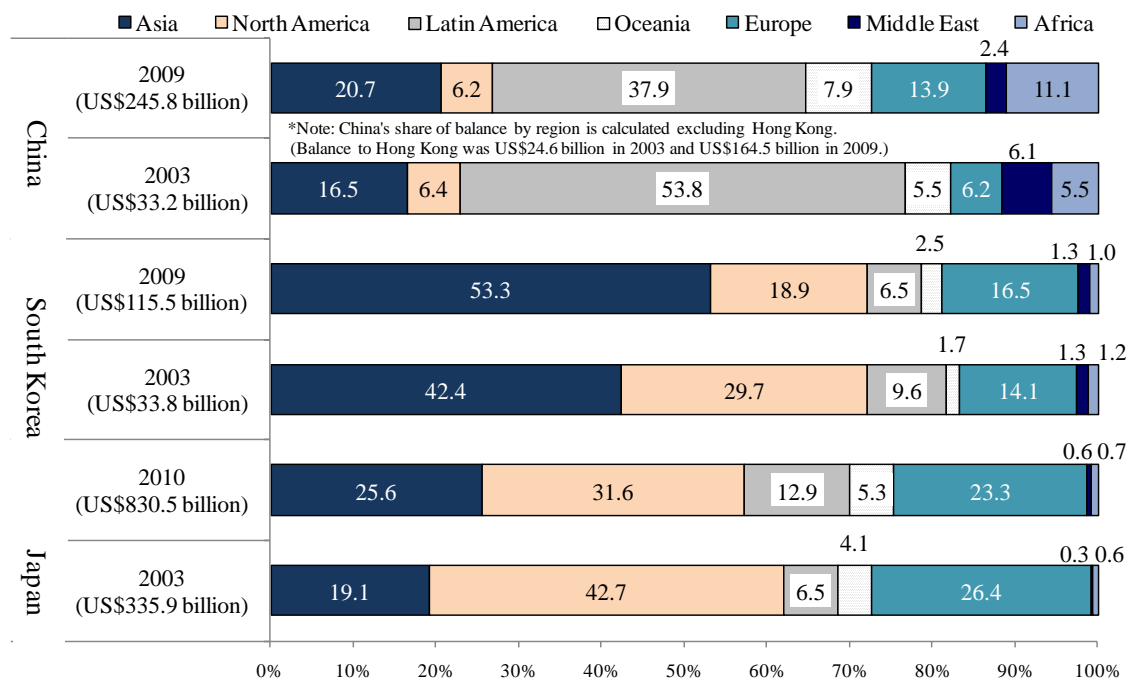
	Export destination composition ratio (%)			Increase from 2000 (multiple)			Shares of Japan, China and South Korea at destinations (%)		
	Japan	China	South Korea	Japan	China	South Korea	Japan	China	South Korea
	Asia	56.1	40.5	54.2	2.2	5.1	3.1	9.9	14.6
China	19.4	—	25.1	4.9	—	6.3	11.9	—	9.3
ASEAN	14.7	8.8	11.4	1.6	8.0	2.6	12.0	14.7	5.7
India	1.2	2.6	2.5	3.6	26.0	8.6	2.8	12.7	3.6
Latin America	4.5	4.7	5.9	2.2	12.7	3.9	5.8	12.5	4.6
Brazil	0.8	1.5	1.7	2.5	20.0	4.5	3.4	13.3	4.2
Russia and CIS	1.2	3.4	2.4	11.6	16.9	8.5	2.6	14.9	3.1
Middle East	3.6	4.7	5.6	2.6	10.3	3.4	4.5	12.0	4.2
Africa	1.6	3.8	3.3	2.4	11.9	4.7	3.0	15.1	3.9
Europe and America	27.9	39.1	23.0	0.9	6.4	1.7	2.9	8.2	1.4
World	100.0	100.0	100.0	1.6	6.3	2.7	5.2	10.7	3.1

Notes: (1) With respect to "Shares of Japan, China and South Korea", the figures are based on the value of exports from countries where custom statistics were available. Hence, there may be discrepancies with figures in other sections of this report.

(2) The figures for "Europe and America" are the aggregate of those for U.S., Canada and EU.

Source: Trade Statistics of individual countries/regions.

Fig. III-18 Japan, China and South Korea's outward FDI position (regional breakdown)



Notes: (1) Figures in parentheses are total world balance. (2) In calculating share by region, excluding investments by China in Hong Kong and by South Korea in unspecified countries. (3) Classification of regions are based on Balance of Payments Statistics of Japan (Ministry of Finance and Bank of Japan).

