JETRO Global Trade and Investment Report 2019
The fluctuating international economic order and global business in the future
Key points

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Japan External Trade Organization
(JETRO)
Overseas Research Department

Contents

Chapter 1: World trade and Japan's trade

World economy decelerated from the latter half of 2018

- According to estimates of IMF, the world's real GDP growth rate in 2018 was 3.6%, slowing from 3.8% in 2017. Trade tensions and tariff hikes, a decline in business confidence, a tightening of financial conditions, and higher policy uncertainty across many economies are indicated as downward factors.
- Among major countries, net exports of the US fell into the negative during the third quarter of 2018 and pushed down the growth rate for two consecutive quarters. Although China's growth rate during the second quarter of 2018 was lower than that of the same period of the previous year, the deceleration stopped during the first quarter of 2019 for the first time in four quarters. Compared to net exports (external demand), the movement of domestic demand (final consumption and capital formation) is becoming weaker.

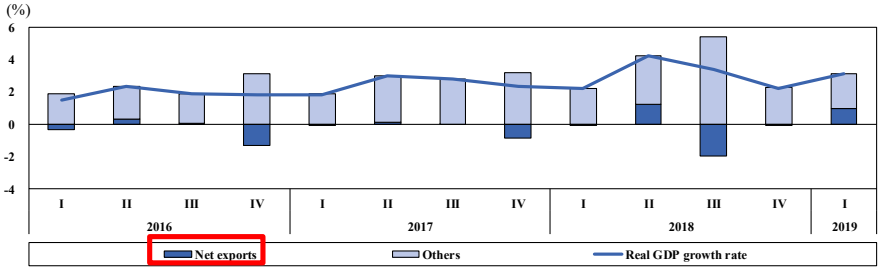
Trends in real GDP growth rate/contribution by economies

(%)

	2017		2018		2019 (Forecast)		2020 (Forecast)	
	Percent change	Contribution	Percent change	Contribution	Percent change	Contribution	Percent change	Contribution
World	3.8	3.8	3.6	3.6	3.2	3.2	3.5	3.5
Advanced economies	2.4	1.0	2.2	0.9	1.9	0.8	1.7	0.7
US	2.2	0.3	2.9	0.4	2.6	0.4	1.9	0.3
Euro area	2.4	0.3	1.9	0.2	1.3	0.1	1.6	0.2
UK	1.8	0.0	1.4	0.0	1.3	0.0	1.4	0.0
Japan	1.9	0.1	0.8	0.0	0.9	0.0	0.4	0.0
Emerging and developing economies	4.8	2.8	4.5	2.6	4.1	2.4	4.7	2.8
Emerging and developing Asia	6.6	2.1	6.4	2.1	6.2	2.1	6.2	2.1
China	6.8	1.2	6.6	1.2	6.2	1.2	6.0	1.2
India	7.2	0.5	6.8	0.5	7.0	0.5	7.2	0.6
ASEAN5	5.3	0.3	5.2	0.3	5.0	0.3	5.1	0.3
Latin America and the Caribbean	1.2	0.1	1.0	0.1	0.6	0.0	2.3	0.2
Emerging and developing Europe	6.1	0.2	3.6	0.1	1.0	0.0	2.3	0.1
Russia/CIS	2.2	0.1	2.7	0.1	1.9	0.1	2.4	0.1
Russia	1.6	0.1	2.3	0.1	1.2	0.0	1.9	0.1
Middle East and North Africa	2.1	0.2	1.6	0.1	1.0	0.1	3.0	0.2
Sub-Saharan Africa	2.9	0.1	3.1	0.1	3.4	0.1	3.6	0.1
South Africa	1.4	0.0	0.8	0.0	0.7	0.0	1.1	0.0

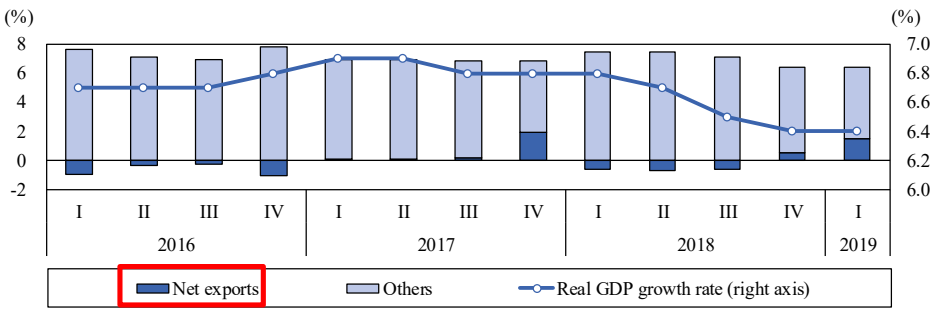
Note: 1) The definitions of advanced/emerging and developing economies follow World Economic Outlook (WEO). ASEAN5 refers to Indonesia, Malaysia, Philippines, Thailand, and Vietnam. The Middle East and North Africa includes Afghanistan and Pakistan.
2) Contributions are calculated using with PPP (purchasing power parity) of the previous year, which was released in April 2019.
Source: "WEO, April /July 2019" (IMF)

Trends in US real GDP growth rate/contribution by expenditure (% change from previous quarter, Annualized)



Source: "GDP, First Quarter 2019 (Second Estimate)" (US Department of Commerce)

Trends in China's real GDP growth rate/contribution by expenditure (Quarter, % change from the previous year)

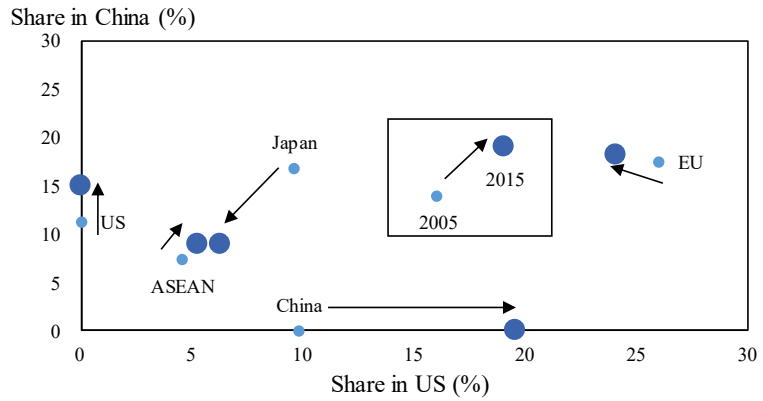


Source: National Breau of Statistics and Thomson Reuters

Trade issues push down economic growth

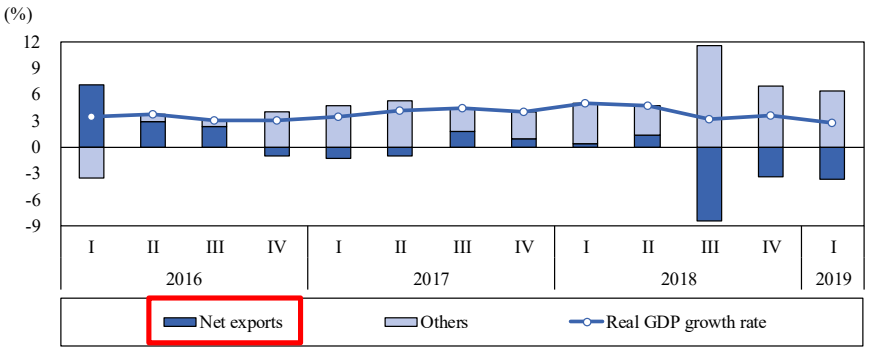
- The growth rate of Thailand, who has increased presence through value-added export to both the US and China, continued its slowdown tendency during the first quarter of 2019, as its net exports fell into the negative from the third quarter of 2018.
- The global economic outlook is dominated by risks of downturn. Among those risks, impact of trade tensions has been estimated by international organizations. According to such estimates, the harm caused by trade friction to corporate sentiment and investment would be more serious than the negative impact of additional tariff measures.

Foreign value added in domestic final demand of the US and China (Share by country/region: 2005→2015)



Source: OECD

Trends in Thailand's real GDP growth rate/contribution by expenditure (Quarter, % change from the previous year)



Source: Thomson Reuters

Outline of IMF's analysis of the impact of global trade tensions on the economy (GDP)

Scenario		Impact on economy (GDP) (%)			
		World	US	China	Japan
(1) Measures already implemented	2019	-0.11	-0.15	-0.56	0.03
	2020	-0.12	-0.16	-0.46	-0.00
	2023	-0.08	-0.16	-0.23	-0.03
(2) Additional tariffs on all mutual imports between US and China	2019	-0.20	-0.20	-1.16	0.08
	2020	-0.23	-0.27	-0.95	0.01
	2023	-0.14	-0.31	-0.37	-0.05
(3) Additional tariffs on cars and parts	2019	-0.25	-0.61	-1.00	-0.04
	2020	-0.35	-0.69	-0.88	-0.15
	2023	-0.25	-0.55	-0.41	-0.24
(4) Impact on sentiment of firms	2019	-0.50	-0.74	-1.27	-0.23
	2020	-0.51	-0.76	-1.04	-0.34
	2023	-0.29	-0.55	-0.47	-0.27
(5) Impact on financial market	2019	-0.78	-0.91	-1.63	-0.47
	2020	-0.82	-0.95	-1.41	-0.66
	2023	-0.32	-0.56	-0.51	-0.34

Note: Each scenario is as follows:

1) The US imposes additional tariffs of 10% on aluminum imports, 25% on steel imports, 25% on $50 billion of imports from China and 10% on an additional $200 billion of imports from China (rising to 25% in 2019). US trading partners impose retaliatory tariffs of an equivalent amount, except in the case of the 10% tariff on $200 billion in Chinese imports. In this case, China responds with additional tariffs of 7% on $60 billion of US imports (rising to 17% in 2019).
2) In addition to the above, from 2019 the US imposes additional tariffs of 25% on a further $267 billion of imports from China, and China responds with additional tariffs of 25% on all imports from the US.
3) In addition to the above, from 2019 the US imposes additional tariffs of 25% on all imported cars and car parts, with trading partners imposing retaliatory tariffs of an equivalent amount.
4) In addition to the above, the sentiment of companies worsens, and investment declines.
5) In addition to the above, the financial market is negatively affected.

Source: "WEO, October 2018" (IMF)

World trade in 2018 was at a record high, however its growth slowed down

■ World trade in 2018 (trade in goods, nominal export value) increased by 9.7% to a record high of $19.0 trillion (JETRO estimate). However, its growth slowed down compared to 2017. The main factor was its slowdown during the latter half of 2018 owing to the deceleration of the global economy.

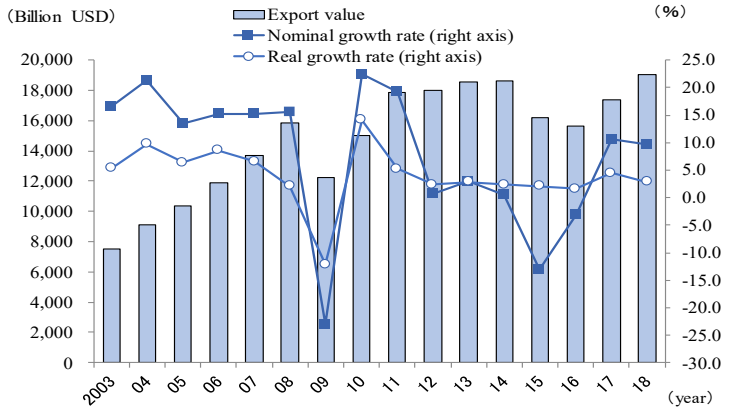
World trade related indicators

(All figures are percentages, unless indicated at the end of column)

	2014	2015	2016	2017	2018
World trade (export) (100 mil USD)	186,149	161,864	156,699	173,450	190,243
Nominal growth rate	0.4	-13.0	-3.2	10.7	9.7
Real growth rate	2.4	2.1	1.6	4.5	2.8
Price growth rate	-1.9	-14.8	-4.7	5.9	6.7
World trade (import) (100 mil USD)	189,775	165,008	160,226	177,857	196,149
Nominal growth rate	0.4	-13.1	-2.9	11.0	10.3
Real growth rate	3.0	2.6	1.7	4.7	3.2
Price growth rate	-2.5	-15.3	-4.5	6.0	6.9
Industrial production index growth rate (OECD)	2.3	0.6	0.4	3.0	2.3
Fuel price index growth rate	-5.9	-44.1	-16.5	23.9	27.3
Crude oil price growth rate	-7.5	-47.2	-15.7	23.4	29.4
Natural gas price growth rate	0.7	-34.8	-28.6	16.1	26.4
Metal price index growth rate	-12.2	-27.3	-5.3	22.1	6.2
Iron ore price growth rate	-28.1	-42.4	4.3	21.5	-1.4
Food and beverage price index growth rate	-0.1	-16.1	-0.3	3.2	-1.1
Growth of nominal effective dollar exchange rate	2.5	15.3	0.2	-1.0	-2.5

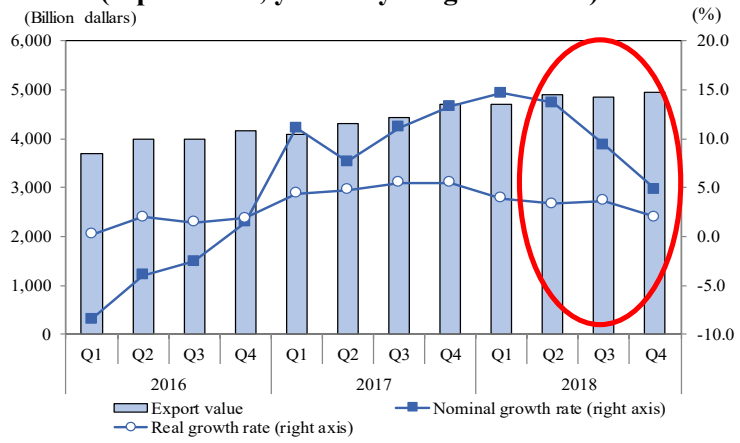
Note: 1) Both trade values and nominal growth rates are estimated by JETRO. See Appendix Annnotation II regarding the method of estimation. 2) The real growth rate is from the WTO. 3) The price growth rate was caluculated by dividing the nominal value by volume index. 4) All commodity prices are indicated in the growth rate of the annual average. Crude oil prices are the average of Dubai, Brent and WTI. Natural gas prices are from the Europe/Japan/US index. Iron ore prices are the import prices at China's CFR Tianjin port
Source: Trade statistics of respective economies, OECD data (July 2019), "IFS (June, 2019)" (IMF), "WEO, April 2019" (IMF), and WTO data

Trends in world trade (export basis)



Source: JETRO's estimates based on the trade sitatistics of respective countries, and WTO data

Change in world trade by quarter (export basis, year-on-year growth rate)

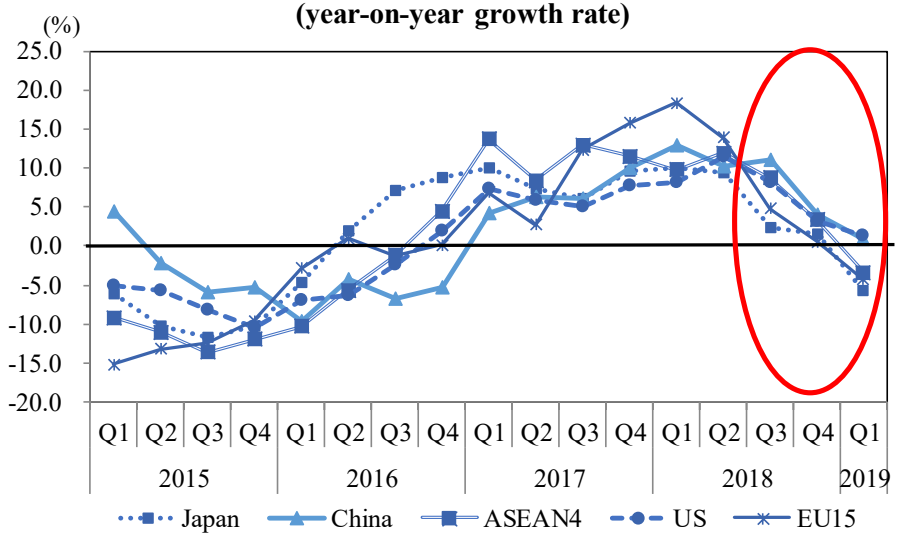


Note: Both nominal growth rate and real growth rate are on export basis.
Source: "DOTS (Released on June 29, 2019)" (IMF) and WTO data

Trends by country: imports of China greatly increase owing to tariff reduction

- Exports expanded in many countries and regions, but the growth rate slowed compared to the previous year.
- The exports of major countries/regions by quarter showed remarkable slowing down during the latter half of 2018.
- China's trade value (total value of exports and imports) increased to a record high of $4.6 trillion. What contributed to the increase was an import expansion of consumption goods such as clothes and processed commodities owing to tariff reduction.
- 26.2% of the world export increase can be explained by the contribution of commodity exporters. Crude oil price hikes until the third quarter pushed up the trade amount of commodity exporters.

Export growth rate of major countries/regions by quarter (year-on-year growth rate)



Note: Due to the limitation of data, Indonesia, Philippines, Singapore, and Thailand are picked up as 4 countries of ASEAN, and 15 member countries as of April 2004 are picked up as EU.
Source: Trade statistics of respective country/region

World trade by country and region (2018)

(100 million USD, %)

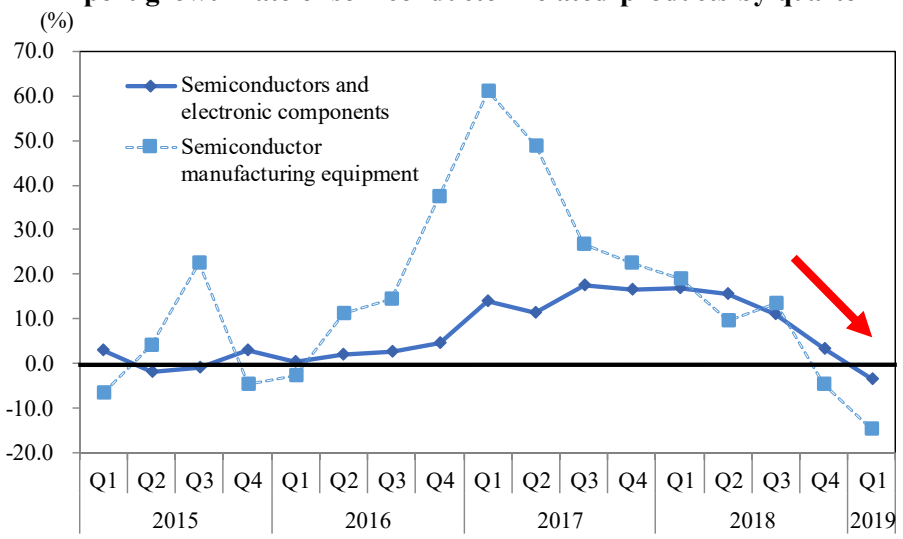
	Export					Import				
	Value	Share	Growth rate	Contri-bution	Volume growth rate	Value	Share	Growth rate	Contri-bution	Volume growth rate
NAFTA	25,656	13.5	8.0	1.1	4.3	34,667	17.7	8.5	1.5	5.0
US	16,640	8.7	7.6	0.7	4.1	25,427	13.0	8.6	1.1	5.2
Canada	4,507	2.4	7.1	0.2	2.3	4,597	2.3	6.2	0.2	3.8
Mexico	4,509	2.4	10.1	0.2	7.2	4,643	2.4	10.4	0.2	5.3
EU	64,543	33.9	9.5	3.2	1.5	64,613	32.9	10.4	3.4	1.4
Germany	15,607	8.2	7.7	0.6	0.9	12,857	6.6	10.5	0.7	2.2
Netherlands	7,238	3.8	11.0	0.4	1.7	6,457	3.3	12.3	0.4	3.3
France	5,819	3.1	8.7	0.3	1.5	6,725	3.4	8.7	0.3	0.5
Italy	5,466	2.9	7.7	0.2	-0.5	5,008	2.6	10.5	0.3	0.7
UK	4,974	2.6	11.2	0.3	1.5	6,552	3.3	5.0	0.2	-3.6
Japan	7,378	3.9	5.8	0.2	2.7	7,481	3.8	11.5	0.4	2.0
Australia	2,570	1.4	11.2	0.1	5.0	2,271	1.2	2.6	0.0	-0.8
East Asia	48,047	25.3	9.2	2.3	n.a.	43,028	21.9	15.1	3.2	n.a.
China	24,914	13.1	10.1	1.3	4.1	21,090	10.8	17.8	1.8	6.4
South Korea	6,049	3.2	5.4	0.2	2.6	5,352	2.7	11.9	0.3	2.4
Taiwan	3,079	1.6	5.4	0.1	3.4	2,858	1.5	10.3	0.2	3.1
ASEAN6	14,006	7.4	10.0	0.7	n.a.	13,728	7.0	13.5	0.9	n.a.
Singapore	4,118	2.2	10.3	0.2	3.4	3,705	1.9	13.0	0.2	4.2
Thailand	2,499	1.3	5.9	0.1	3.0	2,510	1.3	11.8	0.1	6.7
Malaysia	2,475	1.3	13.6	0.2	4.8	2,176	1.1	11.7	0.1	2.7
Vietnam	2,437	1.3	13.3	0.2	12.1	2,369	1.2	11.2	0.1	10.8
Indonesia	1,802	0.9	7.5	0.1	0.9	1,879	1.0	19.7	0.2	11.9
Philippines	675	0.4	6.7	0.0	-3.9	1,089	0.6	17.3	0.1	6.3
India	3,244	1.7	8.3	0.1	4.3	5,144	2.6	14.3	0.4	3.1
Brazil	2,399	1.3	10.2	0.1	4.6	1,812	0.9	20.2	0.2	11.5
Russia	4,493	2.4	25.6	0.5	4.4	2,382	1.2	4.7	0.1	1.9
Trukey	1,679	0.9	6.9	0.1	4.6	2,230	1.1	-4.8	-0.1	-9.5
South Africa	938	0.5	5.1	0.0	4.1	930	0.5	11.8	0.1	6.6
World	190,243	100.0	9.7	9.7	2.8	196,149	100.0	10.3	10.3	3.2
Advanced countries	114,615	60.2	8.0	4.9	n.a.	121,455	61.9	9.3	5.8	n.a.
Emerging/developing economies	75,628	39.8	12.3	4.8	n.a.	74,694	38.1	11.9	4.5	n.a.
Commodity exporters	30,088	15.8	17.1	2.5	n.a.	23,822	12.1	5.2	0.7	n.a.
Fuel exporters	16,332	8.6	25.2	1.9	n.a.	10,404	5.3	1.0	0.1	n.a.
Nonfuel exporters	13,756	7.2	8.8	0.6	n.a.	13,418	6.8	8.7	0.6	n.a.
Commodity exporters Dev.	20,927	11.0	20.6	2.1	n.a.	14,822	7.6	4.7	0.4	n.a.
Commodity exporters Adv.	9,161	4.8	9.9	0.5	n.a.	9,000	4.6	6.1	0.3	n.a.

Note: Figures of "World," "EU," "Advanced economies," "Emerging/developing economies" and "Commodity exporters" were estimated by JETRO. 2) Figures of "EU" include those of intraregional trade. 3) Member countries of ASEAN 6 are Singapore, Thailand, Malaysia, Vietnam, Indonesia and the Philippines. 4) East Asia includes China, South Korea, Taiwan and ASEAN 6. 5) See footnote in the main text regarding the definition of "Commodity exporters" (40 emerging/developing economies and 7 advanced economies). Figures of small countries which were unavailable or unable to be estimated were excluded. 6) Advanced economies include 37 economies based on the definition of DOTS (IMF). Figures for "emerging/developing economies" are calculated by subtracting "advanced economies" from the "world."7) Highlighted cells indicate countries/regions with a decreased growth rate compared to 2017.
Source: Trade statistics of respective economies and WTO data

Trends by product: a lull in the growth of semiconductor-related products

- Although positive growth was recorded for many products, the growth rate slowed down compared to 2017. Among greatly contributing products, commodity-related products, electrical equipment, and general machinery showed a slowdown in exports.
- The export growth of semiconductor-related products slowed down owing to the declining demand for smart phones in addition to a reaction to trade expansion in 2017. According to World Semiconductor Trade Statistics (WSTS), the market size of semiconductors in 2018 increased by 13.7%, but the growth slowed down compared to the previous year (21.6%). It is estimated to decline by 12.1% in 2019, but to recover in 2020.

Export growth rate of semiconductor-related products by quarter



Note: 1) Change in growth rate of export amount (Compared to the same period of the previous year).
2) Semiconductors and electronic components are the total of electron tubes/semiconductors, etc. and integrated circuits.
3) Due to the limitation of data, created based on 33 countries/regions (refer to P. 9 for details)
Source: Trade statistics of respective country/region

World trade by product (export basis, 2018)

(100 million USD, %)

	Value	Share	Growth rate	Contribution
Total exports	190,243	100.0	9.7	9.7
Machinery and equipment	77,129	40.5	7.6	3.1
General machinery	22,744	12.0	9.9	1.2
Turbines	1,369	0.7	14.3	0.1
Computer and peripheral equipment	6,084	3.2	11.0	0.3
Semiconductor manufacturing equipment	837	0.4	9.4	0.0
Industrial robots	60	0.0	-0.5	0.0
Electrical equipment	27,560	14.5	8.6	1.3
Communication equipment	6,120	3.2	4.9	0.2
Electronic tubes and semiconductors	1,140	0.6	2.6	0.0
Integrated circuits	7,146	3.8	14.5	0.5
Lithium-ion storage batteries	298	0.2	32.8	0.0
Transport equipment	20,190	10.6	4.6	0.5
Automobiles	9,313	4.9	3.9	0.2
Hybrid vehicles	296	0.2	21.5	0.0
Plug-in hybrid vehicle	131	0.1	33.4	0.0
Electric vehicles	115	0.1	34.2	0.0
Automobile parts (excluding engines)	4,213	2.2	6.6	0.2
Precision equipment	6,634	3.5	5.4	0.2
Chemicals	26,307	13.8	11.3	1.5
Pharmaceuticals and medical supplies	6,052	3.2	12.8	0.4
Food (a)	13,312	7.0	3.8	0.3
Oils, fats, and other animal and vegetable products(b)	1,996	1.0	-1.4	0.0
Mineral ore(c)	2,162	1.1	9.3	0.1
Mineral fuels etc. (d)	24,604	12.9	28.5	3.1
Base metal and its products (e)	13,025	6.8	11.0	0.7
Commodity-related products (total)	55,099	29.0	15.5	4.3
Fuel (mineral fuels etc.) (d)	24,604	12.9	28.5	3.1
Non-fuel (metal, food and beverages)	30,495	16.0	6.8	1.1
Metal(c + e)	15,187	8.0	10.7	0.8
Food and beverages (a + b)	15,308	8.0	3.1	0.3

Note: 1) JETRO estimates. See Appendix Annnotation II regarding the method of estimation. 2) See Appendix Annnotation I regarding the product classification. 3) Highlighted cells indicate items with a decreased growth rate compared to 2017.
Source: Trade statistics of respective economies

World trade in 2019 expected to slow down

- In the first quarter of 2019, the trade value of goods (from 33 major economies where data is available) showed a decrease of 2.6% compared to the same period of the previous year. Growth was negative among major items such as general machinery (2.3% decrease), electrical equipment (3.4% decrease), transport equipment (4.3% decrease), and chemicals (0.9% decrease). The decline was especially noticeable in machine tools, semiconductor manufacturing equipment, and cellular phones.
- According to the forecast of WTO (April 2019), world trade quantity (average of exports and imports) will slow down to 2.6% growth in 2019 from 3.0% in 2018. The future deceleration of exports is also expected by the world new export order index which showed 48.8 in June 2019, falling below 50, the division point between increase and decrease, for 6 consecutive months.

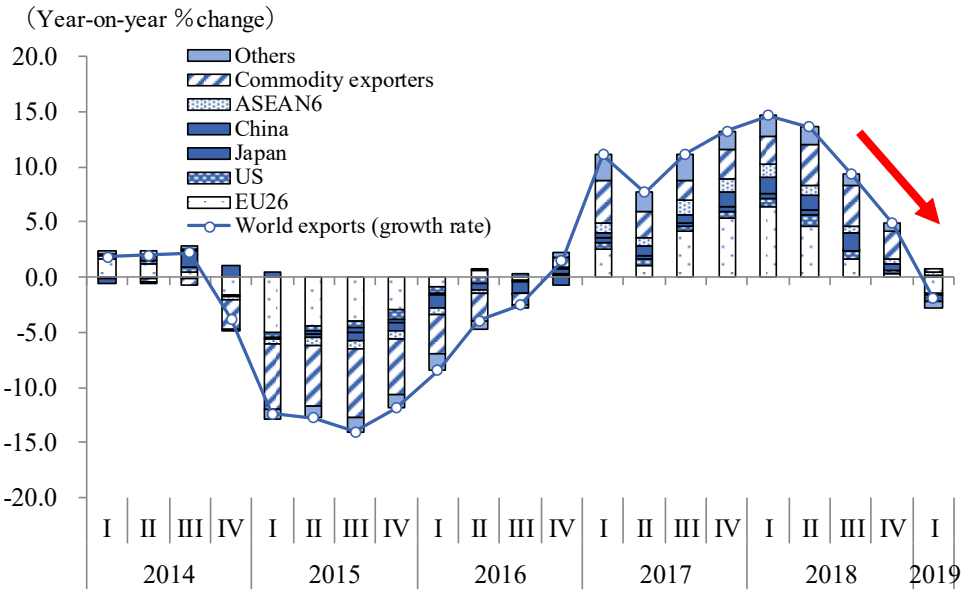
Trade for 33 major economies by product, on a quarterly basis (year-on-year growth rate)

(%)

	World trade coverage ratio (2018)	2018				2019
		I	II	III	IV	I
Total (exports)	79.0	13.2	11.5	7.2	3.0	-2.6
Machinery and equipment	85.1	13.1	9.7	4.0	1.4	-3.2
General machinery	87.6	16.5	12.7	7.0	3.1	-2.3
Mining and construction machines	93.6	21.3	22.6	11.0	4.6	-1.0
Machine tools	95.4	35.3	17.3	8.5	-1.5	-12.8
Turbines	91.1	15.8	11.4	18.6	13.3	10.0
Engines	82.2	16.1	9.2	5.0	2.4	-3.8
Computer and peripheral equipment	85.7	17.0	15.3	7.5	3.1	-3.6
Semiconductor manufacturing equipment	97.7	19.1	9.6	13.4	-4.6	-14.6
Industrial robots	97.6	8.3	-2.3	-4.9	-2.1	-10.3
Electrical equipment	83.4	12.7	10.8	7.7	1.1	-3.4
Communication equipment	82.2	8.3	5.4	5.0	-0.3	-4.6
Cellular phones	85.0	17.8	13.0	9.6	-3.3	-11.4
Integrated circuits	89.1	17.6	16.6	12.6	4.8	-3.2
Transport equipment	83.4	10.7	5.9	-3.8	0.2	-4.3
Precision equipment	88.9	10.4	7.5	2.6	0.3	-1.8
Chemicals	87.2	16.1	14.2	10.0	6.0	-0.9
Commodity-related products (total)*	76.6	17.5	20.4	20.1	10.4	-4.6
Fuel*	78.6	21.3	32.6	41.0	21.7	-5.6
Non-fuel (metal, food and beverages)	76.5	12.0	10.6	3.7	0.3	-3.7
Metal	77.2	14.9	14.0	7.3	2.3	-4.6
Food and beverages	75.8	9.2	7.3	0.3	-1.5	-2.9

Notes: 1) The key 33 economies are Argentina, Australia, Austria, Belgium, Brazil, Canada, China, Denmark, Finland, France, Germany, Greece, Hong Kong, India, Indonesia, Ireland, Italy, Japan, Luxembourg, Netherlands, Philippines, Portugal, Russia, Singapore, South Africa, South Korea, Spain, Sweden, Switzerland, Taiwan, Thailand, UK, and US. 2) Products marked with an asterisk (*) are based on imports, other products are based on exports. World trade coverage ratio for 2018 is based on the larger of the two (imports or exports).
Source: Trade statistics of respective economies

Contribution of exports by economies, on a quarterly basis

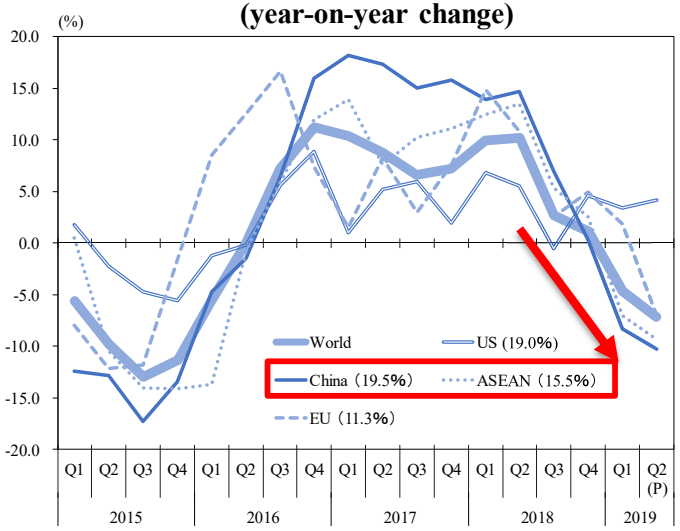


Note: 1) World exports cover 210 economies. 2) See footnote in the main text regarding the definition of "commodity exporters."EU26 includes all EU member economies excluding two commodity exporters (Greece and Cyprus).
Source: "DOTS (June 29, 2019)" (IMF)

China becomes Japan's largest export partner for the first time in 6 years, but the growth of exports to China slows down in the latter half of the year

- Concerning Japan's trade (customs clearance basis) in 2018, the exports increased by 5.8% compared to the previous year to $737.8 billion, and the imports increased by 11.5% to $748.1 billion. The trade balance recorded a deficit of $10.3 billion.
- By country/region, China became the largest export partner for the first time in 6 years, but the growth of exports to China slowed down in the latter half of the year owing to the decrease of digital-related goods which led export expansion. Exports, such as copying machines and semiconductor manufacturing equipment, to ASEAN also fell down in the latter half of the year, and exports turned to the negative in the first quarter of 2019 compared to the same period of the previous year. Concerning imports from China, the largest partner, the computer category such as notebook PCs and air conditioners increased. Regarding imports from the US, LNG derived from shale gas and others increased.

Japan's exports by major country/region (year-on-year change)



Note: Figures in parentheses indicate share in total export in 2018. (Year/Quarter)
Source: "Trade Statistics" (MOF)

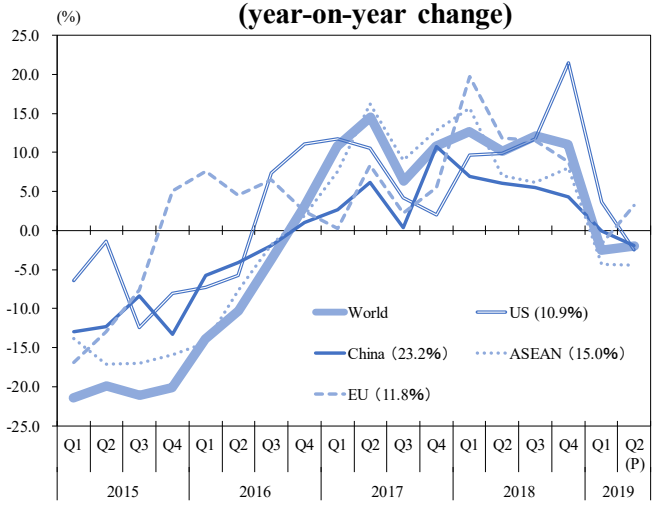
Japan's trade trends

(Million USD, %)

	2017	2018	2019						
			Jan-Jun(P)	Jan	Feb	Mar	Apr	May	June(P)
Total exports	697,221	737,846	347,077	51,149	58,203	64,772	59,888	52,656	60,408
(Growth rate)	8.2	5.8	-5.9	-5.6	-1.7	-6.5	-6.6	-9.1	-5.9
Total imports	670,971	748,109	354,926	63,945	55,211	60,082	59,433	61,289	54,965
(Growth rate)	10.5	11.5	-2.3	2.0	-6.8	-3.0	1.8	-3.2	-4.6
Trade balance	26,250	-10,263	-7,849	-12,797	2,992	4,690	455	-8,633	5,443
(Year-on-year difference)	-11,309.2	-36,512.7	-13,671.7	-4,283.3	3,043.2	-2,675.6	-5,323.9	-3,271.4	-1,160.5
Export volume index	105.9	107.7	101.8	87.6	102.2	114.4	106.9	93.0	106.7
(Growth rate)	5.4	1.7	-5.6	-9.0	-0.6	-5.6	-4.3	-8.9	-5.5
Import volume index	102.9	105.8	102.4	110.3	95.0	104.6	103.5	106.2	94.9
(Growth rate)	4.2	2.8	-1.0	0.5	-6.5	0.4	4.1	-1.2	-3.2
Crude oil import price	54.2	72.8	67.6	62.7	62.3	65.7	68.8	73.0	73.1
(Dollar/barrel, growth rate)	30.2	34.3	-1.9	-3.0	-8.8	-1.7	3.9	3.0	-4.4
Exchange rate (yen/dollar)	112.2	110.4	110.4	109.0	110.4	111.2	111.7	109.8	108.1
(Yen appreciation, %)	-3.0	1.6	-1.9	1.7	-2.3	-4.7	-3.8	-0.1	1.8

Note: 1) Yen-based values are converted to dollar-based values by JETRO. 2) The volume index is on a 2015 basis.
3) Exchange rates are the interbank rate average for each period. 4) Growth rates are a year-on-year comparison.
Source: "Trade Statistics" (Ministry of Finance), "Foreign Exchange Rate" (Bank of Japan)

Japan's imports by major country/region (year-on-year change)

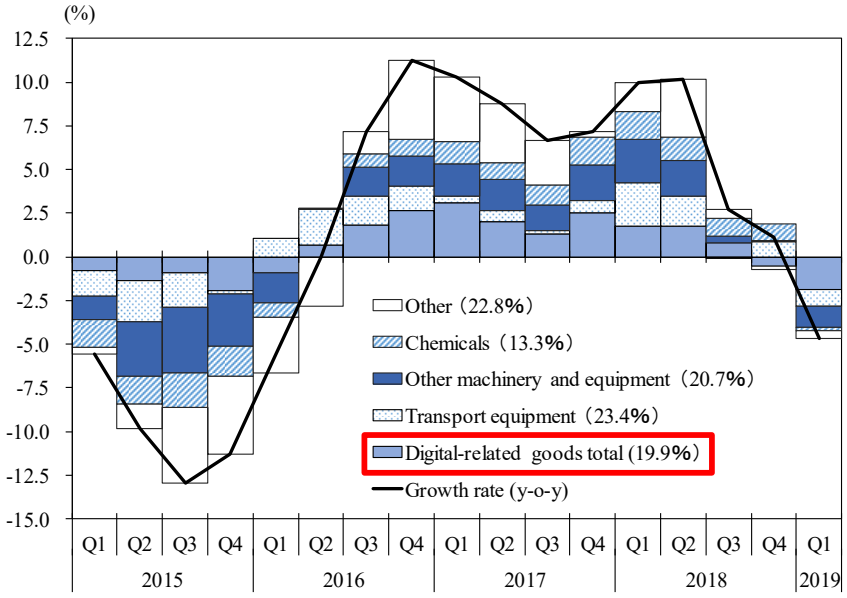


Note: Figures in parentheses indicate share in total import in 2018. (Year/Quarter)
Source: "Trade Statistics" (MOF)

Exports such as digital-related goods stalled after the middle of 2018

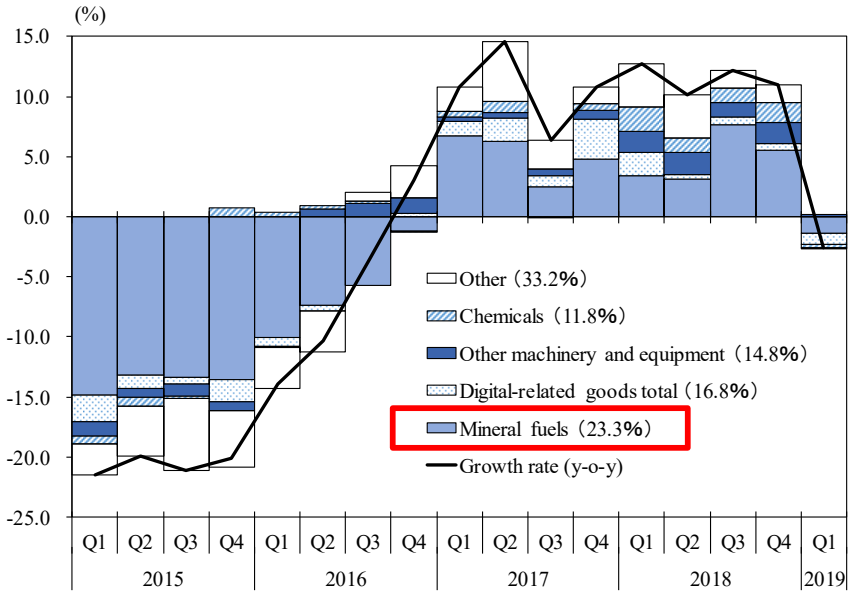
- Looking at Japan's exports by product, transportation equipment increased by 5.2% to $172.7 billion compared to the previous year and digital-related goods increased by 4.5% to $147.0 billion. After the middle of 2018, exports of machinery and equipment such as digital-related goods stalled owing to saturation of the demand for semiconductor investment as well as the slowdown of exports to China against the background of its decelerated economy.
- Concerning Japan's imports, mineral fuel increased greatly to $174.5 billion (23.7% growth) in continuation of previous year (27.6% growth), reflecting the rise of energy prices, and accounted for almost half of the import increase in 2018. In the first quarter of 2019, imports turned to decrease partly because the energy price lowered compared to the same period of the previous year.

Japan's export growth by contribution of major product (Compared to the same period of the previous year)



Note: 1) Figures in parentheses indicate share on total export amount in 2018.
2) Digital-related goods are composed of semiconductor manufacturing equipment, integrated circuits, etc.
Source: "Trade Statistics" (Ministry of Finance)

Japan's import growth by contribution of major product (Compared to the same period of the previous year)

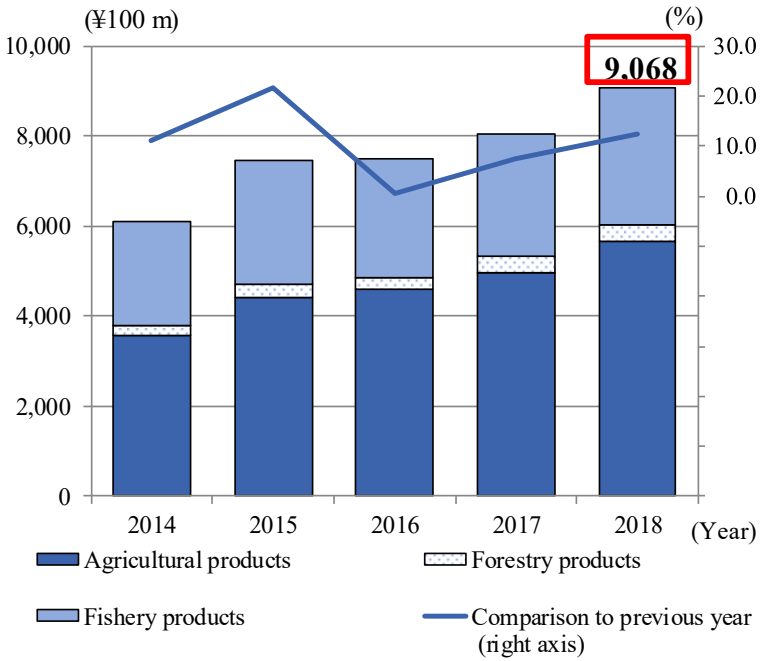


Note: Figures in parentheses indicate share in total import amount in 2018.
Source: "Trade Statistics" (Ministry of Finance)

Japan's agricultural, forestry, and fishery exports exceeded 900 billion yen

- In 2018, Japan's exports of agricultural, forestry, and fishery products increased by 12.4% to 906.8 billion yen, exceeding 900 billion yen for the first time. The biggest export category was alcoholic beverages, which increased by 13.4% to 61.8 billion yen showing a great increase from the previous year. Many other categories of high-ranking export value, such as mackerel and beef, showed increase rates of over 20% compared to the previous year.
- Large-scale Economic Partnership Agreements (EPA), which came into effect after 2018, will have a large influence on Japan's exports of agricultural, forestry and fishery products. For example, Japan-EU EPA (effective since February 2019) immediately eliminated tariffs on some Japanese products such as beef. This is expected to improve the price competitiveness of Japanese food products in the European market.

Export value of Japan's agricultural, forestry, fishery and food products



Note : IncludingIncluding alcoholic beverages and pearls
Source: : "Overview of Foreign Trade of Agricultural, Forestry and Fishery Products" (MAFF)

List of immediate elimination of tariffs on Japanese agricultural, forestry and fishery exports to EU

Items	Tariff rate until the elimination of tariffs
Fishery products	0 - 26% (Sea-cucumber preparations, etc.)
Seasonings (soy sauce, etc.)	7.7% (Soy sauce)
Alcoholic beverages	EUR 0 - 32 /100 liter
Green tea	0 - 3.2%
Beef	12.8% + EUR 141.4 - 304.1 /100 kg
Flowers	6.5% or 8.3% (Garden tree, Japanese bonsai plamt, potted plant) 8.5% or 10% (Cut flowers)
Forest products (wood & wood product)	0 - 10%
Fruit and vegetables	12.8% (Citrus fruit such as Citrus junos (yuzu), etc.) EUR 9.5 /100 kg
Pork*	EUR 46.7 - 86.9 /100 kg
Chicken*	6.4%, EUR 18.7 - 102.4 /100 kg
Hen Eggs (including powdered eggs, etc.)*	EUR 16.7 - 142.3 /100 kg
Milk/milk products*	EUR 118.8 /100 kg (skimmed milk powder) EUR 189.6 /100 kg (Butter)

Note: 1) Excluded items include scallop (eliminated in stages and shall be duty-free in Year 8), ice cream (staged reduction by 70% in 6 years), cocoa powder (staged reduction by 25% in 8 years) 2) *: items currently under negotiation for lifting the export ban, or reaching agreement of removal of the export ban and discussion for export conditions are ongoing as of June 2019.
Source: "Japan-EU EPA Summary of Results of Negotiation on AFF Products (2) (Export to EU)" (MAFF)

Trade restrictive measures introduced one after another since 2018

- 2018 saw a succession of large-scale trade restrictive measures enforced. Particularly since July, the retaliation of additional tariff measures between the US and China has been ongoing, continuing in 2019. The scale of trade value subject to major trade restrictive measures since 2018 corresponds to around 4% of the world trade value in 2017.
- Products subject to the additional tariff measures were listed originally to a limited extent in both countries; however, subsequently the range of application has been expanded.

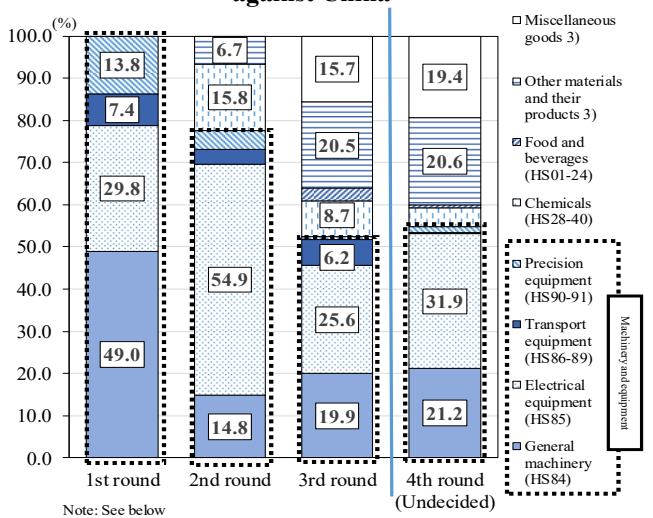
Major trade restrictive measures since 2018

(Unit: Million USD, %)

Tariff-effective date	Countries/regions imposing the measures	Target	Outline	Trade scale (2017)	Percentage of total imports from the target country
3/23/2018	US	All trading partners*	Additional 25% tariffs on 252 steel products	29,033	1.2
3/23/2018	US	All trading partners*	Additional 10% tariffs on 9 aluminum products	17,403	0.7
4/2/2018	China	US	Additional tariffs of up to 25% on 128 products including fruits, pork, steel and aluminum	2,969	2.0
6/22/2018	EU	US	Additional tariffs of up to 25% on 182 products including steel, aluminum, engines, ships and card games	3,206	1.1
7/6/2018	US	China	**[First round]** Additional 25% tariffs on 818 products including cars, pumps and electronic parts	32,262	6.4
7/6/2018	China	US	**[First round]** Additional 25% tariffs on 545 products including agricultural products such as soy beans, livestock such as beef and pork, cars and seafood	33,834	22.6
8/23/2018	US	China	**[Second round]** Additional 25% tariffs on 279 products including plastics, semiconductors, railway cargo and tractors	13,685	2.7
8/23/2018	China	US	**[Second round]** Additional 25% tariffs on 333 products including cars, chemical products and energy products	14,108	9.4
9/24/2018	US	China	**[Third round]** Additional 10% tariffs on 5,745 products including furniture, clothes and miscellaneous goods. On May 10, 2019, the rate was raised to 25%.	189,910	37.6
9/24/2018	China	US	**[Third round]** Additional tariffs of up to 10% on 5,207 products including LNG, electronic products and food. On June 1, 2019, the rate was raised up to 25% among the 4,545 products.	53,393	35.7
Undecided	US	China	**[Fourth round]** Additional tariffs of up to 25% on 3,805 products including cellular phones, notebook computer and toys.	255,208	50.5

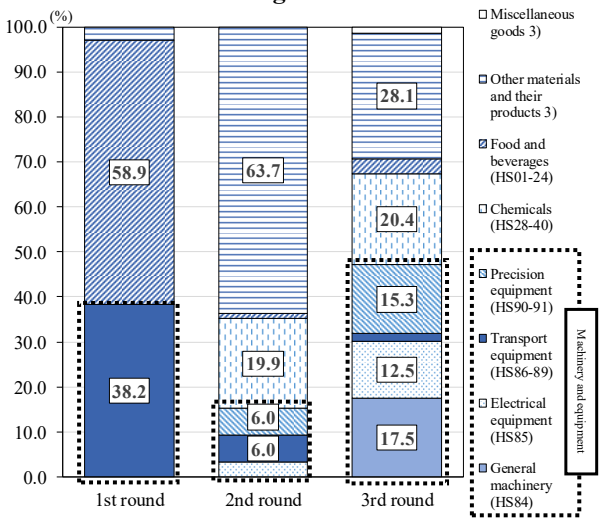
Note: 1) The figures for trade scale were created from the 2017 trade statistics of countries/regions imposing the measures. Target products were counted based on those which were listed at the time restrictive measures were implemented. '2) * Some countries and regions were excluded.
Source: "Biznews" by JETRO, "World Economic Trends II (The 2018 Autumn/Winter Report)" by the Cabinet Office, and trade statistics from each country.

Share by product subject to US additional tariff measures against China



Note: See below
Source: "Trade statistics" (US Department of Commerce), "Biznews"(JETRO), etc.

Share by product subject to China's additional tariff measures against the US

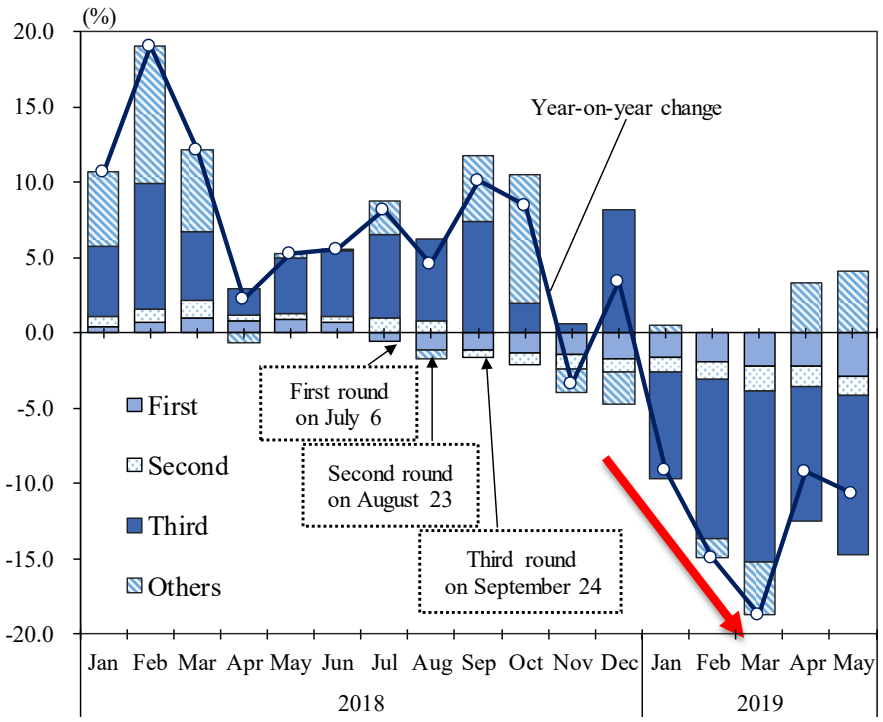


Note: 1) Based on value basis (2017). 2) Machinery and equipment shown within dotted line frames. 3) Only goods having more than 5% share are indicated. 4) Classification of products is as follows: Other materials and their products : HS25-27, 41-63, 68-83, Miscellaneous goods : HS64-67, 92-97.
Source: "Trade Statistics" (China Customs), "Biznews" (JETRO), etc.

Import value between the US and China declines after mutual imposition of additional tariff measures

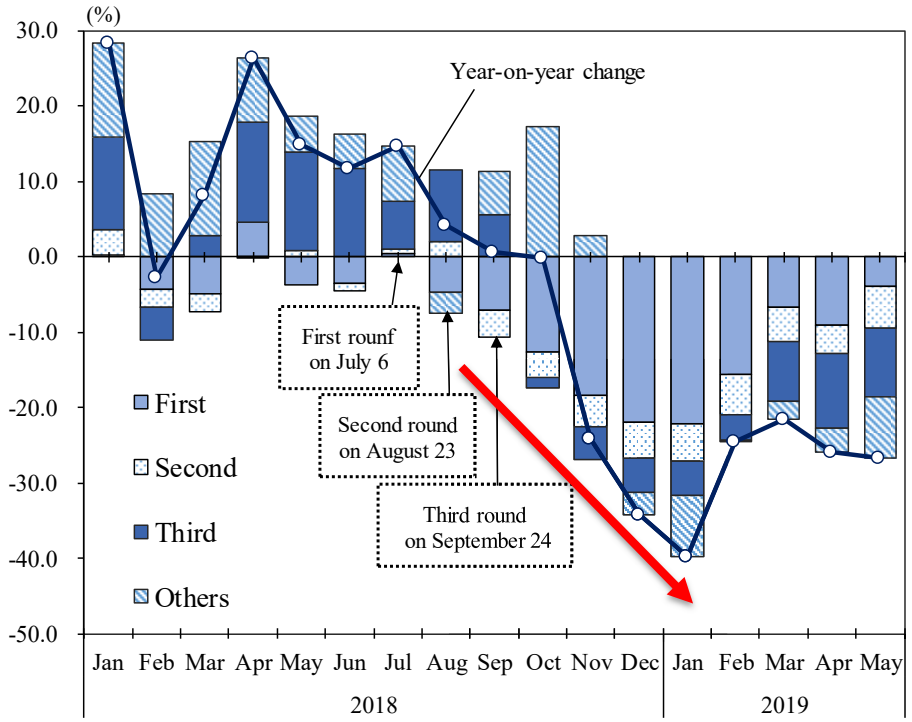
- The growth of US imports from China in 2018 slowed down after the US imposed the third round of additional tariffs against China, and since January 2019, it has continued to decline significantly compared to the same month of the previous year. At the same time, China's imports from the US have slowed in growth after China imposed its first round of additional tariffs, and they have begun declining year-on-year since October 2018.

Trends in import of the US from China
(Year-on-year change)



Source: "Trade statistics" by the DOC, "Biznews" by JETRO

Trends in import of China from the US
(Year-on-year change)



Source: "Trade statistics" by China Customs, "Biznews" by JETRO

US imports of target products of additional tariff measures against China declining greatly in 2019

■ Concerning target products of the US additional tariff measures, the import value from China of some products of machinery and equipment declined since around October 2018 year-on-year. Other target products also declined in 2019, showing a sharp fall.