Source: Japan: "Direct Investment Position, breakdown by Region and Industry" (Bank of Japan), South Korea: OECD International direct investment database, China: "2009 Statistical Bulletin of China's Outward Foreign Direct Investment" (China's Ministry of Commerce).

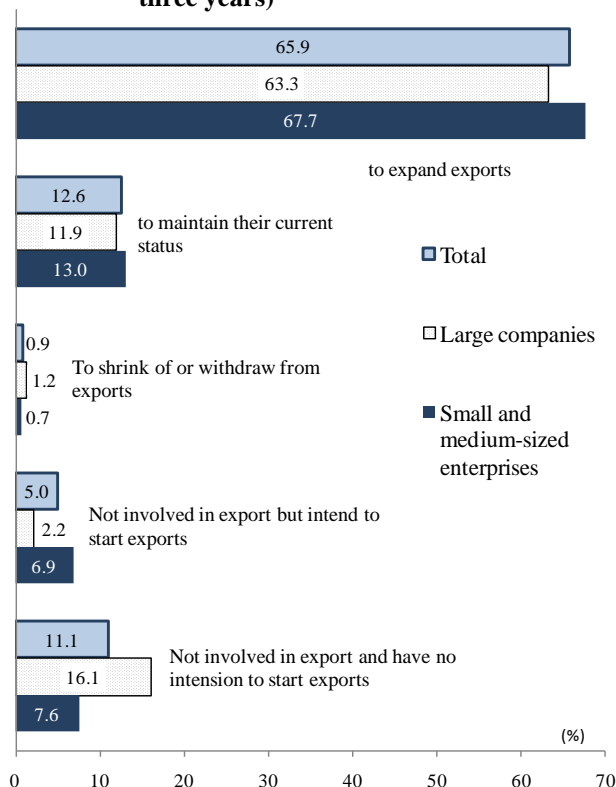
Capturing overseas markets by leveraging Japan's meticulous product development and high factory productivity

Competitive edges of Japan's small- and medium-sized enterprises has shown in overseas markets

In *The Global Competitiveness Report* by the World Economic Forum Japan ranks at the top in "Business Sophistication" pillar. Looking at the more detailed evaluation of the pillar, it is obvious that the high score stems from the depth of the production network underpinned by small- and medium-sized enterprises with high technical capabilities, as shown in very high scores in "local supplier quantity," "local supplier quality" and "state of cluster development." In fact, there are many SME active overseas which can supply unique products not available from any other source because they can develop products precisely meeting the requirements of customers thanks to their product development capabilities. In a questionnaire filled out by JETRO Member companies, a highly positive attitude toward exports by SME stood out.

As small- and medium-sized enterprises develop their overseas business, their capabilities of product development and production would improve even more and there would be ripple effects such as expanding business opportunities with companies in Japan as well. In this sense, expanding overseas sales will be of increasing importance.

Fig. III-19 Export plans going forward (for about three years)



Source: "FY 2010 Survey on the International Operations of Japanese Firms" (JETRO, March 2011)

Fig. III-20 Examples of overseas market development by small/medium-sized companies

Company	Primary target countries	Overview of Products and Services, Status of Market Development, etc.
Asia Giken Co., Ltd. (Kitakyushu, Fukuoka Prefecture)	Southeast Asia, China	Welding machines and integrated management of stud welding systems from supplying studs (pins) to construction works. First in the world to succeed in developing ultra-instantaneous magnesium alloy welding. Has expanded into markets in Southeast Asia, China and Taiwan. Actively welcomes trainees from China and deploys an IT-based system for managing products at remote locations as the company aims for further sales expansion.
Amaike Textile Industry Co., Ltd. (Nanao, Ishikawa Prefecture)	Europe	Developed textiles using ultra-thin polyester yarn, using product development knowledge accumulated over the course of many years. Commercialized as the "Amaike Super-Organza" the world's thinnest and lightest fabric. Have actively participated in exhibitions, etc., utilizing to full advantage of this one-of-a-kind product, which has been adopted by leading European fashion brands.
TRINC.ORG (Hamamatsu, Shizuoka Prefecture)	China, Southeast Asia	Developed static-eliminating devices that diffuse ions traveling long distance without using air blow. Has developed many types of devices, obtaining approximately 130 patents. Developing their business by writing books in Japanese and English and other promotional activities. In November 2010 launched an exclusive brand for overseas markets.
Tanaka Electric Laboratory Inc. (Setagaya-ku, Tokyo)	Vietnam, Thailand	Manufacturer of environment monitoring instruments with plant located in Nasukarasuyama, Tochigi Prefecture. Marketing dust density monitor designed for continuous measurement of dusts in harsh industrial environment to a Thai electric company, Vietnamese cement maker and others. The products were developed taking into account the perspective of customers, and their easy-to-maintain design and other features have been well received. Sales discussion begun at the end of June in Vietnam progressing well.
Hosoo & Co., Ltd. (Kyoto, Kyoto Prefecture)	North America, Europe, Hong Kong, etc.	Kyoto manufacturer of Nishijin textile for over 300 years. Using advanced manufacturing technology, has had success in marketing its products as upscale interior finishing materials to the contract market in Europe and North America. Its products are currently used in stores and showrooms of leading European and North American fashion and jewelry labels.