Changes of import of target products after additional tariff measures against China by the US

(Unit: Million dollars, %)

Product	Import value of taeget product from China (2017)				Share of China on total import value of each pruduct	Year-on-year change (Colorless : +, Blue : −, light color→strong color as decreasing rate expands)															YOY change
	1st round (7/6)	2nd round (8/23)	3rd round (9/24)	Total		2018											2019					2019 Jan. - May
						1			4			7			10			1			4	5	
Total import of target products	32,262	13,685	189,910	235,857	15.9																	-26.0
General machinery	15,796	2,025	37,669	55,490	21.1																	-40.0
Computer and peripheral equipment, etc.	2,361	85	23,081	25,528	40.1																	-66.4
Pumps	2,440	0	1,785	4,226	21.2																	-24.5
Refrigerators/freezers	456	0	1,558	2,014	23.0																	-20.8
Cocks, etc.	908	0	2,259	3,167	23.5																	-15.9
Electrical equipment	9,615	7,507	48,389	65,511	28.9																	-26.8
Communication equipment	572	0	24,264	24,836	45.5																	-32.9
Semiconductors and electronic components	1,254	3,574	13	4,841	11.0																	-50.4
Other electric/electronic parts*	3,689	722	7,297	11,707	32.7																	-20.1
Video equipment	821	0	1,972	2,793	43.1																	-19.6
Motors/generators/their parts	1,123	1,233	1,130	3,485	26.5																	-18.9
Cleaners/electric home appliances	-	-	3,439	3,439	59.4																	-21.6
Cables, etc.	802	291	2,962	4,055	21.8																	-17.7
Transport equipment	2,403	480	11,758	14,641	4.6																	-10.4
Automobiles	1,669	0	-	1,669	0.9																	-7.1
Automobile parts (excluding engines)	-	-	9,424	9,424	14.3																	-9.3
Precision equipment	4,445	596	1,065	6,106	12.7																	-29.2
Measuring and testing equipment*	2,986	2,004	1,221	6,211	17.5																	-30.2
Medical electronic equipment	1,158	0	-	1,158	8.6																	-23.8
Chemicals	4	2,163	16,491	18,658	14.9																	-20.8
Chemical industrial products (excl. pharmaceuticals)	4	11	7,674	7,689	12.1																	-23.9
Plastics/rubber	0	2,152	8,817	10,969	17.8																	-18.5
Food and beverages	-	-	5,347	5,347	6.8																	-36.1
Other materials and their products	-	913	38,732	39,646	10.8																	-18.9
Textile	-	-	3,448	3,448	24.9																	-23.1
Steel	-	883	7,765	8,648	28.3																	-13.5
Miscellaneous goods	-	-	30,459	30,459	57.6																	-13.5
Furniture/bedding/lamps	-	-	29,167	29,167	57.4																	-13.5

Note: 1) Large classification is defined by 2 digit of HS level. Middle classification is defined by JETRO. 2) *: Partly includes HS codes excluded in the large classification (other electric/electronic parts: HS900110, measuring and testing equipment: HS8543). 3) Blue cells classify decreasing rate into 3 grades from light color to strong color (0% to -10%, -over 10% to -20%, -over 20%).

Source: "Trade Statistics" (US Department of Commerce), "Biznews" (JETRO), etc.

After additional tariff measures, China's import share of many target products declines in the US

■ When comparing China's share of import subject to additional tariff measures by the US, China's share declined in many items such as computer parts and digital processing units after such measures were introduced. Computer parts such as printed circuit boards and digital processing units (excluding notebook computer) showed particularly significant decreases in share.

Changes of China's share of the US imports before and after additional tariff measures by the US

(Unit: Million USD, %)

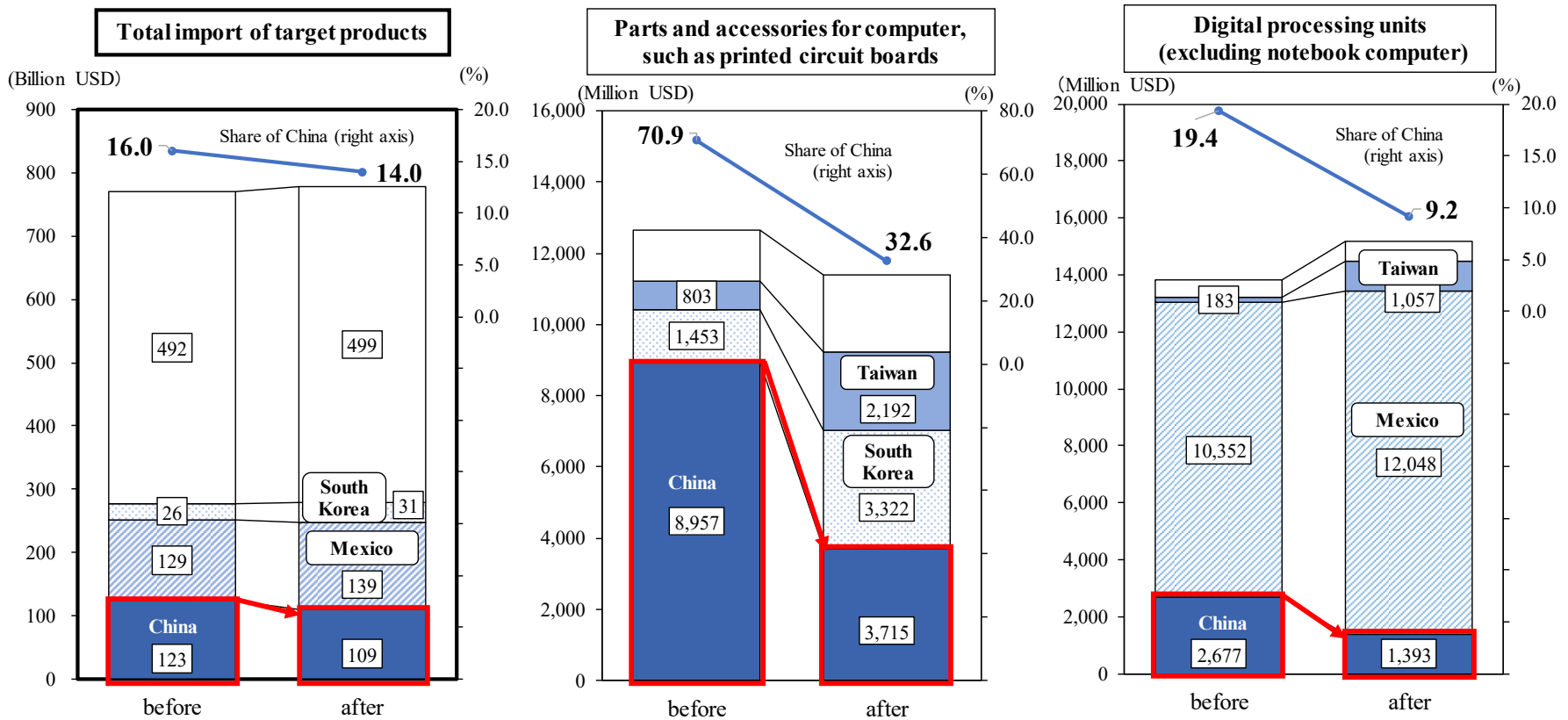
Taeget Products				Imports from China (2017)	China's share of US's imports of target products		
					Before (Oct. 2017 - Mar. 2018)	After (Oct. 2018 - Mar. 2019)	Change of share
Total import of target products (3,434 products, counted based on the 6-digit HS code)				235,857	16.0	14.0	- 2.0
1	851762*	Third	Voice, image data transmission / reception devices (switching, routers, etc.)	22,935	51.2	50.2	- 0.9
2	847330	Third	Parts and accessories for computer, such as printed circuit boards	15,009	70.9	32.6	- 38.2
3	850440	Third	Static converters (rectifiers, etc.)	4,612	50.2	46.2	- 4.0
4	847150	Third	Digital processing units (excluding notebook computer)	4,412	19.4	9.2	- 10.2
5	940161*	Third	Seats with wooden frames, upholstered	3,773	67.7	63.9	- 3.8
6	940320	Third	Metal furniture (excluding for offices)	3,532	70.3	69.0	- 1.3
7	940540	Third	Electric lamps and lighting fittings	3,115	67.9	68.5	+ 0.6
8	420292	Third	Bags (plastic, fiber, excluding suitcases and handbags)	3,002	70.4	65.8	- 4.5
9	940360	Third	Wooden furniture (excluding for offices, kitchens and bedrooms)	2,736	45.8	42.7	- 3.1
10	854442	Third	Cables for communication and power (with connectors)	2,688	54.1	53.5	- 0.6
11	870870	Third	Road wheels and parts and accessories for motor vehicles	2,358	58.7	56.0	- 2.7
12	848180	Third	Cocks (made of steel, copper)	2,235	28.5	30.7	+ 2.2
13	854370	Second	Electrical devices with individual functions (such as LED bulbs)	2,213	34.1	27.7	- 6.4
14	847170	First	Automatic data processing storage units	2,137	18.6	4.9	- 13.7
15	940510	Third	Chandeliers and other electric ceiling or wall lighting fittings	2,136	53.0	54.7	+ 1.7
16	940179*	Third	Seats with metal frames, not upholstered	2,035	87.6	86.2	- 1.4
17	870899	Third	Parts and accessories for motor vehicles	1,903	14.3	14.6	+ 0.3
18	391810	Third	Vinyl floor covering	1,805	84.3	87.3	+ 3.0
19	850811	Third	Vacuum cleaners (less than 1500-watt output)	1,714	77.4	76.1	- 1.4
20	853710	Third	Equipment for electrical control and distribution (less than 1,000 volts)	1,681	16.1	18.2	+ 2.0

Note: 1) Target products released based on the 8-digit HTS code were re-counted at the level of the 6-digit HS code (a total of 3,434 products). 2) Codes with *; partially include non-target products. 3) In case a product is targeted in multiple phase, it was listed with the largest import amount. 4) Colored cells are products of which the share has shrunk by 10%points or more after imposition. Source: "Trade statistics" by the DOC, "Biznews" by JETRO

Shift in US procurement of computer parts and accessories

- Regarding the import of computer parts and accessories, such as printed circuit boards, the US imports from China decreased by nearly 60% after the additional tariff measures were introduced. Meanwhile, the US imports from South Korea increased by a factor of 2.3 times, and those from Taiwan 2.7 times. As for digital processing units (excluding notebook computer), the US imports from China dropped to about half, while the imports from Mexico and Taiwan expanded by 16.4% and 5.8 times, respectively.

Changes of import of target products after additional tariff measures by the US



Note: 1) The period of "Before": Oct. 2017 - Mar. 2018. The period of "After": Oct. 2018 - Mar. 2019. 2) Only the two countries/regions with the largest increase in share of US's total import of all target products as well as each individual product are displayed. 3) Share of China is that of total imports of taeget product by the US.
Source: "Trade statistics" by the DOC, "Biznews" by JETRO

China's imports of target products of additional tariff measures against the US decrease remarkably after the middle of 2018

- Concerning the target product of China's additional tariff measures, mostly food/drink, such as soybeans as well as other raw materials and their products, witnessed a significant decline, after introduction of the first round, in imports from the US compared to the same month of the previous year.

Change of import of target products after additional tariff measures against the US by China

(Unit: Million dollars, %)

Product	Import value of taeget product from theUS (2017)				Share of US on total import value of each pruduct	Year-on-year change (Colorless : +, Blue : −, light colorg→strong color as decreasing rate expands)														YOY change
	1st round (7/6)	2nd round (8/23)	3rd round (9/24)	Total		2018											2019					2019 Jan.-May
						1			4			7			10			1			4	5	
Total import of target products	33,834	14,108	53,393	101,334	9.4																	-34.5
General machinery	-	-	9,340	9,340	6.9																	-9.0
Pumps	-	-	1,105	1,105	11.6																	-10.5
Cocks, etc.	-	-	1,194	1,194	15.6																	-5.7
Electrical equipment	-	459	6,699	7,158	3.6																	-7.1
Electron tubes/semiconductors, etc.	-	-	834	834	3.0																	22.4
Other electric/electronic parts*	-	560	2,002	2,562	3.5																	-20.8
Transport equipment	12,941	849	969	14,759	21.7																	-26.6
Automobiles	12,047	747	-	12,794	25.6																	-26.3
Automobile parts (excluding engines)	660	4	531	1,195	9.0																	-28.6
Precision equipment	-	846	8,147	8,993	10.5																	-9.4
Precision equipment (excl. digital-related goods)	-	-	2,025	2,025	3.7																	-2.0
Measuring and testing equipment*	-	-	5,305	5,305	18.4																	-8.4
Medical electronic equipment	-	745	1,383	2,128	31.3																	-11.0
Chemicals	-	2,802	10,874	13,676	8.9																	-17.9
Chemical industrial products (excl. pharmaceuticals)	-	1,547	7,620	9,166	9.6																	-11.6
Plastics/rubber	-	1,255	3,043	4,298	7.4																	-32.9
Food and beverages	19,912	160	1,676	21,748	21.2																	-60.0
Meat	1,187	-	0	1,187	13.9																	-54.5
Marine products	1,315	-	0	1,315	17.4																	-35.7
Other food/beverages	2,664	160	1,652	4,475	11.6																	-55.2
Soybeans	13,960	-	-	13,960	35.1																	-66.9
Other materials and their products	980	8,992	15,010	24,982	7.7																	-49.6
Mineral ores	-	-	1,464	1,464	3.4																	-91.2
Mineral fuels, etc.	-	3,425	644	4,069	4.8																	-83.0
Wood/its products	-	254	2,814	3,068	17.2																	-47.6
Paper/pulp products	-	2,717	3,025	5,742	20.7																	-27.0
Textile	980	4	854	1,838	6.7																	-37.7
Steel	-	299	1,237	1,536	5.9																	-23.1
Other base metals/their products	-	2,239	1,682	3,920	6.5																	-34.0
Miscellaneous goods	-	-	677	677	5.5																	10.0

Note: 1) Large classification is defined by 2 digit of HS level. Middle classification is defined by JETRO. 2) *: Partly includes HS codes excluded in the large classification (other electric/electronic parts: HS900110, measuring and testing equipment: HS8543). 3) Blue cells classify decreasing rate into 3 grades from light color to strong color (0% to -10%, -over 10% to -20%, -over 20%).
Source: "Trade Statistics" (China customs), "Biznews" (JETRO), etc.

The US share of China's import of some products decreases by more than 30% after additional tariff measures

- When comparing the US share of China's import subject to additional tariff measures before (October 2017 – March 2018) and after (October 2018 – March 2019) imposition of the additional tariffs, the share shrank in items such as soybeans and cotton by more than 30% after the imposition.

Changes of US's share of China's imports before and after additional tariff measures by China

(Unit: Million USD, %)

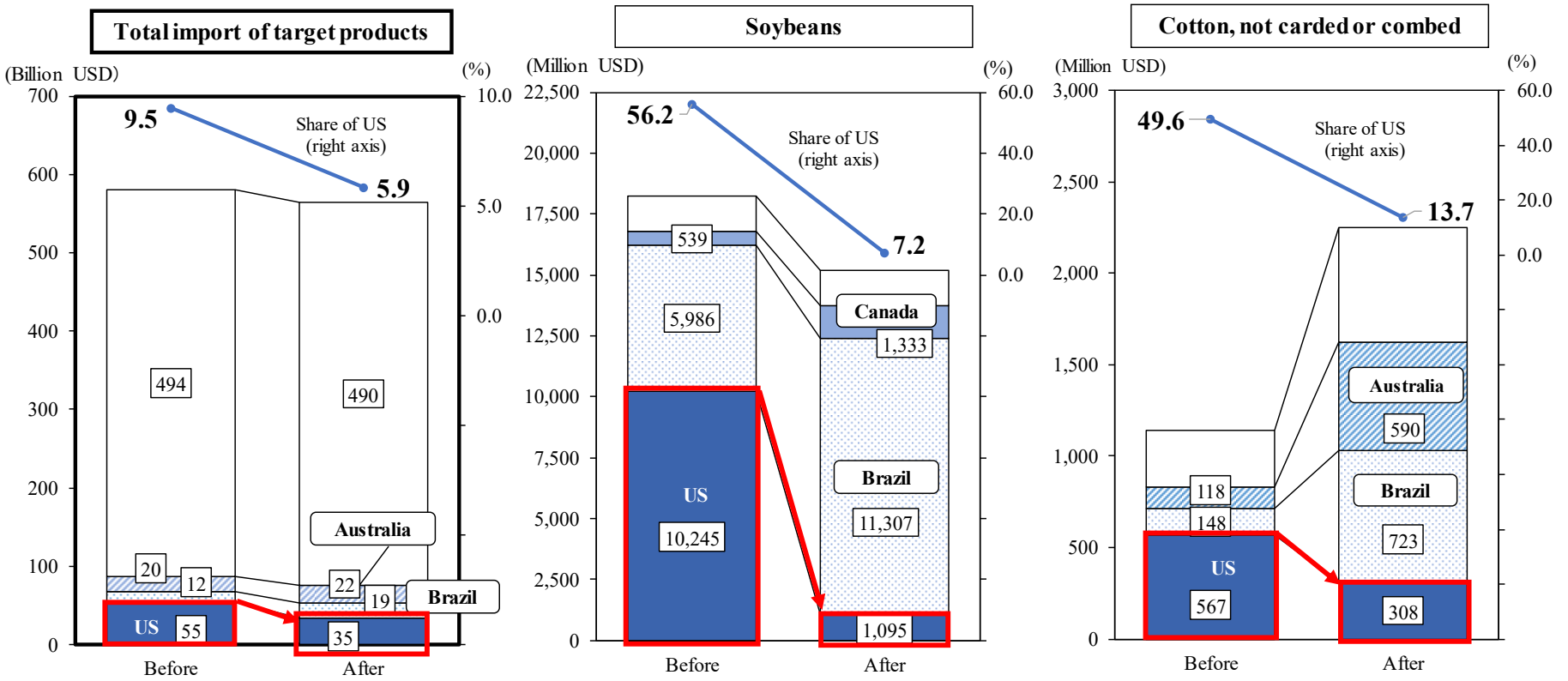
	Taeget Products			Imports from the US (2017)	US share of China's imports of target products		
					Before (Oct. 2017 - Mar. 2018)	After (Oct. 2018 - Mar. 2019)	Change of share
Total import of target products (4,078 products, counted based on the six digit HS code)				101,334	9.5	5.9	-3.6
1	120190	First	Soybeans, other than seeds	13,959	56.2	7.2	-49.0
2	870323*	First	Passenger cars with engine over 1,500 cc but not over 3,000 cc	10,318	25.1	17.8	-7.3
3	271112	Second	Liquefied propane gas	1,761	26.4	0.0	-26.4
4	470710	Second	Waste paper (such as unbleached kraft paper)	1,694	51.8	37.0	-14.8
5	870380*	First	Electric-powered vehicles	1,403	94.2	93.4	-0.8
6	740400	Second	Copper waste and scrap	1,390	18.6	4.7	-13.9
7	470321	Third	Chemical woodpulp (of softwood)	1,069	22.2	15.9	-6.3
8	520100	First	Cotton, not carded or combed	980	49.6	13.7	-35.9
9	100790	First	Grain sorghum, other than seeds	956	98.2	0.0	-98.2
10	410150	Third	Whole hides of cows and horses (exceeding 16 kg)	892	55.4	52.5	-2.9
11	020649	First	Offal of swine except livers, edible, frozen	874	46.7	9.7	-37.0
12	760200	Second	Aluminum waste and scrap	832	30.2	29.0	-1.2
13	440791	Third	Oak wood	829	84.7	73.1	-11.6
14	902780	Third	Instuments and apparatus for analysis	820	26.1	23.4	-2.6
15	870324*	First	Passenger cars with engine over 3,000 cc	784	10.2	8.2	-2.1
16	847989	Third	Machines and mechanical appliances with individual functions	764	8.9	6.0	-2.9
17	260300	Third	Copper ores and concentrates	671	2.6	0.0	-2.6
18	870840	First	Gear boxes for motor vehicles	660	11.9	8.2	-3.7
19	852349	Third	Optical media for recording sound or other phenomena	647	29.4	25.4	-4.0
20	271111	Third	Liquid natural gas	644	7.9	0.9	-7.0

Note: 1) Target products released based on the eight digit HS code were re-counted in the level of the six digit HS code (a total of 4,078 products). 2) Codes with *; partially include non-target products since January 2019. 3) In the case that a product is targeted in multiple measures, it was listed under the measure with the largest import amount. 4) Colored cells are products of which the share has shrunk by 30%points or more after imposition. Source: "Trade statistics" by China Customs, "Biznews" by JETRO

China's procurement of soybeans and cotton shifts to Brazil and other countries

- With regard to China's soybean imports, the imports from the US, which was its largest trading partner in the category, decreased by 90% from before the imposition. Meanwhile, the imports from Brazil increased 1.9 times, and those from Canada increased 2.5 times. China's imports of cotton from the US decreased by 45.7%, while its imports from both Brazil and Australia increased approximately five times.

Changes of import of target products after additional tariff measures by China

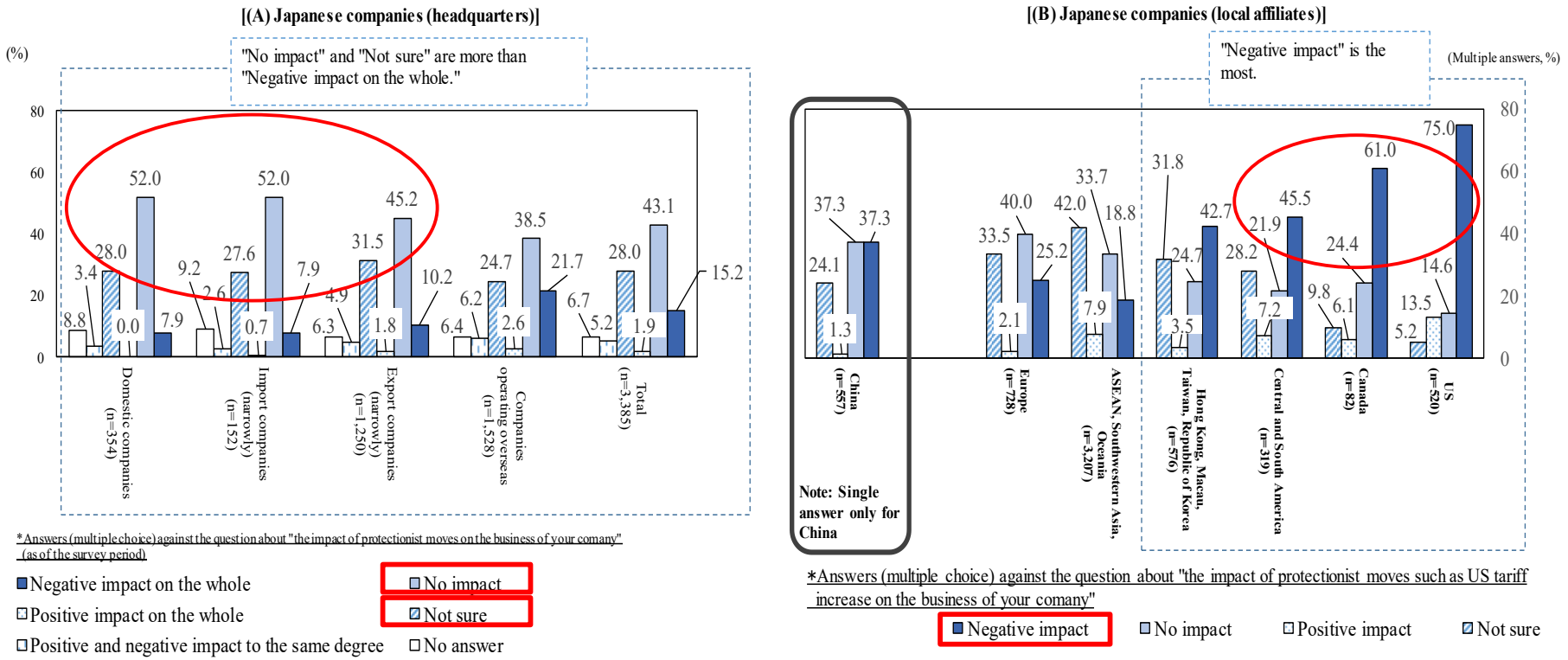


Note: 1) The period of "Before": Oct. 2017 - Mar. 2018. The period of "After": Oct. 2018 - Mar. 2019. 2) Only the two countries/regions with the largest increase in share of China's total import of all target products as well as each individual product are displayed. 3) Share of US is that of total imports of taeget products by China. 4) As data on "gold (HS7108)" (included in target products) was not disclosed through China's trade statistics before March 2018, gold is excluded from total import of target products.
Source: "Trade Statistics" by China Customs, "Biznews" by JETRO

Japanese overseas affiliates indicate the negative impact of trade protectionism at a higher rate than Japanese companies

- According to a JETRO survey, with regard to the impact of trade protectionism such as additional tariff measures between the US and China, many answers of "no impact" or "not sure" were found among headquarters of Japanese companies, while many answers indicating negative impact were found among Japanese overseas affiliates chiefly in the US.

The impact of protectionist moves on the business of Japanese companies (headquarters and local affiliates)

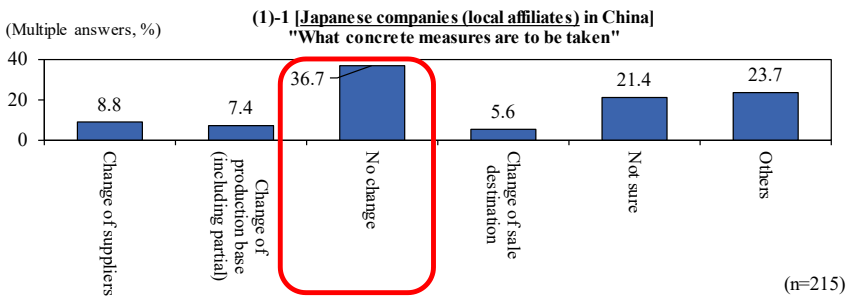


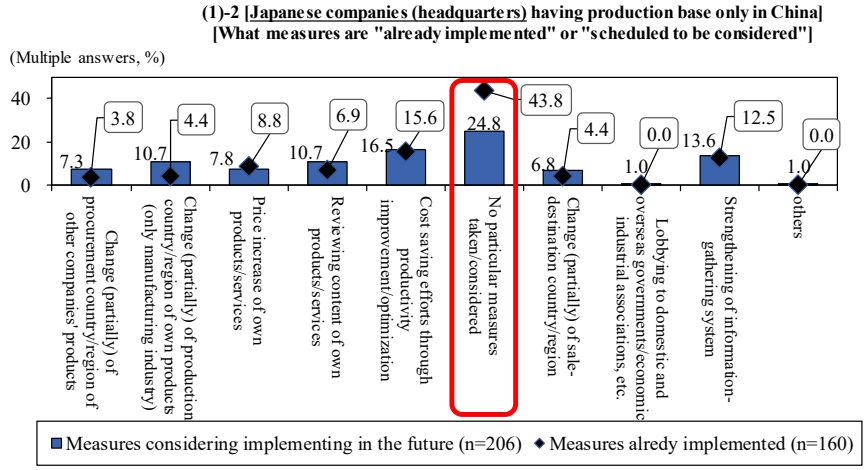
Note: 1) The survey conducted; (A) in Japan (Nov. 19, 2018 - Jan. 4, 2019), (B) in USA/Canada (Nov. 9 - Dec. 7, 2018), Central & South America (Nov. 1 - 30), Hong Kong/Macau/Taiwan/Republic of Korea (Oct. 9 - Nov. 9), ASEAN/Southwestern Asia/Oceania (Oct. 9 - Nov. 9), Europe (Sep. 27 - Oct. 25), China (Oct. 26 - Nov.9). 2) Subject Companies of the survey are (A) Japanese companies (headquarters) who are highly interested in overseas business, regardless of company size (large companies, small and medium companies) and industry types. Company types of headquarters are classified into "Companies operating overseas" who have overseas bases (excluding agents), "Export companies (narrowly)" exporting but having no overseas base, "Import companies (narrowly)" importing but not exporting and having no overseas base, "Domestic companies" having no overseas base and neither exporting nor importing, and "Total" of whole sum of these companies. (B) Japanese companies operating in individual country/region regardless of company size (large companies, small and medium companies) and types of industry. (However, regarding US, only manufacturing companies and manufacturing-related sales companies are targeted.) 3) Regarding "impact" of question (A), answers of "as of now" between two answers of "as of now" and "in two or three years in the future," are aggregated. Although multiple answers are given to (B), only for China (excluding Hong Kong and Macau) single answer is given. 4) Refer to the survey report described in the following "Source" for other details.
Sources: "Survey on the International Operations of Japanese Firms" (JETRO) for (A), "The impact of protectionist moves such as tariff increase on Japanese affiliates operating overseas" (JETRO) for (B)

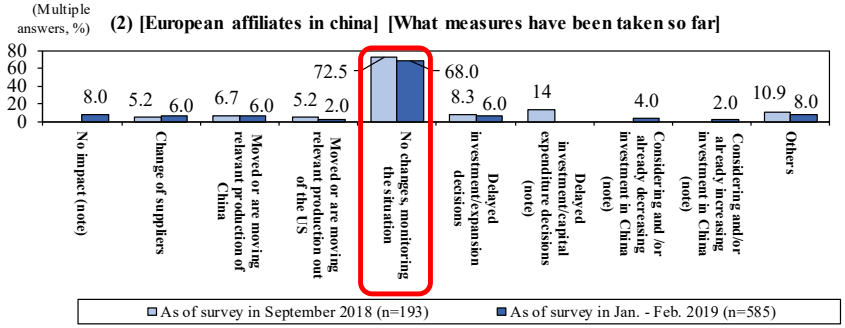
"Wait-and-see" is the measure taken by most Japanese affiliates in China at the time of the survey period

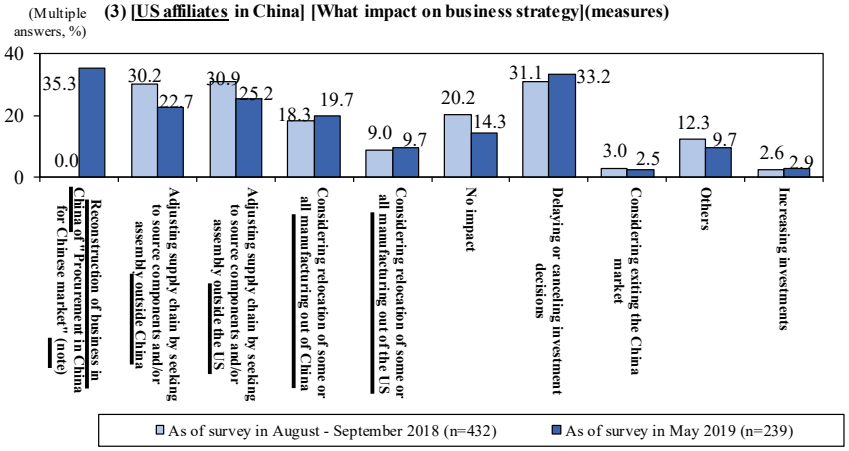
- With regard to measures of foreign affiliates in China against protectionist moves such as additional tariff, answers of "wait-and-see" were remarkable among Japanese companies (headquarters and local affiliates) and European companies at the time of the survey period. On the other hand, the survey indicated a tendency that US companies have been examining concrete measures such as changing production bases and suppliers as future measures.

Measures of foreign affiliates (Japanese, European, US) in China against protectionist moves (trade friction between the US and China, etc.)









Note: 1) The survey conducted; for (1)-1 during Oct. 26 - Nov. 9, for (1)-2 during Nov. 19 2018 - Jan.4 2019, the (2) survey in Sep. 2018 was conducted through Sep. 3, the survey in Jan. - Feb 2019 was done for 4 weeks in Jan. - Feb., the (3) survey in Aug. - Sep. 2018 was during Aug.29 -Sep.5, and the survey in May 2019 was during May 16 - 20. 2) Subject companies of the survey are (1)-1: Japanese companies (local affiliates) in China (excluding Hong Kong and Macau), (1)-2: Japanese Companies (headquarters) having production base only in China (excluding Hong Kong and Macau), (2): member companies of EU Chamber of Commerce in China, (3): member companies of US Chamber of Commerce in China and Shanghai who have production base in China, 3) Regarding question (2), "what impact was caused to business strategy?" is the question of only the survey in Jan - Feb. 2019, but it was organized being regarded as same meaning of the question of the survey in September 2018. Regarding answering choices, "Postponement of decision making of investment or capital investment" is a choice of only the survey in May 2018, "No impact," "Investment reduction in China," "Investment expansion in China" are choices of only the survey in Jan. - Feb. 2019. "Reconstruction of business in China of [Procurement in China for Chinese market]" of (3) is a choice of only the survey in May 2019. 4) Refer to each survey described in "Source" for other details.

Source: (1)-1 "Impact of protectionist moves such as tariff hikes on Japanese overseas affiliates" (JETRO), (1)-2 "Survey on the International Operations of Japanese Firms" (JETRO), (2) European Chamber survey and analysis on US-China tariff effects (EU Chamber of Commerce in China, released on September 13, 2018) and "European Business in China Business Confidence Survey 2019" (EU Chamber of Commerce in China, released on May 20, 2019), (3) Joint press release materials about the impact of US and Chinese tariff measures on US affiliates in China (US Chamber of Commerce in China and in Shanghai, released in September, 2018 and on May 22, 2019)

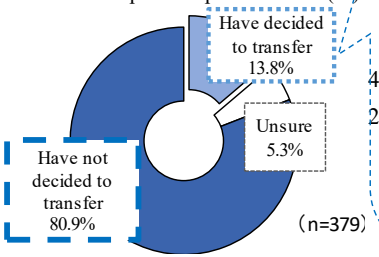
Southeast Asia as a candidate for transferring production bases

■ Although a number of foreign-affiliated companies in China did not have plans to transfer their production bases when asked in surveys, some companies had begun to review their production system. Should the decision be made to transfer production and bases to other countries in response to protectionism, foreign-affiliated companies in China listed Southeast Asia as a candidate location.

Candidate regions where German and US companies in China are considering transferring production sites

(1) German-affiliated companies in China

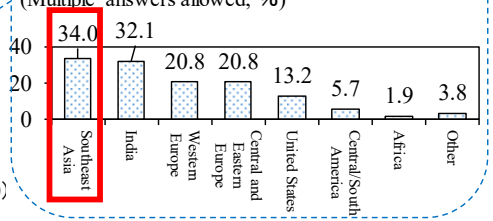
The ratio of companies which have decided to transfer production sites from China in response to protectionism (%)



(1) German-affiliated companies in China

Countries and regions where companies have decided to transfer production sites in response to protectionism within the past two years

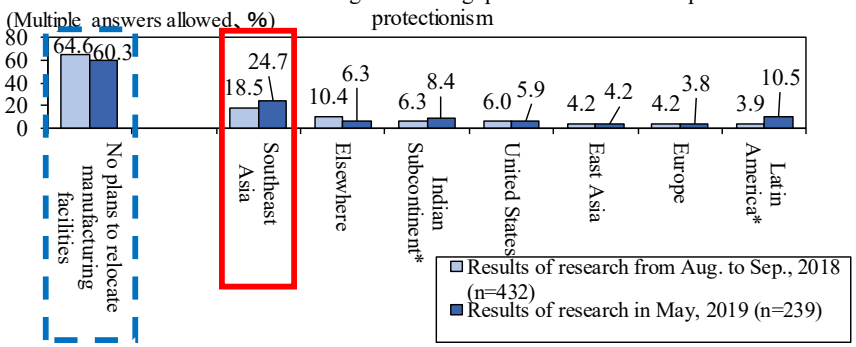
(Multiple answers allowed, %)



(2) US-affiliated companies in China

Destination countries and regions where companies have already transferred or are considering transferring production sites in response to protectionism

(Multiple answers allowed, %)



•Trends of global companies which were affected by additional tariff measures by the US and China (major cases)

	Time of annoucement	Company	Head office location	Field	Outline
For Chinese market	Jul. 2018	Tesla	US	Electric vehicles	Constructed an EV production plant in the suburbs of Shanghai
	Apr. 2019	Harley-Davidson	US	Motorcycles	Moved its motorcycle production from the US to Thailand
	May. 2019	BMW Group	Germany	Automobiles	Moved its SUV production from the US to China (Shenyang)
	May. 2019	Ford Motor Company	US	Automobiles	Planning to start production of a new model car (Lincoln) in China
For US market	Jul. 2018	Volvo Cars (Zhejiang Geely Group Holding)	Sweden (China)	Automobiles	Moved its SUV production from China to Europe
	Oct. 2018	Nidec Corporation	Japan	Motors	Moved its production of cars and home electronic parts for the US from China to Mexico
	Feb. 2019	TCL Corporation	China	TV	Started construction of TV production plants in Vietnam for domestic sales and the US market
	May. 2019	Ricoh Company	Japan	Multifunction printers	Moved main production of main multifunction printers for the US market to Thailand from China
	May. 2019	Brooks Running Company	US	Shoes	Moved most production of running shoes from China to Vietnam
	Jun. 2019	Sharp Corporation (Foxconn Technology Group)	Japan (Taiwan)	PCs	Moved a part of production of notebook PCs from China to Vietnam

Note: Some cases may include production other than for the Chinese or US market.
Source: Media coverage and press releases

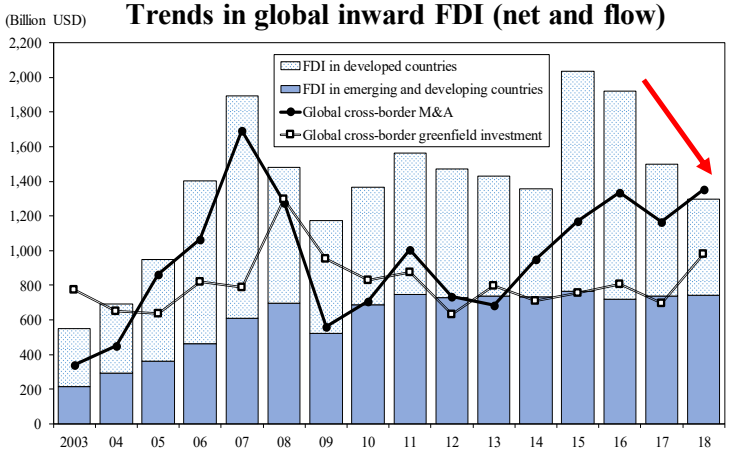
Note: 1. Duration: (1) From August 27 to October 22, 2018; (2)The periods of research are from August 29 to September 5, 2018, and from May 16 to 20, 2019.
2. Target companies are (1) members of the German Chamber of Commerce and Industry in China with production sites in China, and (2) members of the US Chamber of Commerce and Industry in China and Shanghai with production sites in China.
3. In graph (2), "Indian Subcontinent" includes India, Bangladesh, Pakistan and Sri Lanka, and "Latin America" includes "Mexico". (Research in May 2019 was done only in "Mexico".)
4. For other details, refer to the documents below.
Source: (1)"German Business in China Business Confidence Survey"(The Delegations of German Industry and Commerce in China), (2)"Impact of US and Chinese Tariffs on American Companies in China"(AmCham China and AmCham Shanghai)

Chapter 2: Global FDI and Japan's FDI

Global direct investment decreases over 10%

■ According to the United Nations Conference on Trade and Development (UNCTAD), global inward FDI in 2018 decreased by 13.4% from the previous year to $1,297.2 billion (on a balance of payment basis, net, flow). Inward FDI in developed countries fell by 26.7% to $556.9 billion, contributing 13.5 percentage points to the worldwide decline. It is at the lowest level in 14 years since 2004.

Trends in global inward FDI (net and flow)



Note: 1. The figures for developed countries were summed from those of 39 countries/regions based on the categories of UNCTAD.
2. The figures for emerging and developing countries are those of the world (excluding the financial center in the Caribbean region) minus those of developed countries.
Source: Data from UNCTAD and Thomson Reuters

Top 10 countries/regions in the world in terms of FDI (2018)

(Unit: Million USD)

	Inward FDI		Outward FDI	
1	United States	251,814	Japan	143,161
2	China	139,043	China	129,830
3	Hong Kong, China	115,662	France	102,421
4	Singapore	77,646	Hong Kong, China	85,162
5	Netherlands	69,659	Germany	77,076
6	United Kingdom	64,487	Netherlands	58,983
7	Brazil	61,223	Canada	50,455
8	Australia	60,438	United Kingdom	49,880
9	Spain	43,591	Korea, Republic of	38,917
10	India	42,286	Singapore	37,143

Note: Excluding financial centers in the Carribean region

Source: Data of UNCTAD

FDI for major economies/regions (2018) (on a balance of payment, net, flow)

(Unit: Million dollars, %)

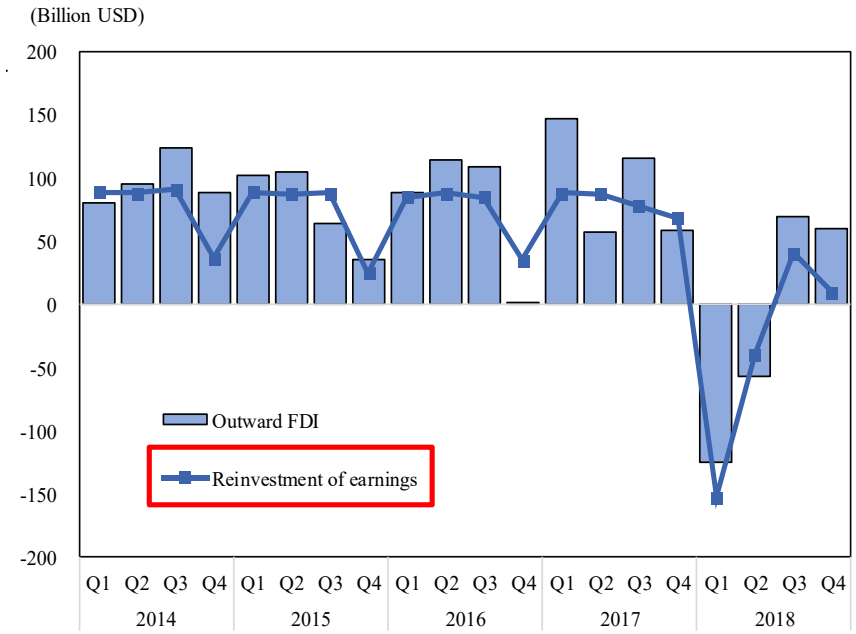
		Inward FDI				Outward FDI			
		Amount	Increase rate	Com-position	Contri-bution	Value	Increase rate	Com-position	Contri-bution
Developed economies	US	251,814	-9.2	19.4	-1.7	-63,550	-	-	-25.5
	Canada	39,625	59.6	3.1	1.0	50,455	-36.8	5.0	-2.1
	EU	277,640	-18.5	21.4	-4.2	390,388	-5.4	38.5	-1.6
	Netherlands	69,659	19.7	5.4	0.8	58,983	110.5	5.8	2.2
	UK	64,487	-36.3	5.0	-2.5	49,880	-57.6	4.9	-4.7
	Spain	43,591	108.4	3.4	1.5	31,620	-20.9	3.1	-0.6
	Switzerland	-87,212	-	-	-8.4	26,928	-	-	4.3
	Australia	60,438	42.9	4.7	1.2	3,635	9.5	0.4	0.0
	Japan	9,858	-5.5	0.8	0.0	143,161	-10.8	14.1	-1.2
Emerging and developing economies	East Asia	424,829	3.6	32.8	1.0	341,534	-5.5	33.7	-1.4
	China	139,043	3.7	10.7	0.3	129,830	-18.0	12.8	-2.0
	Hong Kong	115,662	4.5	8.9	0.3	85,162	-1.8	8.4	-0.1
	South Korea	14,479	-19.2	1.1	-0.2	38,917	14.2	3.8	0.3
	Taiwan	6,998	112.6	0.5	0.2	18,024	56.0	1.8	0.5
	ASEAN	148,646	3.1	11.5	0.3	69,601	-1.7	6.9	-0.1
	Singapore	77,646	2.5	6.0	0.1	37,143	-15.0	3.7	-0.5
	Indonesia	21,980	6.8	1.7	0.1	8,139	291.8	0.8	0.4
	Vietnam	15,500	9.9	1.2	0.1	598	24.6	0.1	0.0
	India	42,286	6.0	3.3	0.2	11,037	-0.9	1.1	0.0
	Central and South America	146,720	-5.6	11.3	-0.6	6,515	-82.1	0.6	-2.1
	Brazil	61,223	-9.4	4.7	-0.4	-13,036	-	-	-2.1
	Mexico	31,604	-1.5	2.4	0.0	6,858	67.7	0.7	0.2
	CIS	25,620	-36.2	2.0	-1.0	37,211	-1.8	3.7	0.0
	Russia	13,332	-48.6	1.0	-0.8	36,445	6.7	3.6	0.2
	Middle East	29,291	3.2	2.3	0.1	49,175	26.9	4.8	0.7
	Turkey	12,944	12.8	1.0	0.1	3,608	37.0	0.4	0.1
	UAE	10,385	0.3	0.8	0.0	15,079	7.2	1.5	0.1
	Africa	45,902	10.9	3.5	0.3	9,801	-26.0	1.0	-0.2
	Egypt	6,798	-8.2	0.5	0.0	324	62.6	0.0	0.0
	South Africa	5,334	165.8	0.4	0.2	4,552	-38.2	0.4	-0.2
Total	Developed economies	556,892	-26.7	42.9	-13.5	558,444	-39.6	55.1	-25.7
	Emerging/developing economies	740,261	0.3	57.1	0.1	455,728	-8.9	44.9	-3.1
	World	1,297,153	-13.4	100.0	-13.4	1,014,172	-28.9	100.0	-28.9

Note: 1) The figures for developed economies are summed from those of 39 economies/regions based on the categories of UNCTAD.
2) The figures for emerging and developing economies derived by subtracting developed economies from world (excluding Caribbean financial centers).
3) The figures for East Asia are summed from those of China, South Korea, Taiwan, Hong Kong, and ASEAN.
4) The figures of Central and South America are those excluding financial centers in the Caribbean.
5) Due to the difference in FDI data compilation, the figures for Japan (Directional principle) in the table do not correspond to "Japan`s FDI" (Asset and Liabilities
6) "-" before the values indicates withdrawal excess.
Source: United Nations Conference on Trade and Development (UNCTAD)

Main reason: repatriation of earnings due to the US tax system revision

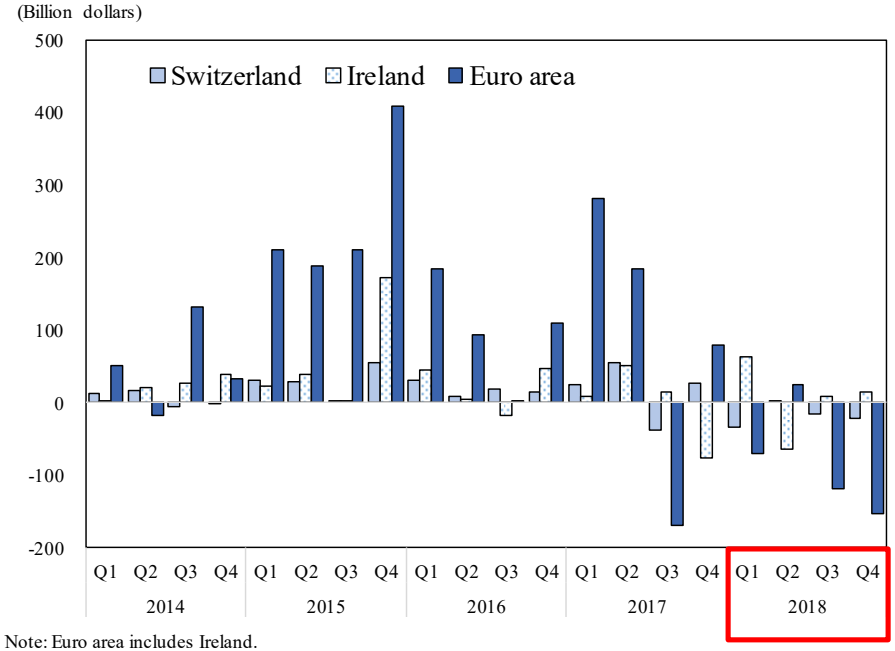
- The large-scale tax system revision in the US is the main factor of the significant decline in global inward FDI in 2018. In the US, the corporate tax has decreased since 2018; in addition, a one-time tax on overseas retained earnings of US companies (15.5% for cash, 8% for others) has been imposed. As a result, the earnings that US companies retained overseas, including their affiliates in Europe, have been returned to the country.

Change in US outward FDI (net and flow)



Source: BOP (IMF)

Change in inward FDI in Euro area, Switzerland, and Ireland (net, flow)



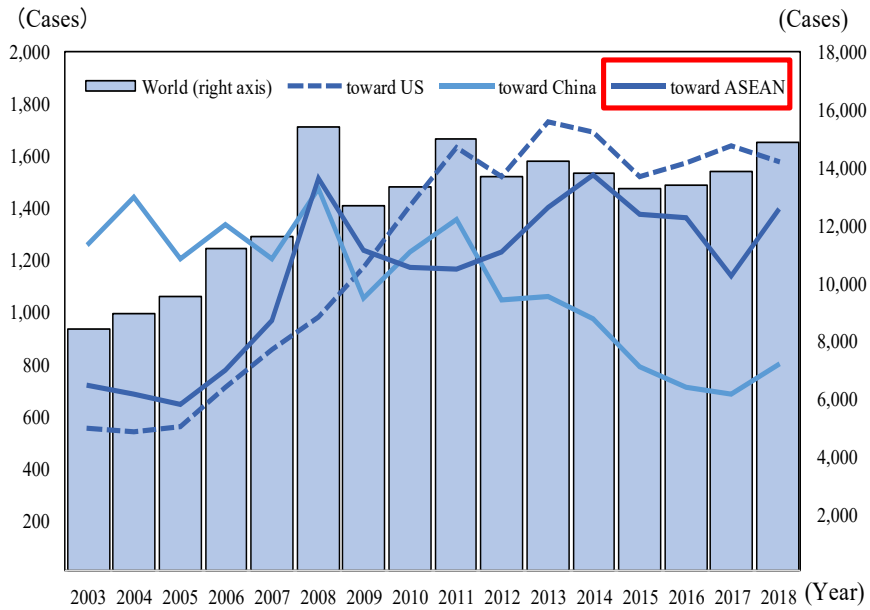
Note: Euro area includes Ireland.

Source: BOP (IMF)

Increase in cross-border greenfield investment toward ASEAN

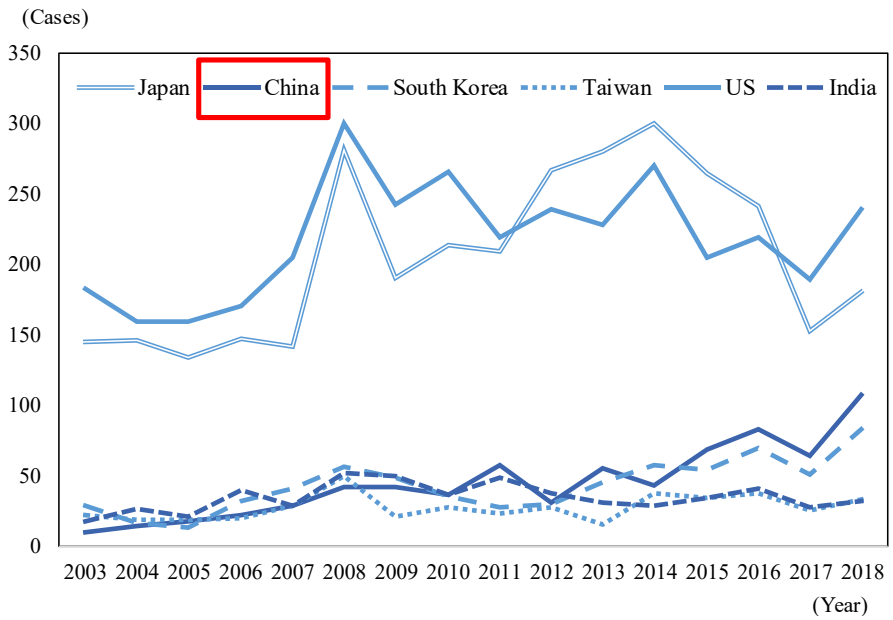
- The number of global cross-border greenfield investments announced in 2018 increased by 7.2% from the previous year (13,855 cases) to 14,847 cases. Among major economies, the number of investments toward ASEAN showed a remarkable increase. In the case of cross-border greenfield investment in ASEAN by companies from outside of the region, the increase in investment from the US and China is particularly noticeable. Chinese companies' investments in ASEAN gained strength in 2018.

Change in global cross-border greenfield investment



Source: fDi Markets (Financial Times)

Cross-border greenfield investment in ASEAN by companies outside the region



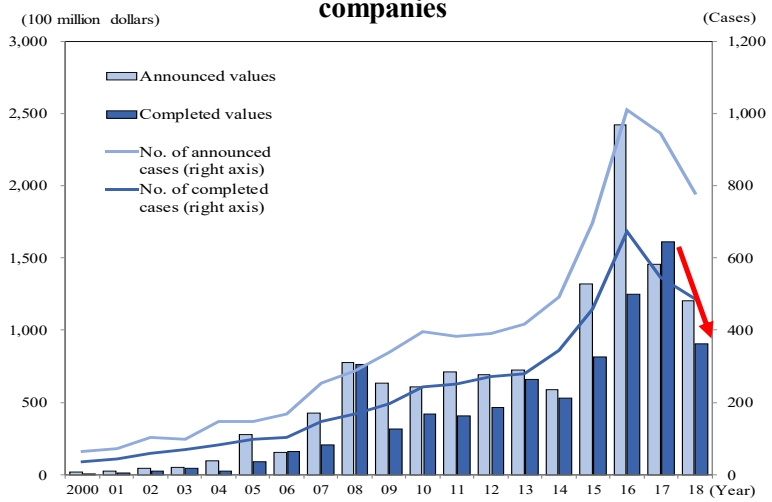
Note: The classification of countries/regions is determined by the location of the parent company's head office.

Source: fDi Markets (Financial Times)

Acquisitions of foreign companies by Chinese companies slow down

- Although acquisitions of foreign companies by Chinese companies had rapidly increased since 2015, the completed values of cross-border M&A decreased in 2018. The top cross-border M&A deals by Chinese companies targeting Western companies cover a wide variety of industrial sectors, such as transportation, software, real estate, and electronics, including the acquisition of the Swiss chemical giant Syngenta ($44 billion), as well as distribution infrastructure and advanced technology companies.

Change in acquisitions of foreign companies by Chinese companies



Note: 1) The nationality of the acquiring company is that of the ultimate parent company.
Source: Thomson Reuters

Top Western company acquisitions by Chinese companies (2015-2018)

Date	Acquiring companies	Industry sector	Acquired companies	Nationality	Industry sector	Value (Million dollars)	Post-deal stake (%)
Jun. 2017	China National Chemical Corp	Chemicals and Allied Products	Syngenta AG	Switzerland	Chemicals and Allied Products	43,988	94.7
Dec. 2017	China Investment Corp	Investment & Commodity Firms, Dealers, Exchanges	Logicor Ltd	United Kingdom	Transportation and Shipping (other than air)	13,742	100.0
Apr. 2017	Bohai Capital Holding Co Ltd	Business Services	C2 Aviation Capital LLC	United States	Business Services	10,380	100.0
Feb. 2018	Zhejiang Geely Hldg Grp Co	Investment & Commodity Firms, Dealers, Exchanges	Daimler AG	Germany	Transportation Equipment	8,948	9.7
Jul. 2016	Tencent Holdings Ltd	Investment & Commodity Firms, Dealers, Exchanges	Supercell Oy	Finland	Prepackaged Software	8,600	84.3
Nov. 2015	China National Chemical Corp	Investment & Commodity Firms, Dealers, Exchanges	Pirelli & C SpA	Italy	Rubber and Miscellaneous Plastic Products	7,065	100.0
Mar. 2016	Anbang Insurance Group Co Ltd	Insurance	Strategic Hotels & Resorts Inc	United States	Investment & Commodity Firms, Dealers, Exchanges	6,500	100.0
Mar. 2017	Hainan Province Cihang (HNA Tourism Group Co Ltd)	Transportation and Shipping (other than air)	Hilton Worldwide Holdings Inc	United States	Hotels and Casinos	6,497	25.0
Dec. 2016	Tianjin Tianhai Invest Co Ltd	Transportation and Shipping (other than air)	Ingram Micro Inc	United States	Wholesale Trade-Durable Goods	6,258	100.0
Jun. 2016	Qingdao Haier Co Ltd	Machinery	General Electric Co-Appl Bus	United States	Electronic and Electrical Equipment	5,600	100.0
Jan. 2017	Midea Group Co Ltd	Electronic and Electrical Equipment	KUKA AG	Germany	Machinery	4,381	94.5
Nov. 2016	Zhuhai Hengxin Fengye Tech	Investment & Commodity Firms, Dealers, Exchanges	Lexmark International Inc	United States	Computer and Office Equipment	3,605	100.0
Jan. 2018	Zhejiang Geely Hldg Grp Co	Transportation Equipment	Volvo AB	Sweden	Transportation Equipment	3,587	8.2
Mar. 2016	Dalian Wanda Group Co Ltd	Retail Trade-General Merchandise and Apparel	Legend Pictures LLC	United States	Motion Picture Production and Distribution	3,500	-
Sep. 2017	Yan Kuang Group Co Ltd	Mining	Coal & Allied Industries Ltd	Australia	Mining	3,100	100.0
Jun. 2017	Suzhou Qingfeng Invest Mgmt Co	Investment & Commodity Firms, Dealers, Exchanges	Global Switch Holdings Ltd	United Kingdom	Prepackaged Software	2,968	49.0
Feb. 2016	Hainan Airlines Co Ltd Labor (HNA Group Co Ltd)	Air Transportation and Shipping	Swissport International AG	Switzerland	Air Transportation and Shipping	2,820	100.0
Feb. 2017	Investor Group	Investment & Commodity Firms, Dealers, Exchanges	NXP Semiconductors-Standard	United States	Electronic and Electrical Equipment	2,750	100.0
Jul. 2018	Tsinghua Unigroup Ltd	Electronic and Electrical Equipment	Linxens SA	France	Electronic and Electrical Equipment	2,623	100.0
Jan. 2016	Bohai Leasing Co Ltd	Business Services	Avolon Holdings Ltd	Ireland-Rep	Business Services	2,533	100.0

Note: 1) The nationality of the acquiring company is that of the ultimate parent company. 2) Ranking with one transaction value. 3) The definition of industry sectors is based on that of Thomson Reuters.
Source: Thomson Reuters

Tide of tightening investment regulations in Western countries

- One of the reasons why the acquisitions of foreign companies by Chinese investors slowed down is the tide of tightening investment regulations, especially in Western countries. The US established the "Foreign Investment Risk Review Modernization Act (FIRRMA)" to strengthen the functions of the Committee on Foreign Investment in the United States (CFIUS) which screens foreign companies' investment in the US. The EU will also introduce a screening system for inward direct investment from outside the region. Behind these movements lie national security concerns, including China's gaining access to advanced technology and increasing influence on public infrastructure.