Sources: Interviews, news reports, etc.

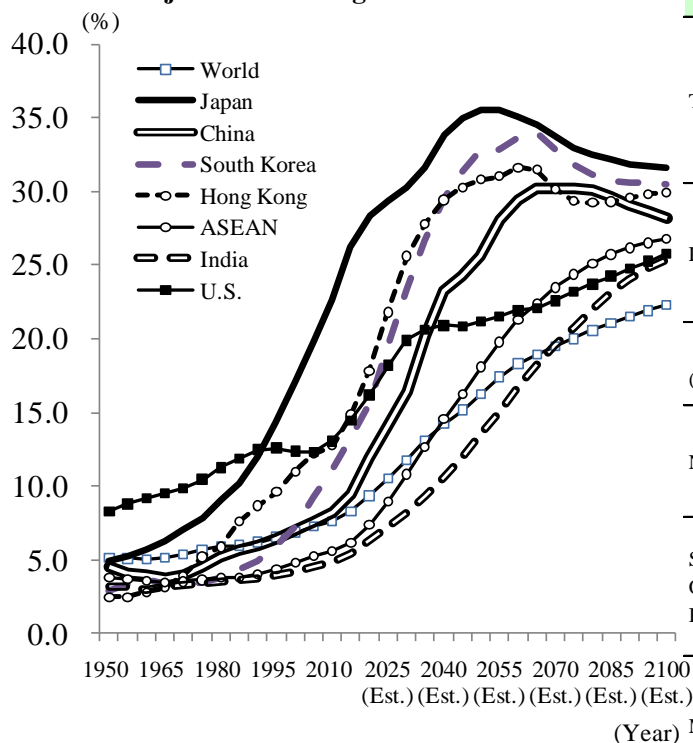
Using Japan's unique experience to enter Asia's graying markets

■ Entering Asia's graying markets in such areas as sanitary ware and nursing home for the elderly

Japan itself has already become a aging society, but aging is proceeding rapidly throughout the rest of Asia as well. According to the United Nations' estimates and projections (2010, medium-variant), the old age population ratio (the ratio of people 65 and older to the overall population) is 22.7% in Japan vis-à-vis 8.2% in China and 11.1% in Korea. Japan thus is by far the highest level; however, both China and Korea are expected to rapidly approach the level of Japan and this will be accompanied by an equally rapid expansion of graying markets.

In Japan this market expansion is not limited to such sectors as medical services and nursing care but is also seen in user-friendly home appliances for the elderly and barrier-free housing among others. Some Japanese companies have already broken into the Asian market, building on the technical capabilities and high-level service they have developed domestically in such areas as sanitary ware, nursing home for the elderly and meal delivery service.

Fig. III-21 Elderly population ratio in the world's major countries/regions



Source: "World Population Prospects: The 2010 Revision" (UN)