Tide of tightening regulations on inward FDI in Western countries

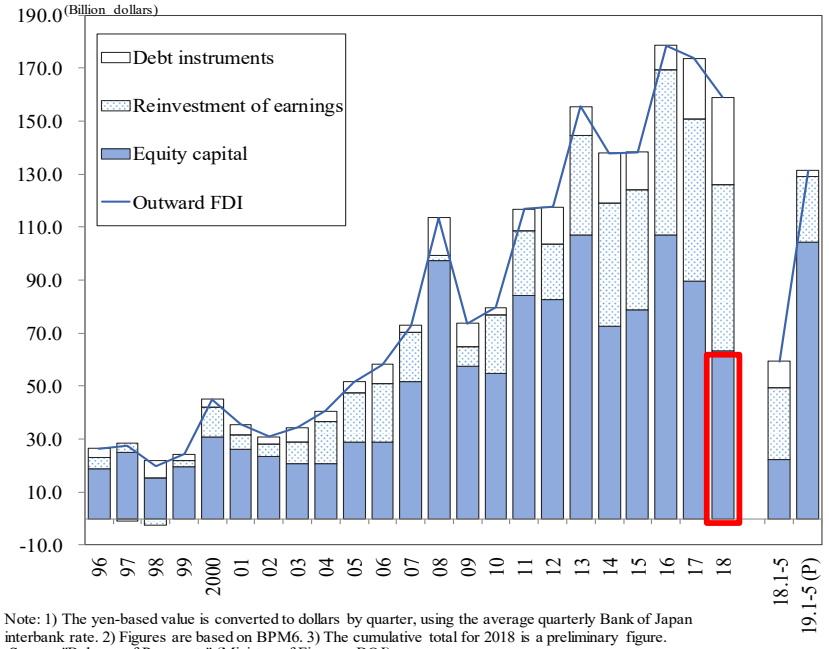
Countries/ regions	Date	Outline
US	Oct. 2018	The Department of the Treasury announced a pilot program to implement some provisions of the FIRRMA in advance, targeting the investments in US companies that deal with critical technologies related to 27 specific industries including aircraft manufacturing. The pilot program requires the investors to submit applications prior to investments.
	Aug. 2018	The "Foreign Investment Risk Review Modernization Act (FIRRMA)," which strengthens the function of the CFIUS that screens foreign companies' investment in the United States, was established in August 2018 as part of the National Defense Authorization Act (NDAA) for FY2019.
	Nov. 2017	A bill to strengthen the CFIUS's authority was submitted to the US Congress.
	Sep. 2017	Based on a recommendation of the Committee on Foreign Investment in the United States (CFIUS), President Trump signed an executive order to suspend the acquisition of US semiconductor company Lattice Semiconductor by a Chinese investment fund.
EU	Apr. 2019	A regulation concerning the screening of inward direct investment from outside the EU went into effect (starting in October 2020). From the perspective of national security and public order, the investments (acquisitions) in the industrial fields that are strategically critical for the EU will be examined.
	Mar. 2019	The Council of the European Union approved the proposed regulation for screening inward direct investment from outside the region.
	Feb. 2019	The European Parliament approved the proposed regulation for screening inward direct investment from outside the region.
	Nov. 2018	The European Parliament, the Council of the European Union, and the European Commission announced a tentative agreement on the proposed regulation that establishes the screening framework for investment from outside the region.
	Sep. 2017	European Commission President Jean-Claude Juncker's State of the Union Address proposed a "screening framework" that examines investments in the regional infrastructure and high-tech fields by investors outside the region.
Germany	Apr. 2018	The Bundesrat adopted a resolution that it should expand the subjects of examination for the restrictions on acquisition of domestic companies by foreign investors stipulated by the Foreign Trade and Payments Ordinance.
	Jul. 2017	A revision to the Foreign Trade and Payments Ordinance was approved at a Cabinet meeting to strengthen the regulation on acquisition of domestic companies by foreign investors. From the perspective of maintaining public order and security, the industry categories subjected to examination by the Federal Ministry of Economic Affairs and Energy were expanded and documented, and the examination period was extended.
France	Feb. 2018	Prime Minister Édouard Philippe announced his policy to expand the strategic fields for restrictions on foreign investment in high-tech fields such as AI, space, and data storage. Foreign investors are required to obtain prior permission upon acquisition.
	May. 2014	The French government announced a cabinet order to expand the industry sectors that require prior permission for investment in France by foreign investors to include energy, water resources, transportation, electronic communication service, etc. (went into effect the same month).
Canada	May. 2018	The government announced the rejection of the acquisition proposal for a major Canadian construction company by a subsidiary of China Communications Construction Company (CCCC) because of national security concerns.
	Mar. 2015	The revised Investment Canada Act extended the screening period for the acquisitions in national security related fields from the previous 130 days up to 200 days.

Source: "Biznews" (JETRO), etc.

Japan's outward FDI decreases by 8.5% year-on-year

- Japan's outward FDI in 2018 decreased by 8.5 % compared to the previous year to $159.1 billion (on a balance of payment basis, net, flow). This is partly because the outward M&A by Japanese companies that had continued to expand has slowed down. By major country/region, investment toward the US that was the largest investment destination significantly declined to 56.5%, and that to the EU decreased by 16.3%. On the other hand, investment toward ASEAN highly grew by 33.2%.

Change in Japan's outward FDI by type (net, flow)



Note: 1) The yen-based value is converted to dollars by quarter, using the average quarterly Bank of Japan interbank rate. 2) Figures are based on BPM6. 3) The cumulative total for 2018 is a preliminary figure.
Source: "Balance of Payments" (Ministry of Finance, BOJ)

Japan's outward FDI by country/region (net, flow)

(Unit: Million dollars, %)

	2017	2018			2019 Jan-May (P)		
			Composition	Increase rate		Composition	Increase rate
Asia	40,905	52,574	33.0	28.5	24,923	19.0	45.5
China	11,122	10,755	6.8	-3.3	5,929	4.5	62.5
South Korea	1,840	4,807	3.0	161.3	888	0.7	-14.9
ASEAN	22,330	29,754	18.7	33.2	15,044	11.5	53.6
Singapore	9,478	15,909	10.0	67.8	3,136	2.4	-37.2
Thailand	4,917	6,582	4.1	33.9	1,898	1.4	-28.7
Indonesia	3,622	3,255	2.0	-10.1	5,918	4.5	421.7
Malaysia	909	770	0.5	-15.3	2,483	1.9	-
Philippines	1,098	989	0.6	-10.0	553	0.4	110.1
Vietnam	2,014	1,841	1.2	-8.6	907	0.7	2.1
India	1,500	3,218	2.0	114.5	1,830	1.4	15.2
North America	50,426	24,070	15.1	-52.3	28,152	21.4	19,489.9
US	49,601	21,570	13.6	-56.5	26,187	19.9	-
Central and South America	12,086	24,646	15.5	103.9	287	0.2	-98.1
Mexico	1,328	1,321	0.8	-0.6	392	0.3	-42.6
Brazil	-1,423	2,203	1.4	-	920	0.7	-0.8
Oceania	5,010	1,717	1.1	-65.7	3,547	2.7	17.3
Australia	3,977	2,863	1.8	-28.0	3,180	2.4	24.3
Europe	61,663	53,865	33.8	-12.6	73,676	56.1	220.5
EU	58,904	49,313	31.0	-16.3	12,033	9.2	-42.1
UK	22,328	21,437	13.5	-4.0	292	0.2	-97.7
Netherlands	19,683	9,316	5.9	-52.7	2,887	2.2	-15.9
World	173,856	159,147	100.0	-8.5	131,350	100.0	120.9

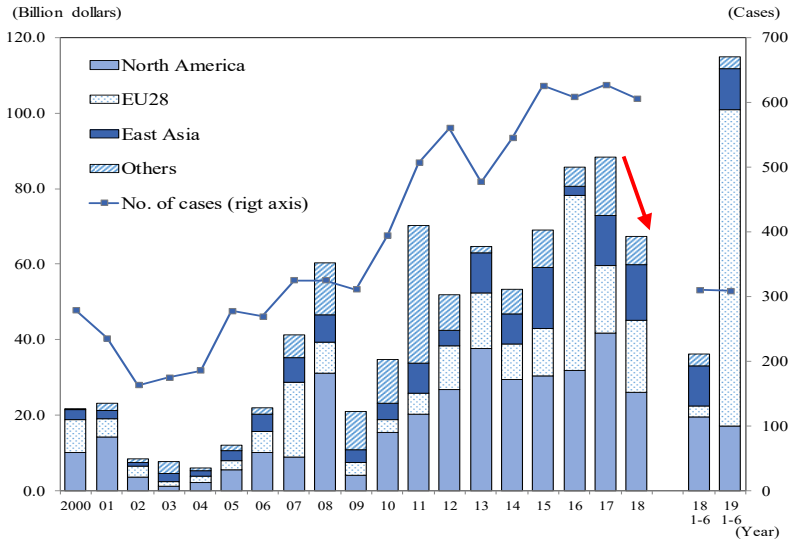
Note: 1) The yen-based value is converted to dollars by quarter, using the average quarterly Bank of Japan interbank rate.
2) The cumulative total for 2018 is a preliminary figure.

Source: "Balance of Payments" (Ministry of Finance, BOJ)

Total values of outward M&A by Japanese companies decreasing

- Cross-border M&A deals, which have great impact on Japan's outward FDI, declined by 23.8% ($67.5 billion) in 2018, dropping for the first time in four years, due to a decreasing number of large-scale deals mainly toward the US. In the first half of 2019, however, it rapidly increased by 3.2 times compared to the same period in the previous year. The reason is that Takeda Pharmaceutical Co. acquired Irish pharmaceutical Shire for $76.9 billion. The value was the highest ever among overseas M&A deals by Japanese companies.

Change in Japan's outward M&A values and cases



Note: 1) The figures of East Asia are summed from those of China, South Korea, Taiwan, Hong Kong and ASEAN. 2) The figures for EU are summed from those of 28 EU member countries.
Source: Thomson Reuters (as of Jul. 3, 2019)

Japan's top outward M&A deals (since 1990)

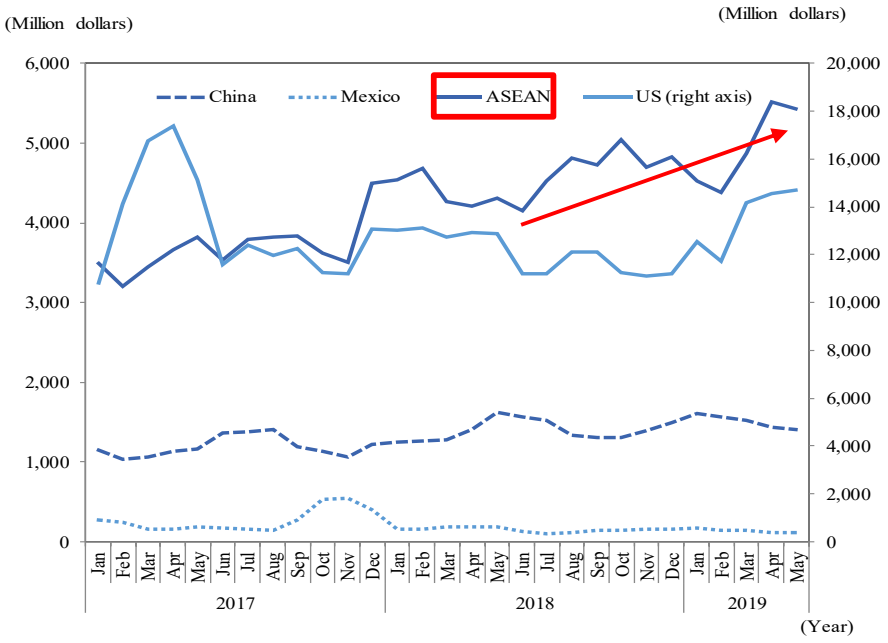
Date (Completion)	Acquiring companies	Acquired companies	Nationality	Industry sector	Value (million dollars)	Post-deal stake (%)
Jan. 2019	Takeda Pharmaceutical Co Ltd	Shire PLC	Ireland-Rep	Drugs	76,886	100.0
Sep. 2016	Softbank Group Corp	ARM Holdings PLC	United Kingdom	Electronic and Electrical Equipment	30,751	100.0
Jul. 2013	SoftBank Corp	Sprint Nextel Corp	United States	Telecommunications	21,640	78.0
Apr. 2007	JTI (UK) Management Ltd	Gallaher Group PLC	United Kingdom	Tobacco Products	18,800	100.0
Apr. 2014	Suntory Holdings Ltd	Beam Inc	United States	Food and Kindred Products	15,688	100.0
Sep. 2011	Takeda Pharmaceutical Co Ltd	Nycomed Intl Mgmt GmbH	Switzerland	Drugs	13,686	100.0
Jan. 2001	NTT DoCoMo	AT&T Wireless Group	United States	Telecommunications	9,805	16.0
May. 2008	Mahogany Acquisition Corp	Millennium Pharmaceuticals Inc	United States	Drugs	8,128	100.0
May. 1999	JT	RJ Reynolds International	Netherlands	Tobacco Products	7,832	100.0
Jun. 2011	Mitsubishi UFJ Finl Grp Inc	Morgan Stanley	United States	Commercial Banks, Bank Holding Companies	7,800	22.4
Mar. 2017	Asahi Group Holdings Ltd	Plzensky Prazdroj As	Czech Republic	Food and Kindred Products	7,774	100.0
Jan. 2018	Investor Group	Uber Technologies Inc	United States	Prepackaged Software	7,670	17.5
Oct. 2015	Tokio Marine & Nichido Fire	HCC Insurance Holdings Inc	United States	Insurance	7,541	100.0
Jan. 1991	Matsushita Electric Industrial	MCA Inc	United States	Motion Picture Production and Distribution	7,086	100.0
Mar. 2019	Renesas Electronics Corp	Integrated Device Technology	United States	Electronic and Electrical Equipment	6,494	100.0
Sep. 2000	NTT Communications Corp	Verio Inc	United States	Business Services	6,321	100.0
Mar. 2017	Sompo Japan Nipponkoa Ins Inc	Endurance Specialty Holdings	Bermuda	Insurance	6,301	100.0
May. 2015	Japan Post Co Ltd	Toll Holdings Ltd	Australia	Transportation and Shipping (other than air)	6,021	100.0
Jan. 2019	Softbank Group Corp	WeWork Cos Inc	United States	Real Estate; Mortgage Bankers and Brokers	6,000	-
Aug. 2015	Chia Tai Bright Investment	CITIC Ltd	Hong Kong	Investment & Commodity Firms, Dealers, Exchanges	5,924	21.5

Note: 1) Ranking with one transaction value. 2) The company names are those at that time.
Source: Thomson Reuters

Increasing executed amount of FDI toward ASEAN

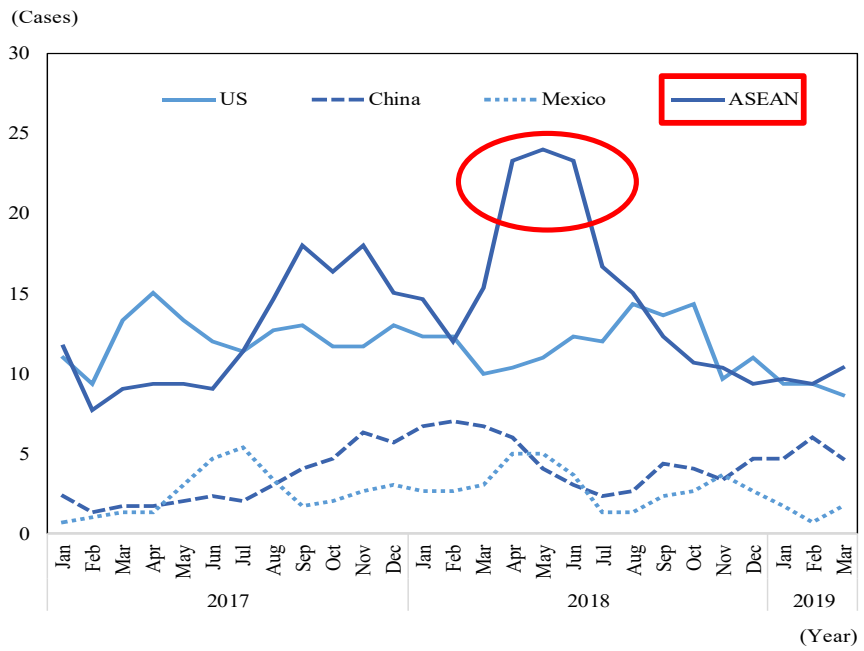
- Looking at the changes in the executed amount of Japan's FDI toward China, the US, ASEAN, and Mexico in which many Japanese manufacturers have invested, investment toward ASEAN is expanding. A similar trend can be seen in the increasing number of outward greenfield investments by Japanese companies. In the context of rising production costs in China, some Japanese companies considering diversified investments have been promoting investment in ASEAN after the invocation of additional tariffs.

Change in the executed amount of Japan's outward FDI (China, ASEAN, US, Mexico)



Note: 3-month backward moving averages
Source: "Balance of Payments" (Ministry of Finance, BOJ)

Change in the number of greenfield investments by Japanese companies

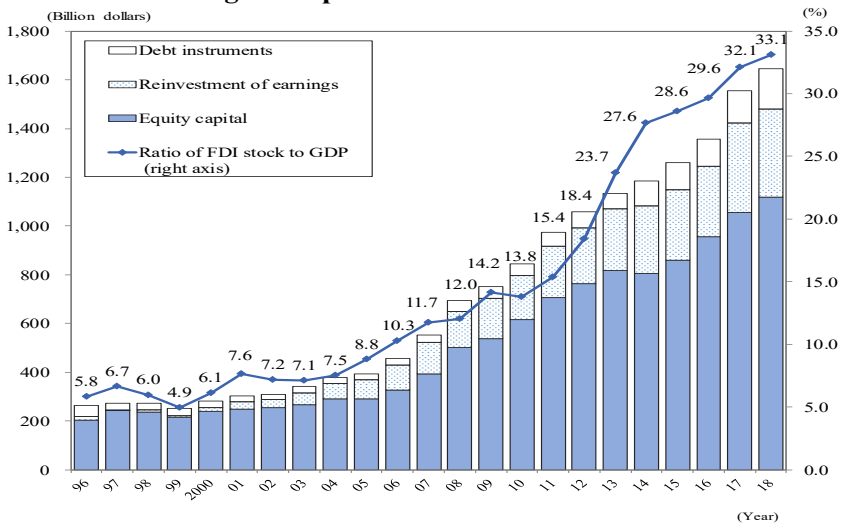


Note: 3-month backward moving averages
Source: fDi Markets (Financial Times)

Outward FDI stock exceeding 30% of GDP, unfavorably with other countries

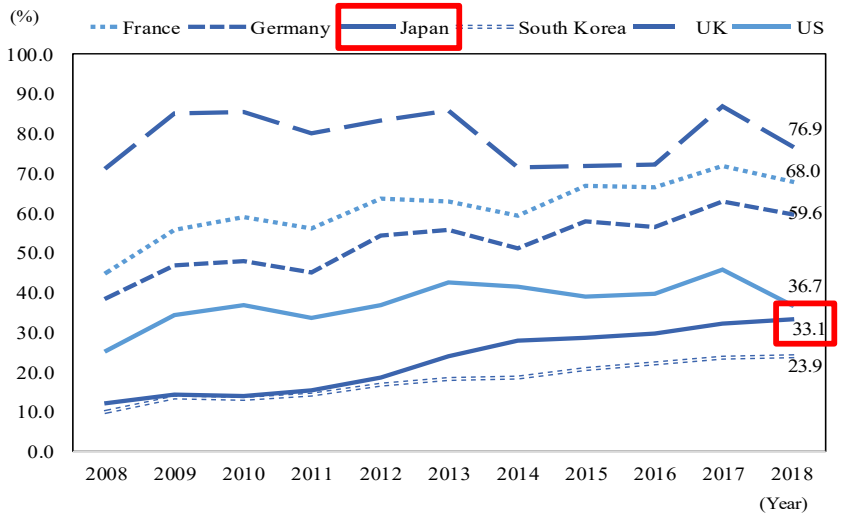
- Japan's outward FDI stock was $1,645.9 billion as of the end of 2018, increasing by 5.9% from the end of the previous year. The ratio to GDP also rose to 33.1% although the figure stays at a low level in comparison to other major economies.
- In contrast, the rate of returns on Japan's outward FDI is not much different from those of other major countries; thus, if the outward FDI stock continues to grow, direct investment income credit are expected to increase steadily.

Change in Japan's outward FDI stock



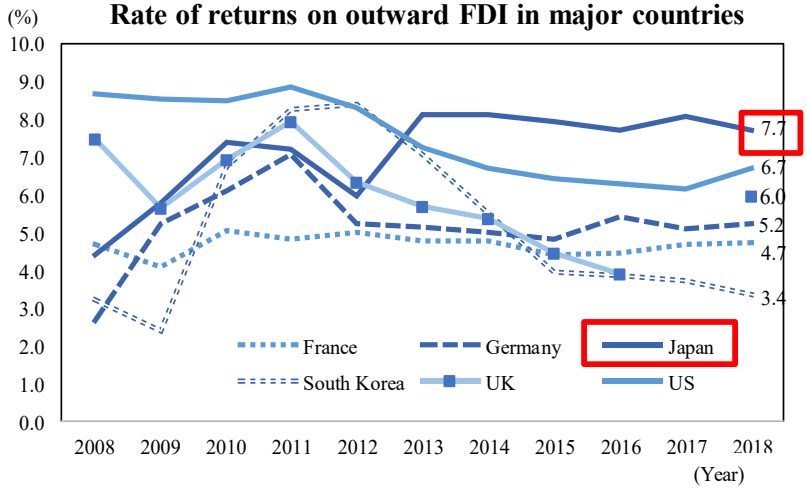
Note: Based on the BPM6.
Sources: "International Investment Position of Japan" (Ministry of Finance, BOP), Cabinet Office statistics

Ratio of outward FDI stock to GDP in major countries



Sources: "BOP" (IMF), "WEO, April 2019" (IMF), : "International Investment Position of Japan" (Ministry of Finance, BOJ), Cabinet Office statistics

Rate of returns on outward FDI in major countries



Note: 1) (Rate of returns on outward FDI) = (Current direct investment income credit) / (Stock of outward direct investment at the beginning and end of year) x 100 (%)

2) No data of the United Kingdom for 2017

Sources: BOP (IMF), "Balance of Payment Statistics" (Ministry of Finance, BOP)

Japanese companies' overseas sales ratio remaining at high levels

■ According to JETRO's calculations based on the earnings summaries and financial reports of 182 Japanese companies from the fiscal year December 2018 to March 2019, the overseas sales ratio of Japanese companies (see note) was 59.3%, increasing from FY2017 (58.4%) to maintain a high level. In terms of the composition of overseas sales by region, the Americas was the highest at 26.3%, up from the previous year, followed by Asia-Pacific at 19.4%. By industry, the overseas sales of industrial machinery, transportation equipment, and electrical equipment exceeded a 60% share.

Note: Sales to overseas customers from a Japanese origin (exports) are not included in overseas sales.

Share of Japanese companies' sales by region

(%)

Fiscal year (No. of companies)		Domestic	Overseas	Americas	Europe	Asia-Pacific	Other
2000	(547)	71.4	28.6	13.4	5.6	5.8	3.8
2001	(581)	68.5	31.5	14.7	6.1	6.3	4.4
2002	(592)	67.2	32.8	14.9	6.6	6.8	4.5
2003	(624)	66.5	33.5	14.1	7.0	7.7	4.8
2004	(669)	65.4	34.6	13.6	7.4	8.5	5.1
2005	(724)	64.9	35.1	13.8	6.9	9.5	4.9
2006	(751)	62.3	37.7	14.5	7.7	10.3	5.1
2007	(781)	60.8	39.2	14.2	9.1	10.7	5.2
2008	(817)	62.6	37.4	12.7	8.6	10.8	5.3
2009	(844)	63.3	36.7	12.4	7.5	11.3	5.4
2010	(320)	54.0	46.0	18.1	8.1	15.2	4.7
2011	(236)	53.1	46.9	17.7	8.9	15.0	5.3
2012	(221)	51.3	48.7	18.6	7.8	17.2	5.1
2013	(211)	45.6	54.4	21.5	9.2	18.2	5.5
2014	(212)	43.1	56.9	23.5	9.2	18.7	5.5
2015	(219)	42.2	57.8	25.4	8.3	19.5	4.6
2016	(218)	42.3	57.7	25.5	8.5	18.7	5.0
2017	(196)	41.6	58.4	25.0	9.0	19.3	5.1
2018	(182)	40.7	59.3	26.3	8.5	19.4	5.2

Notes: 1) Companies surveyed: The accounting period is from December to March, and segment information is broken down by location. 2) Figures for FY2018 reflected companies with financial statements or securities reports who entered sales figures onto the SPEEDA database by the end of May 2019. Note that for some companies, the data was supplemented by their earning summaries. 3) Percentage = sales of each region/total sales. 4) Surveyed companies include listed subsidiaries, which were double-counted. 5) Companies which combine multiple regional sales such as "Americas and Europe" or "Europe and Africa", were excluded.