Fig. III-22 Examples of Japanese companies entering into Asia's graying markets

Company	Target country	Business Specifics
TOTO	China	First entered Chinese market in 1979 with the sale of sanitary ware for the renovation of the Diaoyutai State Guest House in Beijing. In 1994 established a market presence by opening a joint venture company. Followed up with opening showrooms as sales base and built up a network of local sales agents capturing the top share for high-end sanitary ware. Sales and operating profit in China were 36.1 billion yen and 7.6 billion yen respectively with the latter comprising 46% of total company operating profit in 2010. Have begun taking steps to cater to China's aging society through, for example, exhibiting toilets equipped with grab bars in Shanghai showroom.
Long Life Holding Co.	China	In November 2010, a subsidiary, Long Life International Business Investment, established in Qingdao a joint venture, Hiking (Qingdao) Long Life Care Service Co., Ltd., together with a company belonging to the Chinese Hiking Group Company (ownership share 34%, investment amount US\$1.02 million) through which it became the first Japanese company to open a nursing home for the elderly (168 rooms) in China. Has begun training of Chinese staff, aiming to start operations in October, 2011. Forecasting annual profit of approximately 30 million yen.
Senior Life Create Co. (formerly X-vinn Co.)	Korea	In 2008, the local leading dairy products manufacturer, Bingrae, utilized knowhow from the company to commercialize its meal delivery service focused on elderly consumers. In addition to home delivery under the brand Yegadwon, currently operating two stores.
Nisshin Oillio Group	Korea	Together with the general food manufacturer Daesang Corporation it developed a food thickener, Nucare Toromi Perfect, and launched sales in July 2010. The product are designed to facilitate the smooth delivery of fluids and nutrition to elderly persons and those suffering from dementia who have diminished capacity to swallow. The products are sold at hospitals, senior facilities and pharmacies.
Specified Non-profit Organization Asian Aging Business Center (AABC)	China and Korea	Established in March 2008 with the objectives of providing Asia with the experience and knowledge gained by Japan as an aging society; of utilizing the geographical advantage of Fukuoka as a gateway to Asia to develop the city to be a model case of elderly-friendly city; and of developing aging businesses that are needed in Asia. Organizes visits and training from Asia at facilities for the elderly in Japan and promotes information sharing on aging society. Through these initiatives also hopes to raise the profile of Fukuoka City, promote international exchange and expand tourism.
Mitsui & Co.	Singapore and Malaysia	As a part of its efforts to develop its Asian hospital network business, in January 2010 invested in Gleneagles CRC (Singapore), which is a subsidiary of the Parkway Group, the largest hospital group in Asia. Additionally, in July 2011, acquired 30% stakes in Integrated Healthcare Holdings Sdn. Bhd. (Malaysia) for 3.3 billion Malaysian ringgit, which holds stakes of the Parkway Group and Pantai Hospitals, which is the second largest hospital group in Malaysia. Through these investments, Mitsui & Co. expands looks to expand its hospital related services business.

Sources: Reports from JETRO's overseas offices, company and organization press releases and news reports

Japan's more environmentally-friendly technologies, including energy save, reach overseas markets

Japan's energy conservation technologies continues to attract strong interest

At the 12th China International Environmental Protection Exhibition and Conference held in June there was a high level of interest toward Japan's energy conservation technologies, such as those exhibited by Fumin from Fukushima Prefecture. An initiative to form a consortium that would provide a comprehensive array of services in China and Taiwan deserves attention as an approach to tap into specialized technologies of individual firms. The Water Expo in Singapore International Water Week 2011 held in July was also the scene of active business discussions.

Energy-saving performance is also expected to have appeal in consumer market

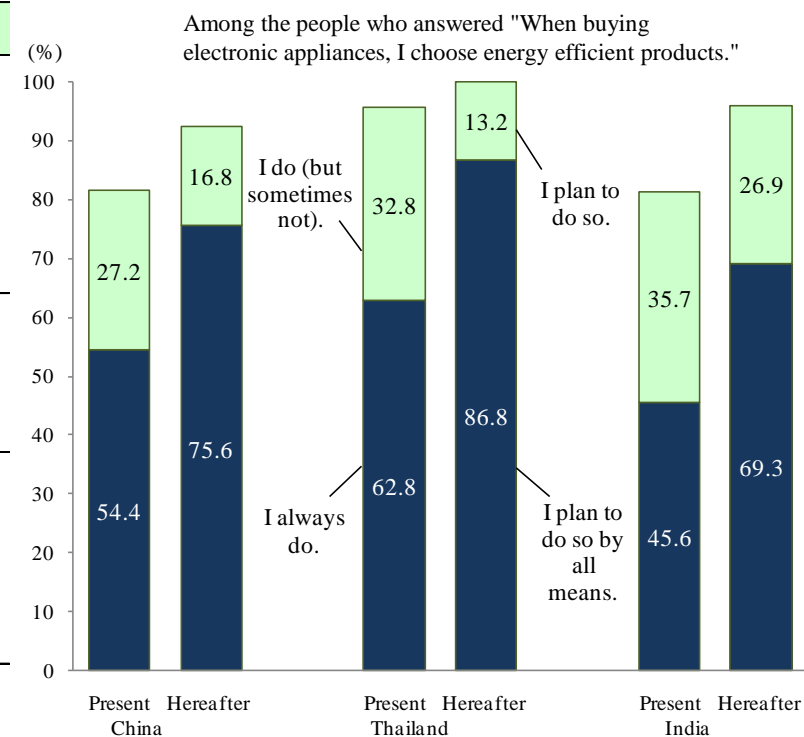
Awareness of energy conservation among consumers in emerging countries in Asia and throughout the world is rising and the number of people who now take into account energy efficiency when selecting electric appliances seems to be increasing. Increased level of energy efficiency resulting from the response to the power shortage in Japan could eventually become a powerful competitive edge in consumer goods market.