Source: SPEEDA and corporate financial statements

Share of Japanese firms' sales by industry and region (FY2018)

(%)

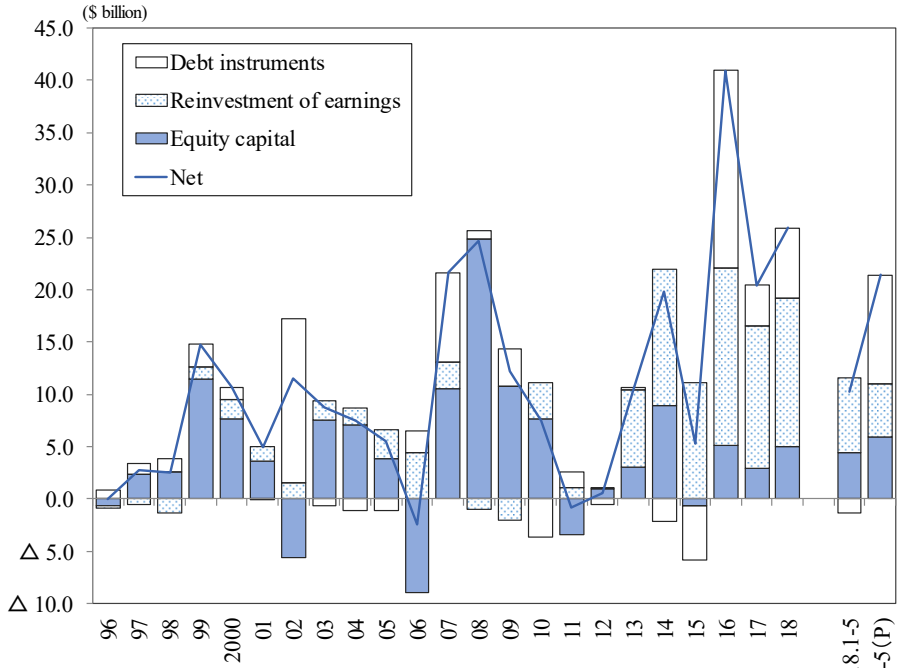
Industry (No of companies)		Domestic	Overseas	Americas	Europe	Asia-Pacific	Other
Manufacturing	[154]	40.6 (+0.7)	59.4 (-0.7)	26.7 (-0.3)	8.5 (-0.2)	19.3 (-0.0)	4.8 (-0.2)
Transport equipment	[41]	39.6 (+0.9)	60.4 (-0.9)	29.5 (-0.5)	8.2 (-0.3)	17.6 (+0.1)	5.1 (-0.2)
Machinery & electric appliances	[59]	38.0 (-0.5)	62.0 (+0.5)	19.0 (+0.4)	10.7 (+0.6)	28.2 (-0.5)	4.0 (+0.1)
Industrial machinery	[33]	36.2 (-0.8)	63.8 (+0.8)	22.1 (+0.4)	12.4 (+0.7)	25.8 (+0.1)	3.6 (-0.4)
Electrical equipment	[23]	39.9 (+0.0)	60.1 (-0.0)	16.5 (+0.2)	9.3 (+0.3)	29.7 (-1.0)	4.6 (+0.5)
Materials/material processed goods	[38]	49.5 (-0.2)	50.5 (+0.2)	11.9 (+0.2)	9.9 (+0.2)	25.8 (-0.4)	2.8 (+0.1)
Non-manufacturing	[28]	44.6 (-0.0)	55.4 (+0.0)	7.7 (+0.9)	6.3 (+0.9)	20.7 (-2.1)	20.7 (+0.4)

Notes: 1) The manufacturing industry on the SPEEDA database comprises the following major categories: Transport machinery, machinery and electric appliances, materials/material processed goods, pharmaceuticals and biotechnology, and food and household goods. Non-manufacturing industry comprises the following broad areas in the same database: Construction and real estate, retail, consumer services, away from home meals/home-meal replacement, advertising/ICT services, corporate services, intermediate distribution, finance, transport services, and resources and energy. 2) Industrial machinery is broken down into industrial/production/commercial/heavy machinery manufacturing and Other industrial machinery; Electrical equipment is broken down into information communication/consumer electronics manufacturing, semiconductor-related/other electronic parts/device manufacturing.
3) Figures in parentheses in the lower part indicate the changes from the sales share from FY2017 (the same companies as in FY2018 are summed up).
4) The shaded areas show countries/regions whose sales share increased from the previous year.
Source: SPEEDA and corporate financial statements

2018's inward investment in Japan increases by 30% from the previous year

- Japan's inward FDI in 2018 (balance of payment basis, net, flow) was $25.9 billion, increasing by 26.7% from the previous year. The acquisition of Toshiba Memory by a corporate consortium with US-based Bain Capital had a major impact on that.
- Although Asia is becoming established as a leading foreign investor in Japan, the amount of investment decreased by 10.8% from the previous year, coming to a halt in the recent upward trend.

Trends in Japan's inward FDI by type



Note: 1) Yen-based values are converted to dollar-based values by JETRO.
2) Figures are based on BPM6. 3) Cumulative total for 2016 is preliminary.
Source: "Balance of Payments" (MOF, BOJ)

Japan's inward FDI by country/region

(Million USD, %)

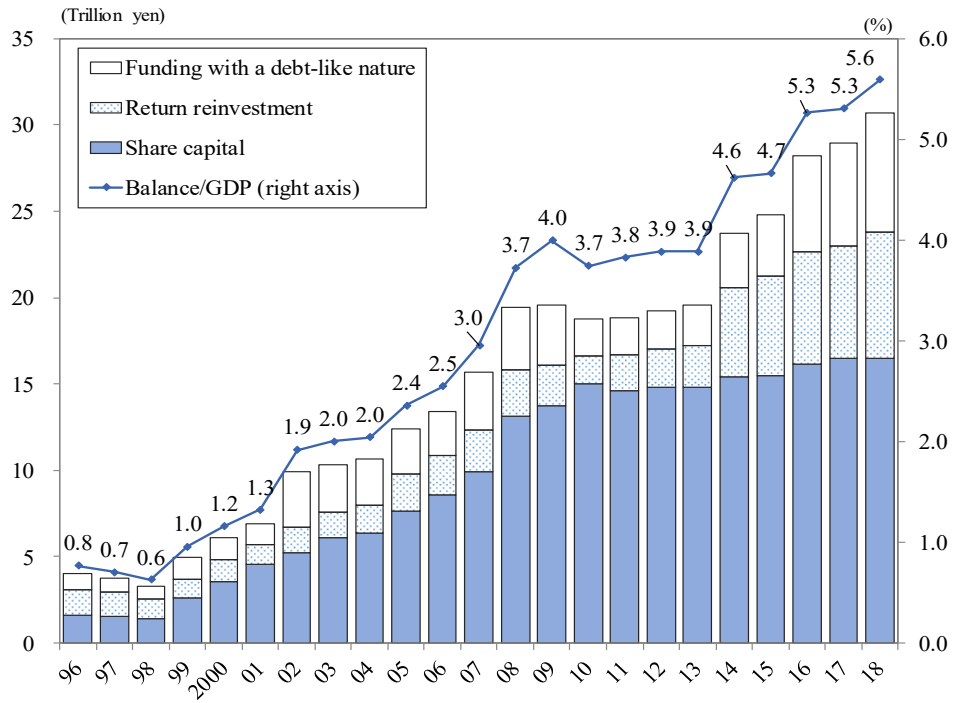
	2015	2016	2017	2018	YoY change	2019 Jan-May(P)	YoY change
Asia	5,591	8,426	5,620	5,015	△ 10.8	2,533	23.0
China	636	△ 92	985	797	△ 19.0	796	645.0
Hong Kong	983	1,510	△ 328	789	-	576	109.1
Taiwan	703	2,495	848	395	△ 53.4	301	16.0
South Korea	932	614	1,133	1,949	71.9	335	△ 33.2
ASEAN	2,324	3,907	2,975	1,076	△ 63.8	528	△ 43.3
Singapore	1,893	3,236	3,216	△ 296	-	60	100.4
Thailand	335	662	△ 444	1,211	-	315	△ 66.9
North America	4,313	6,880	6,177	5,958	△ 3.5	4,914	-
US	4,338	6,847	6,229	5,902	△ 5.2	4,849	-
Latin America	△ 1,957	1,623	2,769	4,399	58.9	2,671	△ 46.0
Oceania	△ 651	809	242	1,948	706.3	816	△ 62.4
Europe	△ 2,264	22,968	5,470	7,223	32.0	9,865	835.8
EU	△ 2,104	22,093	4,047	6,609	63.3	9,094	808.5
World	5,253	40,942	20,422	25,885	26.7	21,421	108.1

Notes: 1) The yen-based value is converted to dollars by quarter, using the average quarterly Bank of Japan interbank rate. 2). For after 2014, figures reflect the annual revision. The cumulative total for 2019 is a preliminary figure.
Source: "Balance of Payment Statistics" (Ministry of Finance, Bank of Japan).

Inward investment balance in Japan exceeds 30 trillion yen for the first time

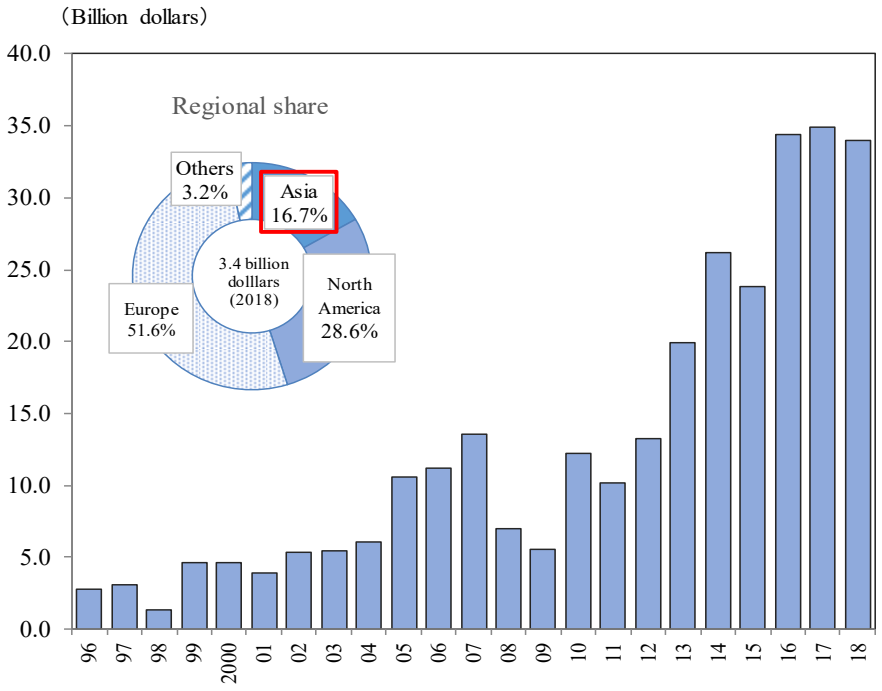
- The balance of inward investment in Japan was 30.7 trillion yen as of the end of December 2018, surpassing 30 trillion yen for the first time, with a record high. This has come much closer to the 2020 government target of 35 trillion yen.
- The amount of FDI return was $34 billion in 2018, maintaining the high level of recent years. By region, Europe holds the largest share with over 50%, followed by North America about 30%, and Asia about 20%. The Asia region is enjoying an upward trend.

Change in inward direct investment balance



Note: Based on the BPM6
Sources: "External Assets and Liabilities of Japan" (Ministry of Finance, BOP), Cabinet Office statistics

Change in return on Japan's inward FDI

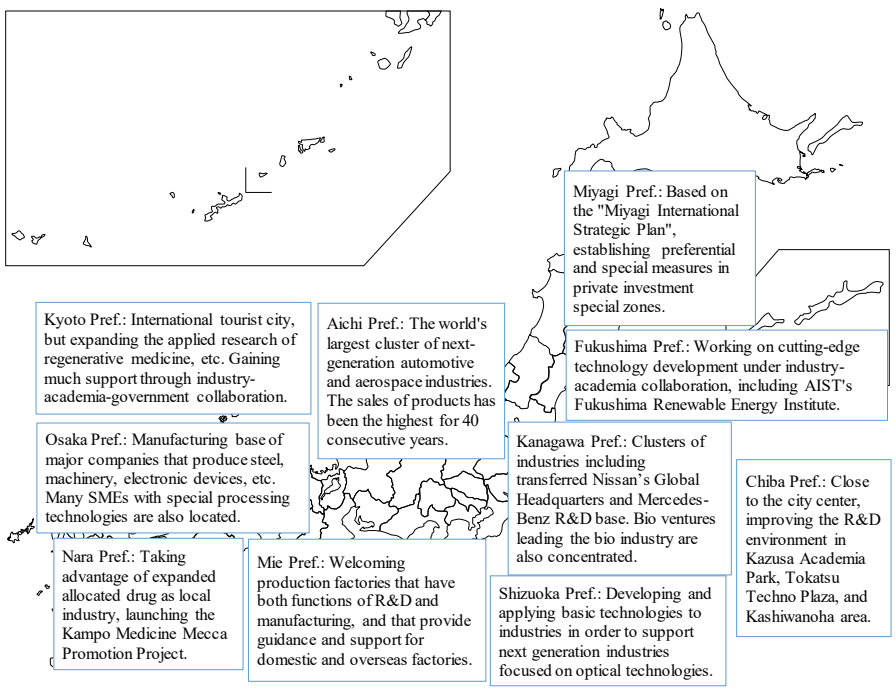


Source: "Balance of Payment Statistics" (Ministry of Finance, BOP)

Investment of foreign companies with high affinity for local industrial clusters

- According to JETRO's questionnaire survey, more than 60% of foreign companies are considering expansion to other areas in Japan than Tokyo for additional investment. These companies cite "closeness to customers" and "existing related industrial clusters" in common as reasons for the possible. In order to attract more foreign capital, it is necessary to appeal the advantage of local industrial characteristics.
- Looking at greenfield investment in regions, foreign companies with affinity for local industries are expanding into markets, such as Kanagawa and Aichi Prefectures for automobile parts and Hokkaido and Kyoto for tourism.

Distinctive local industrial clusters



Sources: JETRO's website "Investing in Japan's local regions," municipal website, etc.

Inward greenfield investment cases in local areas

(Million dollars)

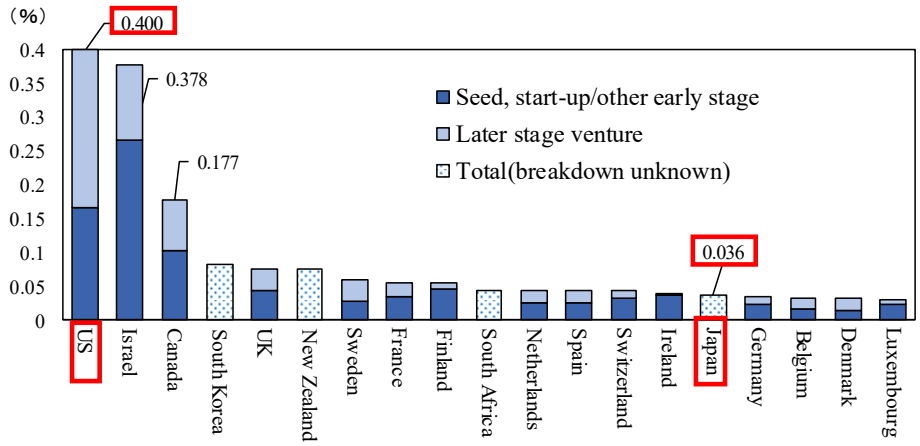
Industry sector	Investment destination	Date	Companies	Nationality	Value
Automobile parts	Kanagawa	Sep. 2017	Valeo	France	148
	Aichi	Jun. 2018	Forward Engineering	Germany	36.2
	Aichi	Sep. 2017	GKN	UK	36.2
Aircraft parts	Hyogo	Nov. 2018	Airbus Group	Netherlands	38.4
	Shizuoka	Feb. 2018	Leonardo (Finmeccanica)	Italy	38.4
	Hyogo	Apr. 2018	Swift Engineering	US	7
	Aichi	Feb. 2018	Pattonair	UK	7
Electronic parts	Osaka	Aug. 2017	INNO Instrument	South Korea	71.1
	Chiba	Jun. 2017	Huawei Technologies	China	44.5
	Osaka	Apr. 2018	GTT Communications	US	32.1
Biology	Kanagawa	Aug. 2017	Agilis Biotherapeutics	US	64.2
	Kyoto	Feb. 2018	Cellink	Sweden	53.7
	Kanagawa	Feb. 2018	TC Biopharm	UK	20
Medicine	Kyoto	Aug. 2018	Dishman Pharmaceuticals and Chemicals	India	7.3
	Aichi	Jul. 2017	Zhejiang Huahai Pharmaceutical Co	China	7.3
Chemistry	Aichi	May. 2017	OC Oerlikon	Switzerland	90.1
	Nara	May. 2018	Arkema	France	90.1
	Kanagawa	Sep. 2018	GCP Applied Technologies	US	90.1
Food	Saitama	May. 2017	Lotte Group	South Korea	288
	Mie	Nov. 2018	Pure Salmon	Singapore	117.25
	Miyagi	Sep. 2018	Trident Seafoods	US	39.5
	Hyogo	Jul. 2017	Nestle	Switzerland	39.5
Hotel/tourism	Hokkaido	Oct. 2017	Club Mediterranee	France	178.9
	Hokkaido	Jan. 2018	The Pavilions Hotels & Resorts	Hong Kong	178.9
	Kyoto	Apr. 2018	Ace Hotel	US	178.9
Renewable energy	Yamaguchi	Oct. 2016	Gunkul Engineering	Thailand	306.6
	Oita	Aug. 2018	saferay	Germany	170.9
	Fukushima	Sep. 2017	Jamieson Group	US	170.9

Note: Investment values include estimates.
Source: fDi Markets

Emerging companies show presence in major developed countries

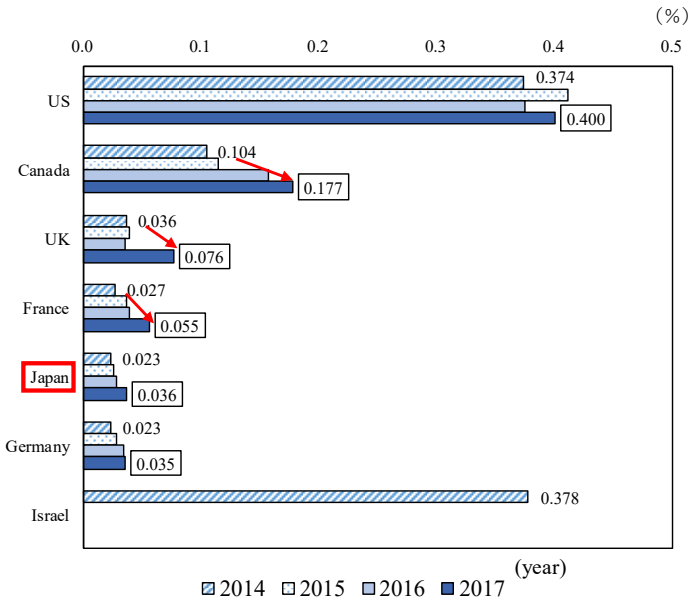
- According to the National Venture Capital Association (NVCA), global venture capital (VC) investment reached 254.3 billion dollars in 2018. Breaking down the amount of VC investment by economy, the highest is the US, followed by China and then Europe.
- When comparing VC investment as a percentage of GDP, that for the US (0.4%), and Israel (0.378%) is more than 10 times higher than other major developed countries like Japan (0.036%). In recent years, while the ratio for major developed countries overall has been climbing, it has only seen minute growth in Japan.

VC investments as a percentage of GDP (2017)



Note: 1. The percentage for Israel is from 2014, and that for South Africa from 2016. Only that for Japan was calculated by JETRO from the total GDP and the VC investment amount, on a fiscal year basis (from April to March of the next year). 2. The growth stage of companies are decided based on OECD categories.
Souce: OECD, Venture Enterprise Center, Japan (VEC)

VC investments as a percentage of GDP of major developed countries (2014 - 2017)

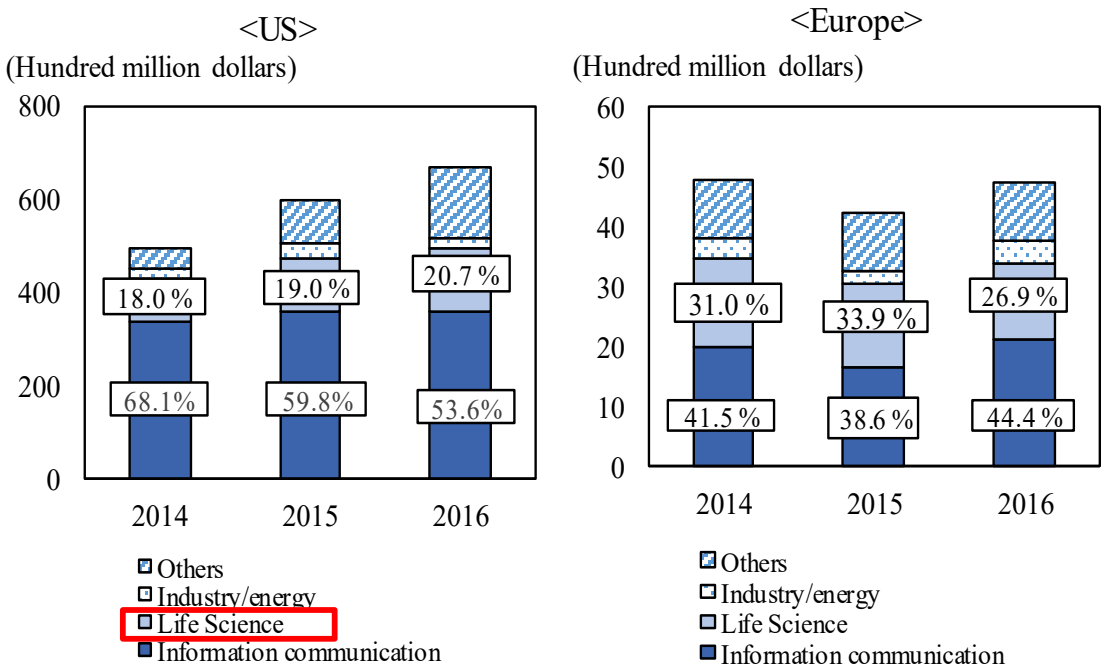


Note: Israel is with the data in 2014 only. The 2017 data of Japan was calculated by JETRO from the total GDP and the VC investment amount. The data of Japan is on a fiscal year basis (from April to March of the next year). The figures without a box are from the data of 2014. Those with a box are from the data of 2017.
Souce: OECD, Venture Enterprise Center, Japan (VEC)

Global VC investment in diversified fields, larger deals

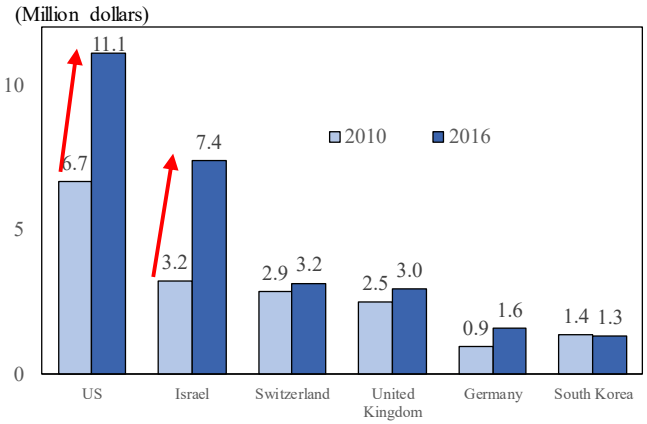
- In terms of global VC investment, while the information and communication fields still hold a large proportion, the share of the life science field is increasing, with a wider variety of fields for VC investment.
- Average VC investment (average investments) per company in major countries tends to increase, recording especially large growth in the US and Israel. In the US, the average investment amount in the growth stage “expansion” and the leap stage “later” of emerging companies is expanding, which is making average investments of VC investment deals larger.

Percentage of VC investment in the US and Europe by field



Note: 1) The figures of each year in the US and Europe are based on the reports to be published in the following year, thus, those cannot be directly compared with each other. 2) Europe means the 28 EU member countries, Switzerland, Iceland, Liechtenstein, Norway, San Marino, Vatican City, Bosnia and Herzegovina, Moldova, Montenegro, North Macedonia, Serbia, and Ukraine. 3) The figures of “Information communication” in 2014 and 2015 indicate the sum of “computers, consumer electronics” and “communication." 4) Since the calculation methods differ, the total amount of field in each year does not match with the VC investments (total amount) for each year separately announced by OECD.
Source: OECD

Average VC investment per company in major countries

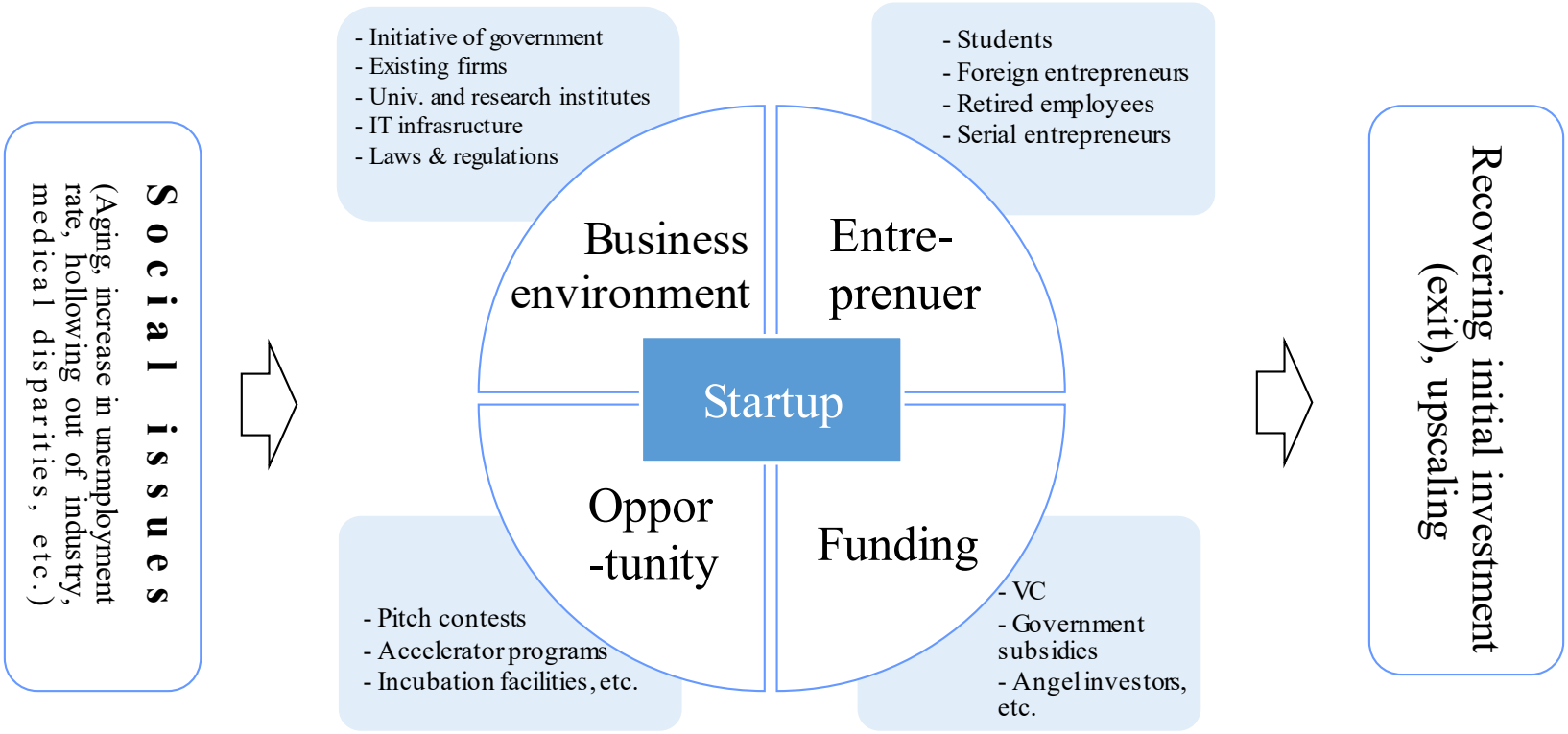


Note: 1) The average VC investment per company is calculated by dividing the total VC investment by the number of companies financing from VC. 2) The figures of the US show the number of transactions, not companies. 3) The latest year in Israel is 2014.
Source: OECD

Layered ecosystem promoting corporate renewal

- Ecosystems which produce emerging companies such as startups are created by multiple factors such as people aiming to start their own business, capital, a structural foundation for companies and legal regulations. They continuously produce startups that specialize in business progressiveness and pursuit of innovation and work to promote corporate renewal.
- As the ecosystem has been taking shape, more accelerators, mentors, and events, including pitch contests that seek funds from investors, have come into the system, and thus a more layered support system for entrepreneurship has been established.

Concept of ecosystem

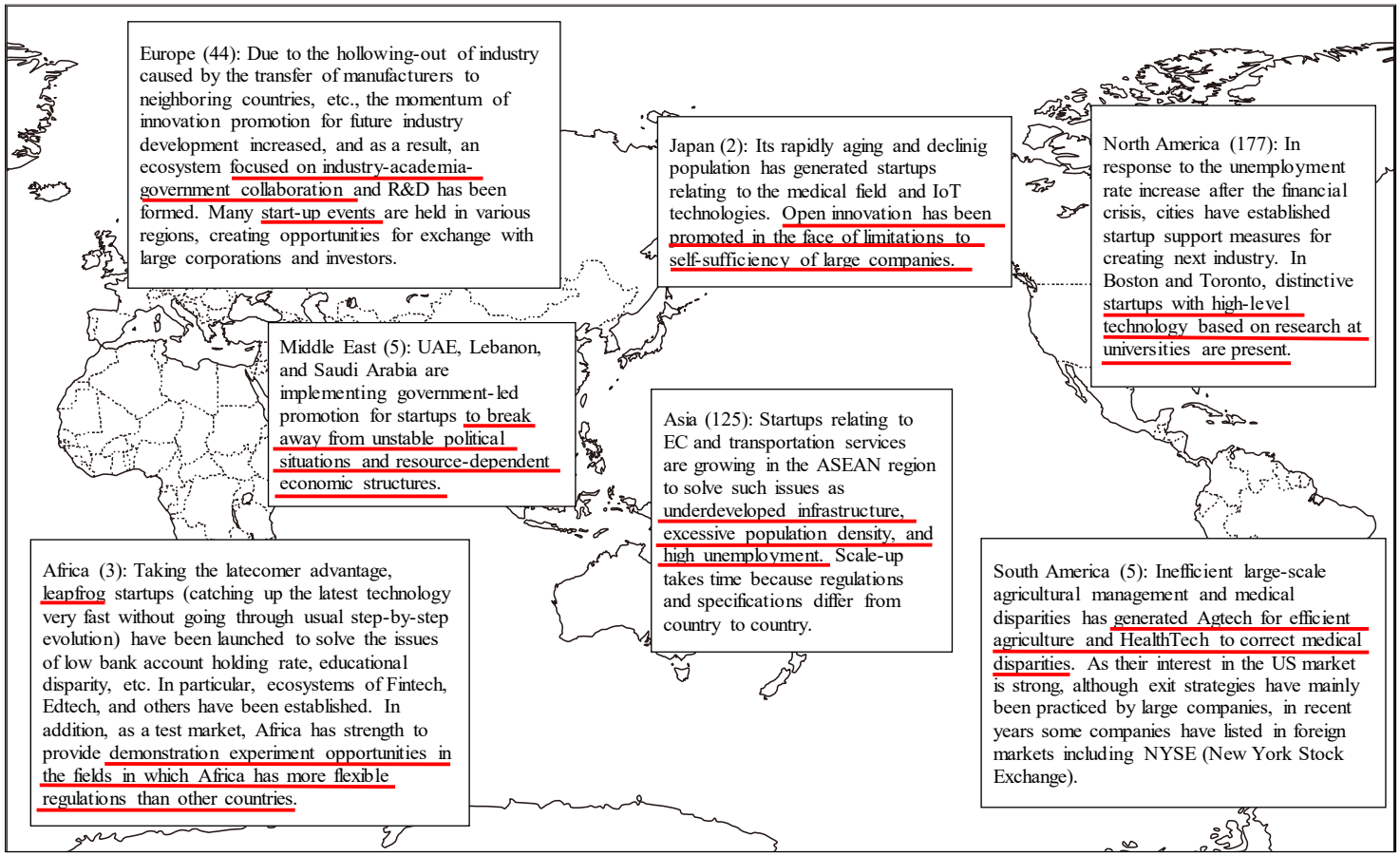


Source: Created by JETRO based on various information

Ecosystem formation based on regional social issues in the background

- Comparing the ecosystems spreading around the world by region, regional advantages, social issues, and industrial clusters are core elements for their formation. Especially in emerging countries, a social problem-solving ecosystem tends to be created based on such background factors as underdeveloped infrastructure, low bank account ownership, and poverty.
- Of the existing 316 unicorns in the world (as of June 2019), the US (176 companies) and China (90 companies) account for over 80%.

The number of unicorns by region and ecosystem formation based on regional social issues

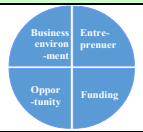
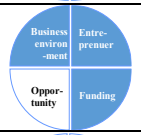
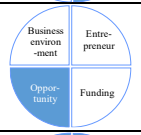
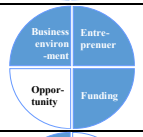
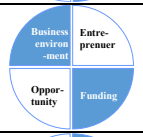
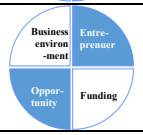


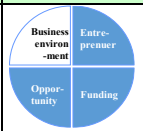
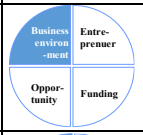
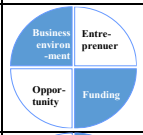
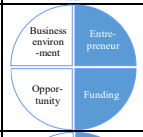
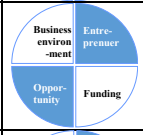
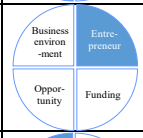
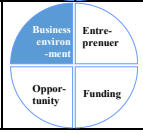
Note: Figures in parentheses show the number of unicorns (as of June 2019).
Source: Ecosystem survey by JETRO, CB insights

Advantages of ecosystem by major city

- Looking at the characteristics of ecosystems in the world's leading cities from the four perspectives of 1) entrepreneurship, 2) funding, 3) opportunity, and 4) business environment, the strengths of each ecosystem become clear.
- In Japan, with the spread of open innovation by large companies, a fourth venture boom is coming, and corporate venture capital (CVC) and accelerators are increasing, especially in Tokyo. Startups relating to IoT technology in the manufacturing industry and medical field are growing.

Advantages of major ecosystem

City	Advantages
Silicon Valley	 - Referred to as the birthplace of the ecosystem, the ecosystem of Silicon Valley has formed spontaneously. With serial entrepreneurs playing a mentoring role, there is a mechanism in place to create startups on an ongoing basis. - Numerous foreign entrepreneurs help maintain diversity in the region.
Boston	 - There is an accumulation of life-science companies and research institutes such as MIT and Harvard University. - As entrepreneurs and spin-off startups rise, they draw large companies and investors.
Helsinki	 - Many large corporations and investors from all over the world participate in the largest venture event in Europe "SLUSH," which gives opportunities for entrepreneurs to expand their networks after startup.
London	 - As a renowned financial city, it has drawn an accumulation of startups endeavoring in the fields of fintech, block chain, and crypto currency. - In terms of activities such as experimental studies, the city offers a flexible and innovative legal system such as establishment of a regulatory sandbox to create new industries.
Paris	 - The government is leading the initiative *"La French Tech"* to support startups. Overseas startups also receive generous support. - Startups in fields related to fashion and life-style have accumulated in the city.
Berlin	 - With cost of living cheaper than in the former West Germany due to industry being hollowed out during the era of the East-West Division, an ecosystem has been growing among subcultures such as artists and hackers. - The city has a well-prepared support framework for students aspiring to be entrepreneurs, and numerous excellent engineers from Eastern Europe have gathered.

City	Advantages
Tel Aviv	 - Numerous startups are being created in the fields of life-science and cyber security, with many researchers who have won the Nobel Prize and entrepreneurs who have just completed military service. - The Jewish Community has greatly contributed to formation of ecosystems.
Dubai	 - The government, which aims at developing an economy not dependant on natural resources, is proactive in drawing overseas startups. - Under the initiative of the city leadership, it is establishing a support organization for funds and ventures.
Singapore	 - Through the strong leadership of the government, the city has successfully established an innovation hub in a short period of time. - As a financial city, it has an accumulation of overseas-affiliated companies, and has established its position as a hub of financial procurement.
Shanghai	 - There is an accumulation of EC startups with advantages relating to lifestyle and contents. In addition, an innovation model area has been established to carry out demonstration experiments of autonomous driving. - Many startup-related events are held.
Shenzen	 - With the creation of supply chains for electronic parts in the background, an ecosystem with strength in manufacturing has been forming. - Due to proximity to the market and customers, it is distinguished by product development focusing on quick commercialization.
Bangalore	 − Bangalore, where the defense industry once flourished, is home to India's top universities and highly skilled IT workers. - Engineers with high technical skills gather for offshore development by the US-based IT firms.
Tokyo	 - Startups with strength in productization by combining devices with software are showing growth, particularly in relation to core technologies. - CVC and accelerator programs have recently been increasing in line with the promotion of open innovation by major companies aiming at branching out from in-house innovation models.

Note: 1) This list includes cities where "JETRO Global Acceleration Hubs," which assist Japanese startups in expanding business through overseas ecosystems, are located, plus Tokyo. 2) Blue colored quadrants indicate advantages.
Source: Various materials

Measures for ecosystem development

- The policies of various governments aimed at developing ecosystems can be grouped into three categories: 1) supply of tax benefits and subsidies, 2) establishment and deregulation of visas for foreign entrepreneurs, and 3) creation of regulatory sandboxes.
- The Japanese government has lowered the corporate tax rate and begun creating a startup visa system with the intention of creating 20 unicorns (unlisted venture enterprises with a value of one billion dollars or more) or equivalent listed venture enterprises by 2023.

Measures of major countries for fostering ecosystem

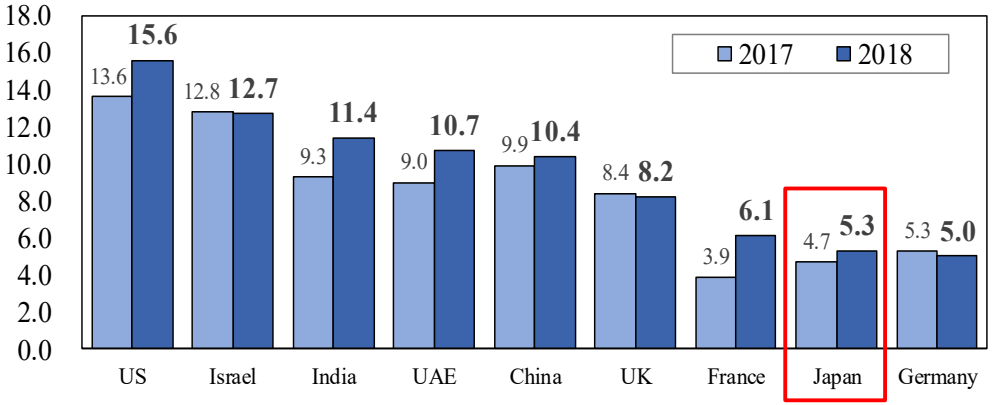
Country	Government objectives and measures	Policies for developing ecosystems				Government initiative
		1. Tax incentives, subsidies	2. Establishment of startup visa and relaxation of visa regulations	3. Regulatory sandbox (Note)	4. Other	
UAE	Priority areas were announced for promoting innovation in "UAE Vision 2021" advocated by the Federal Government, and a government-controlled fund to assist entrepreneurs was established.	✓	✓	✓		Strong
Singapore	Various entrepreneur support programs conducted by different ministries and agencies have been integrated into a single brand under the title "Startup SG," through which necessary assistance is provided based on the growth stage of individual startups.	✓	✓	✓		
France	In 2013, the government established the initiative "La French Tech" which aims at supporting ecosystems and cultivating them to an international level. The initiative will facilitate the formation of communities, growth of ecosystems, and internationalization.	✓	✓			
UK	Within its industrial strategy, the government has set five foundations (ideas, human resources, infrastructure, business environment, and places) and four grand challenges (AI, clean growth, future-oriented mobility, and an aging society).	✓	✓	✓		
Japan	The government has set a target to create 20 or more unlisted venture enterprises with an enterprise value or market cap of one billion dollars (unicorns) or equivalent listed venture enterprises by 2023.	✓	✓ *Some local gov.	✓		
Israel	The government has engaged in investment and created multiple VC firms through "Project Yozma" started in 1993. "The Magnet Program" supports collaboration between industry and academia.	✓			Approval of transfer of military technology to the private sector	
China	The country is pushing a mass entrepreneurship and innovation campaign, with the State Council and local governments implementing over 400 measures combined.	✓	✓ * Some ministries			
India	In 2016, the Indian government created the action plan for “Startup India." The government launched the measures to contribute to the growth of ecosystems, including the simplification of starting business procedures and patent applications, as well as support for financing.	✓			Simplification of administrative procedures and promotion of government procurement.	
Finland	Funding for technological development projects in companies and research institutes; additionally, establishment of the BusinessFinland as public institution to provide software support in business development.	✓	✓			
Germany	The Federal Ministry of Economics and Energy (BMWi) and the Credit Institute for Reconstruction (Kfw) are playing leading roles in investing into startups through the government-affiliated venture investment fund "Hightech Startup Fund," and holding business				Addressing the promotion of digital education and collaboration between startups	
US	The prior administration under President Obama started the Startup America Initiative under a strategy for American Innovation. It has focused on improving access to funds, cultivating entrepreneurial human resources, deregulation, and accelerating technological transfer.				Established a framework for early stage investment, expanded entrepreneur	Weak

Note: A regulatory sandbox is a framework in which the government reviews regulations using information and data obtained through demonstrations with the goal of introducing new technologies and business models to society.
Source: Various materials

Increasing interest of foreign VCs in Japanese entrepreneurial activities

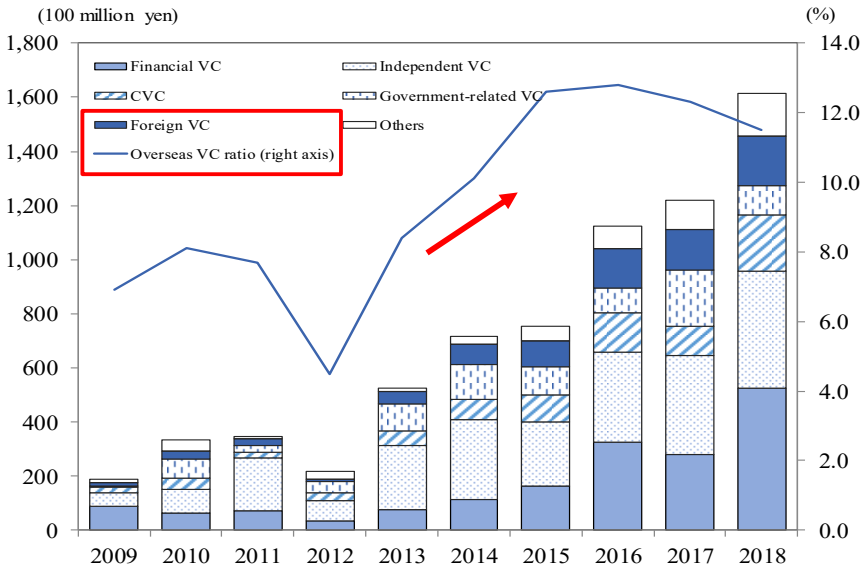
- The Total Japanese Early-Stage Entrepreneurial Activity, which indicates the dynamic of entrepreneurial activity, has risen to 5.3, increasing from the previous year (4.7), but is still at a low level globally.
- So far, about 10,000 startups have emerged in Japan, with the investment from overseas VCs as well as domestic ones flowing. Foreign-affiliated companies have also launched CVCs in Japan and are boosting growth of Japanese startups.

Total Early-Stage Entrepreneurial Activity in major countries



Note: Total Early-Stage Entrepreneurial Activity (TEA) is an index of the total number of people who are actually preparing for starting business and who are under 3 and a half years after starting business per 100 adults (aged 18-64).
Source: Global Entrepreneurship Monitor 2018/2019

VC investments by attribute and overseas VC ratio



Source: "Japan Startup Finance 2018" (entrepedia)

Japanese startups supported by foreign-affiliated CVCs

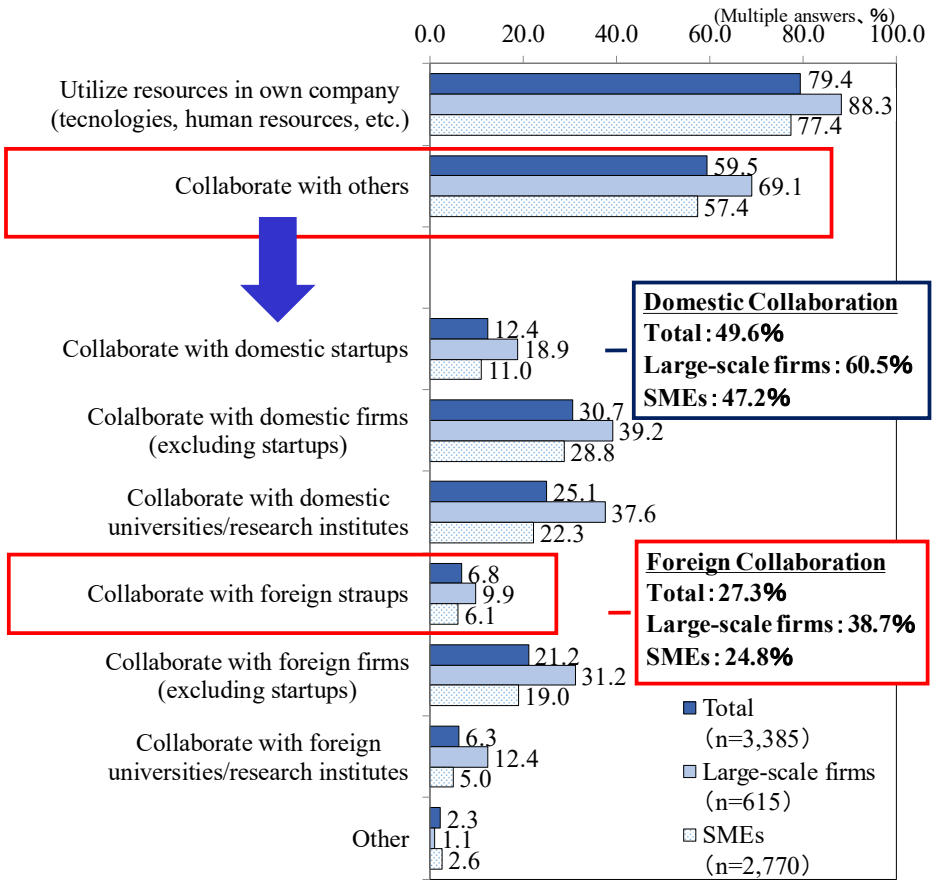
Date	Company	Country	Domain	Case example
May. 2018	Salesforce, DNX Ventures, etc.	US	Cloud service	Investing in UPWARD, which develops operating activity support systems using a cloud system, and promoting functional enhancement with AI.
May. 2018	Salesforce Ventures, 500 Startups Japan, Draper Nexus Venture Partners, etc.	US	Life Science	Investing in Kakehashi, which is developing the next-generation electronic medicinal history system "Musubi" in dispensing pharmacies, in order to promote IT systems in pharmacies.
Jun. 2018	Samsung Venture Investment Corporation, etc.	South Korea	Electronic device systems	Investing in Nanolux, an AIST technology transfer venture that develops, designs, and manufactures image sensors equipped with "infrared color night vision technology" enabling color photography even in the dark, and also night vision cameras equipped with the technology.
Aug. 2018	Salesforce Ventures	US	Cloud service	Announcing the establishment of "Japan Trailblazer Fund" with $100 million. To date, the company has invested in Uhuru, sansan, freee, and TeamSpirit.
Nov. 2018	Airbus Ventures, etc.	France	Aircraft	Investing in Telexistence, the University of Tokyo originated venture that develops telerobotics.
Feb. 2019	Aflac Incorporated	US	Finance/insurance	Newly establishing "Aflac Innovation Partners LLC" that invests in projects in the domains of InsurTech and Health Tech.
Mar. 2019	500 Startups Japan	US	Accelerator	The team in charge of the fund for Japan became independent to establish a new VC "Coral Capital."

Sources: Companies' press releases and websites

Japanese companies with little international collaboration

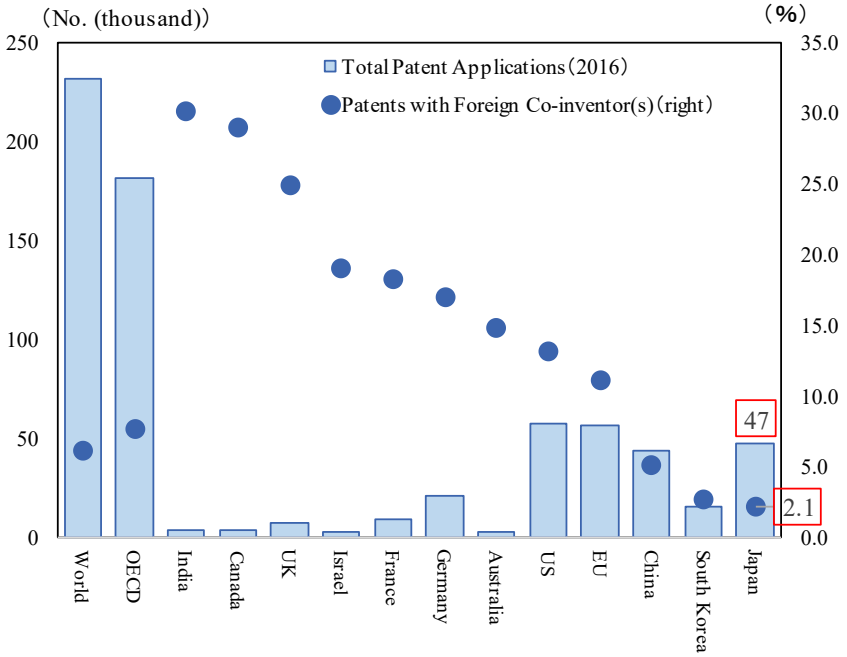
- According to a JETRO survey, although about 60% of Japanese companies have external cooperation experience, less than 30% of Japanese companies have engaged in collaboration with foreign companies and/or organizations for innovation. The proportion of international joint patent applications to the total number of patent applications based on the Patent Cooperation Treaty (PCT) shows that Japan's rate is 2.1%, which is lower than the global average (6.1%). These statistics indicate that Japan is lagging behind in establishing networks with foreign companies, organizations, and/or researchers.

Efforts for Innovation



Source: FY2018 Survey on the International Operations of Japanese Firms (JETRO)

Number of patent applications in major countries/regions and proportion of applications with foreign co-inventor(s)



Note: The number of application indicates the number of international patent application applied under the Patent Cooperation Treaty.
Source: OECD.Stat

Expansion into new markets and business fields through collaboration

- Some Japanese companies have expanded into new markets and business fields through collaboration with emerging foreign companies such as startups. Issues in collaboration have been raised, such as costs of collaboration to find appropriate partners, differences in business practices (reflected in the decision making process, for instance), and risks of information leakage. The key to overcome these issues lies in how determined the company can be as a whole, executives included, in engaging in the collaborations.

Collaboration between emerging foreign companies and Japanese companies

Company	Partner	Motivation	Business	Advantages and effects
IDOM	Uber Technologies: Established in 2009, (US), Ride-hailing service	Seeking a business model to be a foothold toward expanding business in Africa as a new sales market	The company leases second-hand Japanese cars for local drivers registered with Uber in Tanzania. If the amount paid passes a certain threshold, the driver can take possession of the car. This has created a new sales channel for second-hand cars and, at the same time, a means for a more stable income for local drivers.	The company recognized the potential of the new business model in expanding into a new market, obtaning knowhow and a new customer base. Through scaling up the new model, the company is aiming to expand its business in other areas.
OPENLOGI	Shipper (Logistics): Established in 2016, Shoppee/ Tokopedia: Established in 2009/2015 (Indonesia), Local e-commerce SMEs	The first step towards expanding its logistic outsoucing service abroad. The company saw an opportunity in the logistics service industry in Indonesia, where the e-commerce market is rapidly growing. Local SMEs have been reportedly having difficulties in inventory management.	With the aim of enabling more efficient and reliable inventory management and shipping, the company conducted a pilot project for logistics outsourcing operations in collaboration with the logistics platform service company and the system of leading Indonesian e-commerce platforms as well as local e-commerce SMEs.	The one-year pilot project went without any trouble such as a misdelivery or returned package, proving the feasibility of the business in Indonesia. In addition, the project also showed there is no significant difference between domestic and overseas warehouse operations. As the company confirmed the viability of its business model for the overseas market, it is looking to enter Indonesia.
Fujitsu	Quantstamp Established in 2017 (US) Providing security services with the use of blockchain	Recognizing start-up companies seeking cutting-edge technologies as they search for new businesses beyond existing businesses. "Fujitsu Accerelator" has been held since 2015, in which Quantstamp was accepted.	As one of the collaboration projects, Fujitsu joined an international consortium launched by Quantstamp in order to develop definitions of "security" in blockchain technology, which is one of the urgent challenges in the field. Fujitsu is looking for future business collaboration with it as well.	It was an asset for Fujitsu to collaborate in Japan in a different area from its existing businesses, where future demand is expected to increase. -(Partners) Since Japanese companies can be expected to maintain long-term business cooperation once a relationship of trust is born, this is an important collaboration from the perspective of entering the Japanese market.
SBI Remit	BitPesa Established in 2013 (Kenya) Affordable and speedy overseas money transfer service through blockchains	Seeking innovative solutions to improve customer service within Africa, where the company had a strategic interests for its growth prospects.	This is the company's first business collaboration in Africa. Money tranfer from Africa to Japan requires first exchanging the local money to another major foreign currency before exchanging it to Japanese yen. The collaboration with BitPesa, however, enables the company to provide a faster and more affordable money transfer service between African countries and Japan.	Collaboration with BitPesa, which already has business operations in eight African countries and covers 85 countries for money transfer, has allowed the company to provide a direct money transfer service between African countries and Japan.
Mitsui	OMC Power Established in 2011 (India) Establishing small solar power plants to provide electricity to non-electrified areas	Deciding to invest, with the expectation of capital and scalability to other regions through contribution to rural electrification projects in developing countries.	Investing nearly 1 billion yen, Mitsui supports OMC power to provide distributed power business, which stores solar power to provide cheap electricity for businesses, elementary schools, and houses in areas without a power grid. Also, through collaboration with its various businesses, Mitsui aims to provide high value-added services using stable electricity. In addition to India, it is expecting to expand into Africa, where OMC Power has already started operations, Asia, etc.	By supplying solar energy to the areas where people have used fossil fuels as energy, Mitsui will contribute to regional development with reduced burden on the environment. In addition, the stable supply of electricity can be expected to serve as the basis for providing various value-added services such as refrigeration of vegetables and selling fertilizers. -(Partner) Mitsui's investment can lead to the better evaluation that the distributed power business, monetization of which has been seen as difficult, can become a valid business model.

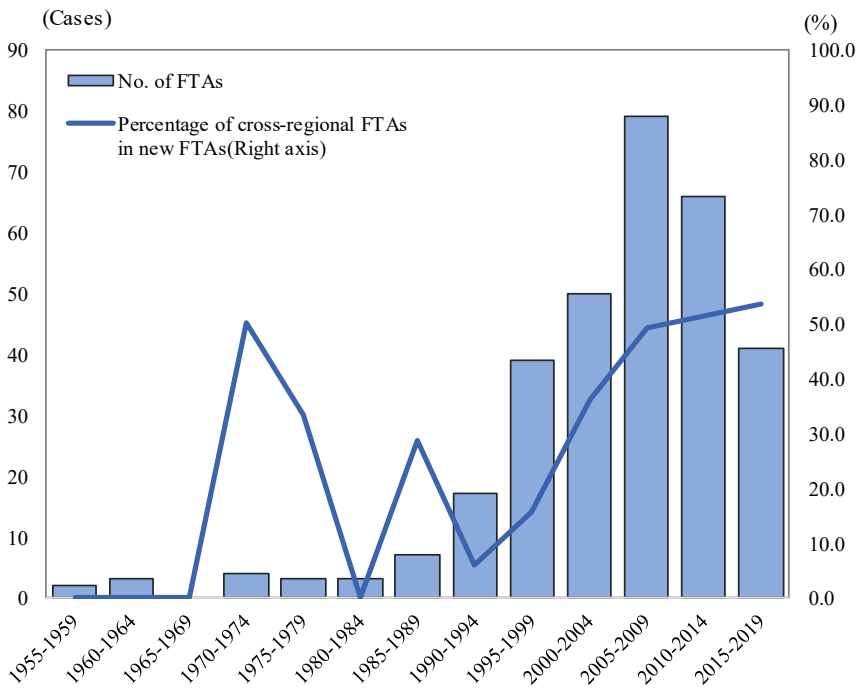
Source: Interviews by JETRO, press releases and media reports

Chapter 3: Trends in global trade rule formation

Increasing number of cross-regional FTAs in force

- The number of Free Trade Agreement (FTAs) which newly came in force in 2018 was seven. The total number of FTAs in force in the world as of the end of June 2019 was 314, up from 307 in the same period of the previous year (including customs unions and preferential trade agreements, based on JETRO survey). The movement to conclude cross-regional FTAs has been becoming more active since 2000. Of the FTAs that entered into force between 2015 and 2019, cross-regional FTAs account for 53.7%.
- As TPP11 came into force, the FTA trade coverage ratio in each member country of TPP11 ranks high, which shows the large-scale economic zone created by the agreement.