Fig. III-23 Examples of Japanese companies developing sales routes in the energy conservation and environmental sector

Company	Primary Target Countries	Overview of Products and Services and Status of Overseas Market Development, etc.
Fumin Co., Ltd. (Fukushima, Fukushima Prefecture)	Singapore, China, etc.	Developed technology for coating glass surfaces evenly with a transparent material that absorbs and cuts infrared and ultraviolet rays. The Singapore Housing & Development Board is using this heat blocking coating in its public housing. At the 12th China International Environmental Protection Exhibition and Conference (CIEPEC) held in Beijing from June 7 to 11, 2011, engaged in business discussions with over 100 companies and expects several sales to be materialized. At CIEPEC, 24 companies and organizations (compared to 11 last year) participated, including Watara Engineering of Fukushima. Altogether they actively held 1,096 business discussions (compared to 322 last year) and foresee 132 deals for a total value of US\$5.81 million (compared to 42 deals last year for a total value of US\$2.64 million, including contracts already concluded).
Green Group Members	China, Taiwan	A consortium of Japanese companies from diverse areas related to energy conservation. Formed in 2009, they bring together multiple energy conservation technologies to provide a comprehensive package based on the particular needs of a customer. The consortium provide services under a business model called Energy Service Company, where they installs energy saving equipment at no cost and receives payment only from the cost savings subsequently realized. As of March 2011 has undertaken 123 projects and realized a gross margin of 35%.
Chlorine Engineers Corp. Ltd. (Head Office: Tokyo, Okayama Works: Tamano City, Okayama)	China, India, Southeast Asia, U.S., etc.	Produces equipment for generating highly concentrated sodium hypochlorite from water. The technology utilizes the company's top class electrolysis technology developed in the brine electrolysis field, and can be applied to sterilization in water treatment plants. At the Water Expo in Singapore International Water Week 2011 (July 5-7) exhibited actual electrolytic cells and received numerous inquiries. 27 companies including Chlorine Engineers (compared to 16 last year) exhibited in the Japan Pavilion at Water Expo and actively engaged in business discussions. 1,478 business discussions (710 last year) were held, out of which there are prospects for 68 deals for a total prospective value of US\$10.93 million (compared to last year 41 deals for US\$8.88 million, respectively).
A-Wing International Co. (Head Office: Tokyo, Main Factory, Miyazaki : Miyakonojo, Miyazaki Prefecture)	Thailand, Mongolia, Bangladesh, etc.	Develops small wind power generators with superior generating efficiency. Aiming to promote use in Asia's non-electrified regions, actively hires exchange students from Asia's emerging and developing countries. For generators targeting overseas sales, significantly reduces the number of parts and cuts down costs to about one fifth while maintaining basic performance. Currently establishing manufacturing bases in Mongolia and Thailand and building a network to export to Bangladesh and other Asian countries.

Sources: Interviews, news reports, etc.

Fig. III-24 Energy saving awareness and purchasing behavior in China, Thailand and India



Source: Survey on "energy saving awareness and purchase behavior (in China, Thailand and India)" (JETRO, March 2011).

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All-out effort to revitalize and enhance the "Japan Brand"

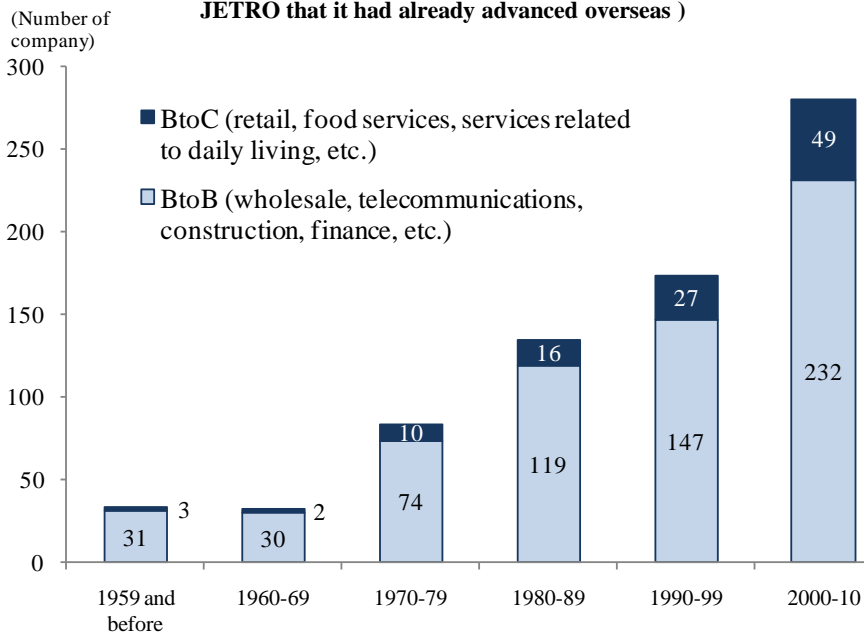
■ Synergy effect with the service industry currently expanding overseas

Japanese service sector, which has often been cited for not sufficiently capturing overseas demand compared to the manufacturing sector, is now increasing overseas operation and many companies, including small- and medium-sized enterprises, are seizing overseas business opportunities. In the food service industry, which initially was feared to be strongly affected by the earthquake, some companies are achieving steady expansion after the disaster. The impact of the earthquake on products other than foodstuffs seems to have been successfully held to a minimum. This can probably be attributed to the trust in Japanese products and services built up over time through unstinting efforts of many Japanese individuals and companies.

There remain challenges, including strengthening marketing capabilities and developing global human resources, in order to make the most of Japan's technical capabilities. Together with ongoing efforts to meet these challenges, what is needed is all-out effort to revitalize and enhance the "Japan Brand" by actively disseminating information and offering customers safe and high quality products and services when marketing and manufacturing export products, welcoming overseas visitors to Japan, offering Japanese food and content abroad, and many other occasions.

Fig. III-25 Time of launching Overseas operation in service industry

(Among 740 companies that answered in the survey by JETRO that it had already advanced overseas)



Notes: (1) The chart excludes "Other service industry" and companies that did not answer on their industry field or time of launching overseas operation. (2) As for 2010, the number of launches includes the companies that answered that they planned to launch. (Survey period: October-November 2010.)

Source: "Survey on overseas operation status in service industry: the fiscal year 2010" (JETRO).

Fig. III-26 Examples of post-earthquake overseas business

Examples	Description
Promoting Fukushima's advanced Medical Equipment	At a medical equipment exhibition, MD&M East, held in New York from June 7 to 9, a research team of Fukushima University introduced technologies that were developed in collaboration with local companies and others and promoted Fukushima's advanced medical equipment technology. Business discussions were held with a many international medical equipment manufacturers and precision instrument makers.
Japan's Food Service Industry Actively Developing Overseas Business	In recent years, Japanese specialty restaurants including ramen noodle shops and Japanese-style bars, have multiplied rapidly in South Korea, numbering about 3,000 locations throughout the country. Although exports of Japanese foodstuffs dropped sharply after the earthquake, the impact on sales and number of customers at outlets of the Japanese food service industry was minimal and new locations continue to open. In the U.S. as well, many food service companies, including Ippudo ramen noodles, Beard Papa's cream puffs and Marukame Udon noodles, continue to develop their businesses steadily after the earthquake.
Active Business Discussions at the International Contemporary Furniture Fair	Many Japanese companies participated in the International Contemporary Furniture Fair (ICFF) held in New York, May 14-17, 2011. The concerns of buyers about the earthquake and the nuclear power accident were not as great as had been initially feared and there were many inquiries about the products exhibited. The results surpassed expectations, with the number of business discussions exceeding that of last year and many deals successfully concluded.

Sources: Interviews, news reports