Percentage of cross-regional FTAs in new FTAs



Sources: WTO, materials of governments and institutions

FTA coverage ratio of major countries/regions

(Unit:%)

	FTA coverage ratio			FTA partner countries/regions					
	Two-way	Export	Import	1st		2nd		3rd	
Japan	36.7	34.8	38.7	ASEAN	15.2	TPP11	12.0	EU	11.5
US	39.1	47.0	33.9	NAFTA	29.2	South Korea	3.1	Singapore	1.4
Canada	83.3	89.2	78.0	NAFTA	66.1	EU	10.1	TPP11	7.7
Mexico	78.1	88.9	67.5	NAFTA	63.9	EU	8.1	TPP11	6.1
Chile	83.8	86.3	81.0	China	27.7	US	16.4	EU	13.6
Brazil	16.3	15.7	17.1	Mercosur	10.1	CAN	3.0	Chile	2.3
EU28 Total trade	76.3	77.3	75.3	EU	63.8	Switzerland	2.5	Turkey	1.4
EU28 Extra-regional	34.4	36.9	31.9	Switzerland	6.7	Turkey	3.9	EEA	3.4
Turkey	50.2	59.0	43.6	EU	42.1	South Korea	1.9	EFTA	1.5
China	30.6	23.2	39.2	ASEAN	12.6	South Korea	6.8	Taiwan	4.9
South Korea	67.8	72.5	62.5	China	23.6	ASEAN	14.0	US	11.5
A S E A N	59.6	57.2	62.0	ASEAN	22.7	China	17.3	Japan	8.4
Singapore	78.6	74.0	81.1	ASEAN	23.8	China	13.1	TPP11	10.3
Malaysia	62.4	61.6	63.3	ASEAN	27.2	China	16.7	Japan	7.1
Vietnam	63.6	51.3	76.4	China	22.7	South Korea	14.0	TPP11	13.1
Thailand	60.8	59.2	62.3	ASEAN	23.3	China	16.0	Japan	12.0
Indonesia	66.6	64.0	69.0	ASEAN	23.9	China	19.7	Japan	10.1
India	16.9	16.8	16.9	ASEAN	11.1	South Korea	2.5	Japan	2.1
Australia	72.8	75.9	69.3	China	29.6	TPP11	20.8	ASEAN	13.8
New Zealand	63.0	65.3	60.7	TPP11	26.1	China	21.9	ASEAN	12.2

Note: 1)The subject countries include countries and regions which have established an FTA as of the end of June 2019. The figures are based upon trade values in 2018.
2)Abbreviations: Andean Community (CAN), the European Economic Area (EEA).
3) Hong Kong and Macao are excluded from the figures of China.
4) Hong Kong is excluded from the figures of ASEAN.
5) Figures for Canada and Singapore were calculated by export statistics which exclude re-exported trade.
6) TPP11 includes only ratification countries in the coverage rate..
Source: Documents and trade statistics from each country's government, "DOTS, June 29th, 2019"(IMF)

Japan's effective FTA trade coverage ratio increases strongly to 36.7%

- With the entry into force of TPP11 and the Japan-EU EPA, the coverage ratio of Japan's enacted FTAs has increased significantly, from 23.4% in the previous year to 36.7%. If RCEP, which is under negotiation, comes into force, the coverage ratio will increase to 63.8%.

Japan's trade structures and its FTAs in force and under negotiation

(%)

Product Category		World (million dollar)	FTAs in force												
				Australia	ASEAN	India	Mongolia	Switzerland	Mexico	Peru	Chile	TPP11			EU
													Canada	NZ	
Export	Transportation machinery	172,672	33.2	4.7	8.3	0.3	0.2	0.2	2.0	0.2	0.6	12.6	3.0	0.9	12.7
	General Machinery	148,003	34.2	1.2	14.5	2.1	0.0	0.1	1.8	0.0	0.1	8.2	0.8	0.2	13.3
	Electrical equipment	109,352	33.4	0.4	19.4	1.2	0.0	0.1	1.5	0.0	0.0	9.8	0.5	0.0	10.3
	Chemicals	97,843	29.9	1.0	14.0	2.1	0.0	0.7	0.7	0.1	0.2	6.8	0.5	0.1	10.6
	Iron and Steel	40,227	43.1	0.5	30.2	3.7	0.0	0.0	4.4	0.3	0.2	12.4	0.6	0.1	3.0
	Total	738,143	34.8	2.3	15.5	1.5	0.1	0.5	1.6	0.1	0.3	10.9	1.3	0.4	11.3
Import	Mineral Fuels	174,532	29.9	18.1	9.3	0.5	0.0	0.0	0.5	0.3	0.0	20.1	1.0	0.0	0.3
	Machinery and equipment	236,851	35.4	0.1	16.4	0.3	0.0	1.5	1.3	0.0	0.0	6.9	0.4	0.0	15.4
	Chemicals	88,551	51.3	0.4	14.6	1.3	0.0	3.5	0.3	0.0	0.3	7.2	1.3	0.3	29.4
	Food and beverages	66,315	48.5	6.2	13.9	1.1	0.0	1.1	1.8	0.4	2.8	17.3	4.1	2.2	15.1
	Textile/Textile products	37,721	33.5	0.1	26.1	1.2	0.0	0.1	0.1	0.0	0.0	13.1	0.2	0.0	5.5
	Total	748,487	38.7	6.1	15.0	0.7	0.0	1.0	0.8	0.3	1.0	13.0	1.6	0.4	11.8
Two-way trade		1,486,631	36.7	4.2	15.2	1.1	0.0	0.8	1.2	0.2	0.6	12.0	1.4	0.4	11.5

Product Category		FTAs under negotiation						Total	(Ref.) US	(Ref.) Total (incl. US)
		RCEP			Turkey	Columbia	GCC			
			China	South Korea						
Export	Transportation machinery	23.2	8.1	0.9	0.5	0.4	7.1	50.0	31.8	81.8
	General Machinery	49.8	23.8	8.0	0.7	0.1	1.2	68.0	20.8	88.8
	Electrical equipment	51.3	24.5	5.9	0.5	0.0	0.6	64.9	14.1	79.0
	Chemicals	56.1	26.5	12.5	0.2	0.1	1.0	70.2	12.8	83.0
	Iron and Steel	67.6	17.9	15.1	0.6	0.5	2.3	79.5	7.3	86.8
	Total	46.3	19.5	7.1	0.4	0.2	2.4	64.4	19.0	83.4
Import	Mineral Fuels	31.5	0.8	2.9	0.0	0.2	48.7	82.5	5.5	88.0
	Machinery and equipment	58.9	37.7	4.3	0.1	0.0	0.0	77.6	14.1	91.7
	Chemicals	40.9	18.1	6.2	0.1	0.0	1.0	76.8	15.6	92.4
	Food and beverages	39.9	13.1	3.5	0.3	0.5	0.0	66.0	20.2	86.2
	Textile/Textile products	86.9	58.0	1.3	0.4	0.0	0.0	93.3	1.1	94.4
	Total	49.7	23.2	4.3	0.1	0.1	11.7	78.1	10.9	89.0
Two-way trade		48.0	21.4	5.7	0.3	0.1	7.1	71.3	14.9	86.2

Note: Under negotiation on Trade Agreement on goods (TAG) with the United States.
The total of TPP11 and RCEP includes countries where Japan already has other agreements.
Source: "Trade Statistics" (MOF)

Japan's FTA entering "harvesting period"

- According to JETRO surveys, the utilization rate of FTAs in the exports of Japanese companies to ASEAN countries has increased in recent years. The utilization rate in exporting to India increased by 8.3 percentage points, the highest figure among FTAs in force.
- The FTA usage in the exports to Thailand and Vietnam by industry shows that the utilization rate of "medical products and cosmetics" recorded the largest increase. This is due to the rising awareness of beauty, market penetration by Japanese-affiliated drugstores in ASEAN countries, and the rapid increase in visitors to Japan from those countries. In addition, the decline in FTA tariff rates is helping Japan's exports to ASEAN countries.
- The elimination of tariffs based on FTAs can happen immediately or incrementally, and there are many tariffs that are eliminated after 10 years or more. About 10 years have passed since the entry into force of many FTAs with Asian countries, meaning they are finally reaching their "harvesting period".

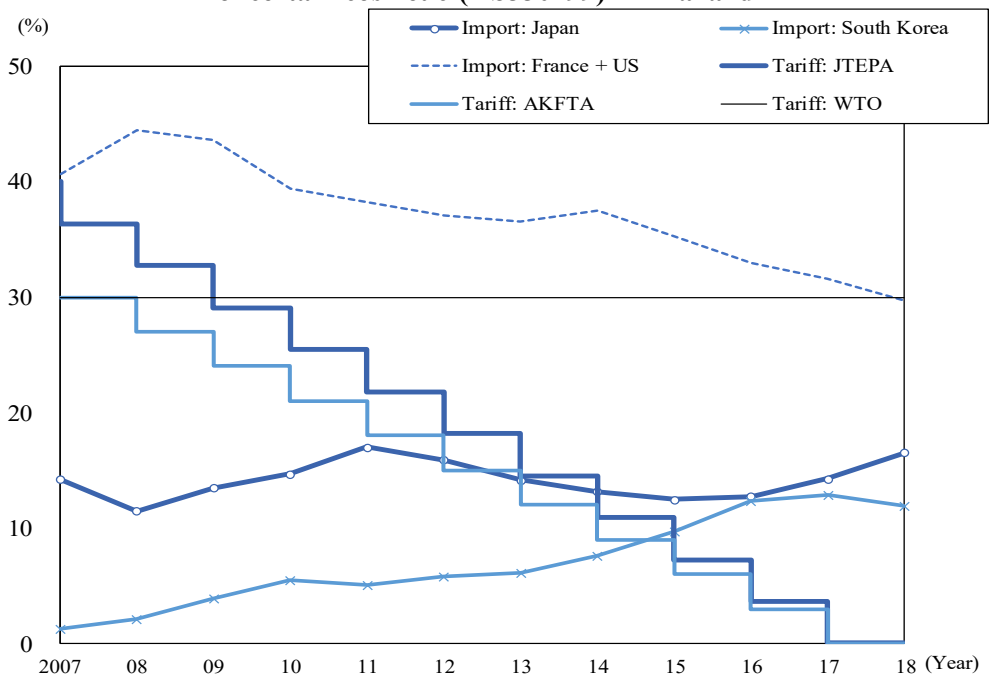
Utilization of FTAs in exports of Japanese firms (by major FTA, time series)

(%)

	Survey Year	Usage	FY2016→FY2018
Total	FY2016 (n=1,234)	45.1	+3.1
	FY2017 (n=1,347)	44.9	
	FY2018 (n=1,472)	48.2	
Thailand	FY2016(n=824)	47.2	+1.8
	FY2017(n=875)	46.7	
	FY2018(n=957)	49.0	
Vietnam	FY2016(n=575)	33.7	+6.4
	FY2017(n=646)	32.8	
	FY2018(n=727)	40.2	
Indonesia	FY2016(n=554)	39.2	+5.4
	FY2017(n=579)	41.3	
	FY2018(n=597)	44.6	
Malaysia	FY2016(n=532)	31.6	+1.7
	FY2017(n=547)	29.3	
	FY2018(n=580)	33.3	
Philippines	FY2016(n=383)	26.1	+3.9
	FY2017(n=412)	26.2	
	FY2018(n=466)	30.0	
India	FY2016(n=354)	29.1	+8.3
	FY2017(n=376)	28.2	
	FY2018(n=382)	37.4	

Note: 1) The parameter for the total is the number of firms that are performing exports to one or more countries/regions for which FTAs have been implemented at the time of the survey. It does not include firms who did not answer whether they were using an FTA or whose answers were unclear. 2) List includes six countries with which FTAs have been implemented as of the time of the survey and to which many companies are exporting.
Source: FY2018 Survey on the International Operations of Japanese Firms (JETRO)

Import value and tariff rates of certain cosmetic (HS330499) in Thailand



Note: 1) The top four import countries in 2018 (France, Japan, South Korea, and US) account for 58.1% of the total. 2) JTEPA stands for the Agreement between Japan and the Kingdom of Thailand for an Economic Partnership, and AKTFA "ASEAN Korea Free Trade Agreement." 3) Tariff reduction are based on agreements.
Source: Global Trade Atlas (IHS Markit), JTEPA documents (Ministry of Foreign Affairs), AKFTA documents (ASEAN Secretariat), and Thai Customs

Increasing introduction of more convenient Certificate of Origin System

- As there have been no moves toward international integration of preferential rules of origin, each FTA member country/region has introduced their own rules of origin and certification systems. Satisfying these different rules of origin and complying with these certification systems could be hurdles for companies in using FTAs.
- Traditionally, countries/regions in Asia and Africa tend to introduce the third-party certification system, in Europe the approved exporter system, and in Americas the self-certification system. In recent years, however, more convenient systems such as the approved exporter system and the self-certification system have been introduced, regardless of region.

Obstacles in using FTAs for Japanese companies

(Multiple answers, %)

	FY13 (n=495)	FY18 (n=710)	FY13 →FY18
Burdens to satisfy ROO	48.3	60.6	12.3
Labor and time cost to obtain CoO for each export	52.9	51.4	Δ 1.5
Complication in ROO that differ by product	35.8	45.5	9.7
Time required for determination of country of origin of product/issue of CoO	19.6	26.8	7.2
Fees to obtain CoO	28.7	25.4	Δ 3.3
Lack of information available on the use of FTAs	8.1	17.6	9.5
Lack of internal structures within firms to use FTAs	11.3	15.2	3.9
Have experienced trouble to use FTAs at importing countries' customs	8.5	8.0	Δ 0.5
No problem in particular	18.2	15.9	Δ 2.3
Other	3.8	3.1	Δ 0.7

Note: 1) n = firms that use FTAs in export. 2) Abbreviations are as follow; ROO = Rules of Origin, CoO = Certificate of Origin
Source: "Survey of the Interntional Operations of Japanese Firms" (JETRO)

Certification of Origin and verification system of major FTAs

FTAs	Type of Proof of Origin	Countries responsible for origin verification
ATIGA	Third-party certification system	Documentary Check: Exporting Party Verification Visit: Importing Party
Pacific Alliance	Third-party certification system	Documentary Check on Importer: Importing Party Documentary Check on Exporter: Exporting Party Verification Visit: Importing Party
EAC	Third-party certification system Approved exporter system (Added in 2015 amendment)	Exporting Party
Japan・Mexico	Third-party certification system Approved exporter system (Added in 2012 amendment)	Documentary Check: Exporting Party, Importing Party Verification Visit: Exporting Party (importing party could go along)
EU・South Korea	Approved exporter system	Exporting Party
NAFTA	Self-Certification	Importing Party
TPP11	Self-Certification	Importing Party
Japan・EU	Self-Certification	Documentary Check on Importer: Importing Party Documentary Check on Exporter: Exporting Party Verification Visit: Exporting Party

Note: 1) Abbreviations of FTAs are as follow; ATIGA = ASEAN Trade in Goods Agreement, EAC = East Africa Community, NAFTA = North America Free Trade Agreement, TPP11 = Comprehensive and Progressive Agreement for Trans-Pacific Partnership. 2) For "Types of Proof of Origin", "Third-party certification system" indicates a type where an export party needs to obtain an origin certificate by approved authorities; "Approved exporter system" indicates a type where exporters approved by authorities can make out their own certificates to declare their products' origin, and; "Self-Certification" indicates a type where any exporter can declare their products' origin.
Source: Texts from each FTA

Verification operations vary by country

- According to interviews with customs and experts in the FTA partners with which Japan has concluded or is negotiating an agreement, the criteria for selecting the subjects to origin verifications include the cases of doubt on certification, handling articles and companies at high risk, and random sampling.
- The implementation records of verification indicate that a certain amount of verification has been conducted, but on-site visits by an importing country's custom office are not very common. Common mistakes in applications for preferential tariff treatment include lack of required information, lapse of certificate of origin, and inadequate through bills of lading. As the self-certification of origin has been introduced in new FTAs of Japan, it will be necessary to more thoroughly work on document preparation and procedures when applying for preferential tariff treatment.

Criteria for selecting verification subjects

Criteria for selecting verification subjects
1) Case of doubt on certification: ・Inconsistency among information on the description of certificate of origin, ・Inconsistency between a certificate of origin and the rest of the documents, ・Strict rules of origin for the import items subject to preferential tariff rate application, etc.
2) Imports and companies at high risk: ・Large number of imports subject to preferential tariff rate, ・Records of mistakes of a given company, or records of mistakes when preferential tariff applied for a given product, ・Large tax saving amount, etc.
3) Random sampling

Source: Reports from JETRO overseas offices

Implementations of verification by customs and common mistakes

Region	Country	Implementation and frequency of verfication	Case of denial and common mistakes in application for preferential tariff treatment
Asia Pacific	Indonesia	-	Inconsistency between the certificate of origin and other commercial documents, insufficient information on the through bill of lading, and no issuance of the certificate of origin during the period required in the agreement.
	India	There are implementation records of verification, but many applications for preferentail tariff treatment are not checked in details. On-site visits to exporting countries have not been implemented in Japan, but have been implemented in Southeast Asian countries.	-
	Vietnam	The custom has hardly conducted verification in Japan-ASEAN FTA and Japan-Vietnam FTA.	Lack of required information on the certificate of origin
	NZ	Random sampling ratio for selecting the subjects to verification is around 1%	Although a given import is not a direct shipment from an export area, through bill of lading or other required documents are not attached.
	China	Verification is conducted irregularly, and the period between when preferential tariff treatment is applied and when the verification is conducted is not fixed.	-
Americas	Mexico	Verification was last conducted in the Japan-Mexico FTA in 2018. Usually, verification is carried out for the import declarations made three years before (the import declarations made in 2016 can be subjects to verification in 2019). Imports from Japan account for about 2% of all verifications. There are no records of verification for TPP11 utilization yet.	-
	Chile	Verifications are frequently conducted for cargoes with high risk.	Lapse of certificate of origin, the format of certifiation is non-compliant with that of the agreement.
	US	On-site visits are conducted once a year in each FTA parter of the US.	Insufficient documents to prove the origin.
Europe	Switzerland	The number of verifications is small, at most a few percent of all applications for preferential tariff treatment.	Declaration in the format of different FTAs of Switzerland, declaration with the format based on the EU agreement, mistakenly believing that could be used to apply preferential tariff treatment in Switzerland.

Source: Reports from JETRO overseas offices

Recent FTAs covering a wider range of new rules

- Some FTAs signed in recent years provide rules for new fields not commonly observed in existing FTAs. For example, rules of "Regulatory Coherence" encourage FTA member countries to follow certain procedures and practices when formulating new regulations. Another example is the establishment of "gender chapter" related to the gender equality, which is one of the SDGs.
- In electronic commerce, that currently attracts global attention, not only the US but also Japan, Europe, China, etc. are creating the rules through their own FTAs.

Rules in recent FTAs

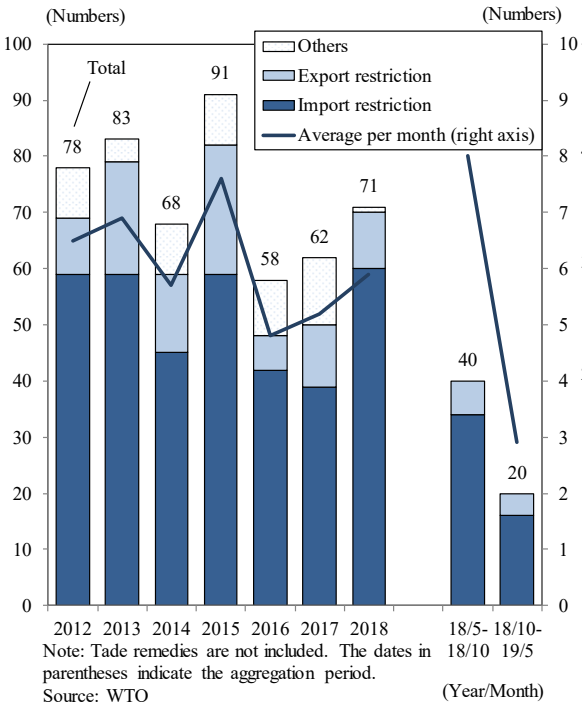
	FTAs	Contents
Regulatory Coherence	CETA(Ch.21) TPP11(Ch.25) Japan-EU EPA(Ch.18)etc.	Rules are established to improve the transparency of the regulations when FTA member countries impose them in their own countries and regions. Many of the rules of regulatory coherence are not to require but to encourage member countries to follow certain procedures and practices, such as notifications of new regulations to other member countries or impact assessment on related regulations.
Geographic Indications (GI)	CETA(Ch.20) TPP11(Ch.18) Japan-EU EPA(Ch.14) EU-Vietnam FTA(Ch.12)etc.	The rules concern GI, a system to treat a regional name as a brand. TPP11 has only confirmed the current TRIPS agreement and set the minimum standards for the GI applications in each country. On the other hand, the EU has actively incorporated rules on GI into its FTAs.EU-Japan EPA, for instance, includes provisions for mutual protection of GI listed in the agreement.
Gender	Chile-Uruguay FTA(Ch.14) Canada-Chile modernized FTA (Ch.Nbis) Canada-Israel modernized FTA (Ch.13)etc.	Although it was previously only mentioned as part of preambles and provisions of trade agreements, some recent FTAs such as the Chile-Uruguay FTA enforced in December 2018 establish the topic of gender as an independent chapter ahead of the rest of the world. In these gender chapters, member countries recognize the importance of gender euqality and cooperation in related fields. The Canada-Israel revised FTA also includes procedures for dispute settlement in this topic by the member countries.
Electronic Commerce	USMCA(Ch.19) CETA(Ch.16) TPP11(Ch.14) China-Singapore FTA etc.	Many related rules have been established in FTAs including the US, EU, Japan and Australia, but the scope of recent FTAs is expanding. More attention has been given in this topic, as evidenced how even FTAs of China, that has had few rules in the field, starts to incorporate independent chapters on electronic commerce, such as the upgraded trade agreement with Singapore.
Investment	CETA(Ch.8) USMCA(Ch.14) EU-Vietnam(Investment Protection Agreement Ch.3)etc.	No notable progress has been made in recent FTAs in the rules on ISDS (Investor-State Dispute Settlement), some of whose issues, such as increasing investor rights and the inability to apply appellate procedures, have been raised. USMCA has significantly narrowed the scope where ISDS could be triggered. Although the EU is eager to establish a permanent Investment Court System (ISC), it has not yet been realized.

Note: 1) FTAs named in the box are some of major recent FTAs that have relevant rules. 2) Agreements without any chapter number are agreements whose specific chapter numbers and contents have not been published. 3) For the chapter number of TPP11, refer to TPP.
Sources: Texts of FTA agreements, government reports and related materials

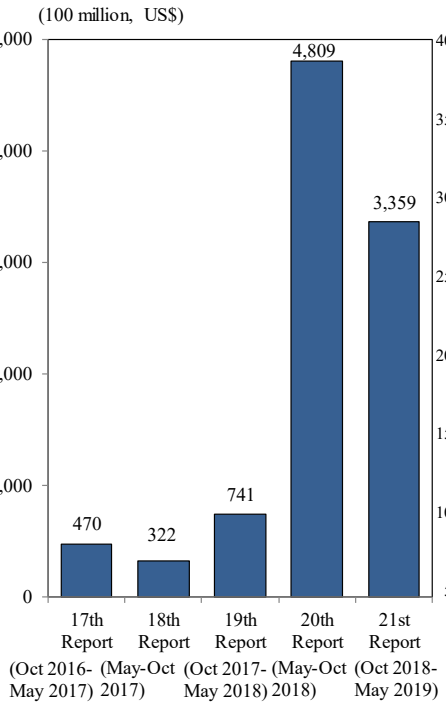
Impact of expanding trade-restrictive measures worldwide

- According to the WTO trade monitoring report, G20 economies introduced 71 trade-restrictive measures in 2018, representing an increase for two consecutive years. In addition, the trade coverage of these measures from October 2018 to May 2019 is estimated at US$335.9 billion, the second largest volume following the previous aggregation period (US$480.9 billion).
- The new investigation of trade remedy measures (anti-dumping, countervailing duty, safeguard) has also maintained a high standing. While anti-dumping investigations, which are the most commonly used, are decreasing, the investigations of countervailing duty reached a record number, with 55 cases. This is due to the 24 investigations conducted by the US for the second straight year. Safeguard investigations also increased for the first time in four years.

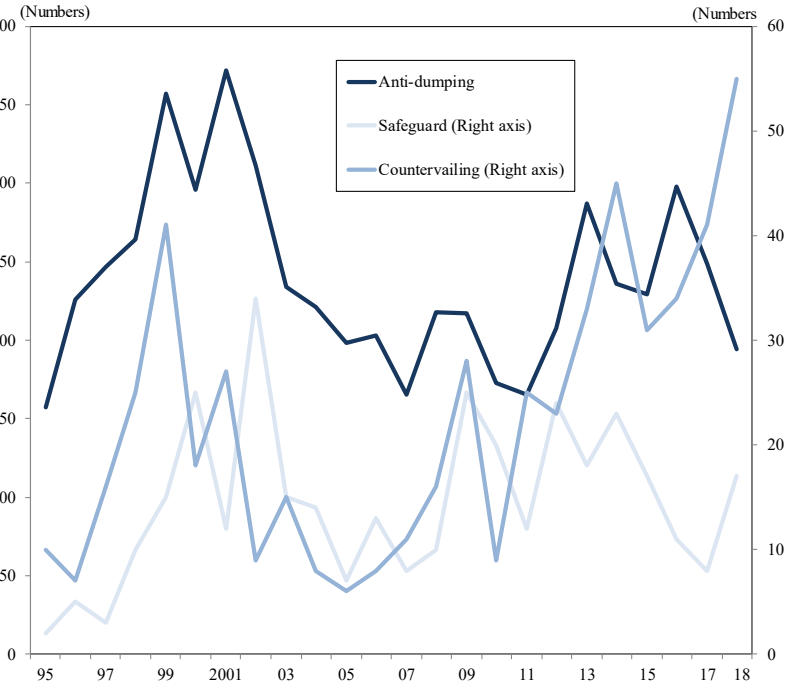
Numbers of trade-restrictive measures by G20 economies and their trade coverage



Note: Tade remedies are not included. The dates in parentheses indicate the aggregation period.
Source: WTO



Number of initiations of trade remedy measures



Source: WTO Secretariat

Negative impacts of continued trade protectionism

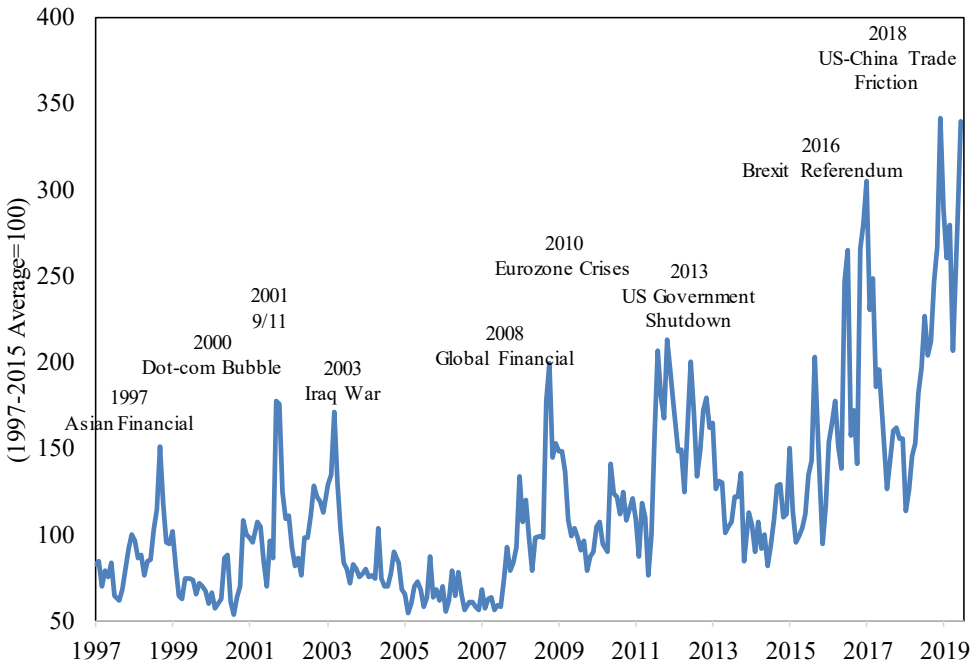
- As trade protectionism gained some momentum in the past, countries/regions introduced various trade restriction measures such as raising tariffs, encouraging usage of domestic products, and introducing mandatory standards. In response to the unilateral actions taken by the US since 2018, many countries have responded with relative calm in ways that are consistent with international trade rules, including the usage of trade remedy measures and WTO dispute settlements.
- On the other hand, some running measures by major countries do not follow the WTO rules, which could undermine the modern international trade order. Specifically, the negative impacts on the economy include: 1) accumulation of trade restriction measures, 2) shrink of world trade, 3) increase in consumer burden, 4) weakening of industry, 5) hindrance of supply chain, (6) diminishing predictability.

Past momentum for trade protectionism

Occurrence time	Implementation status of trade restriction measures	Response
The first oil crisis (1973)	Trade restrictions expanded due to the global recession. Those incuded tariff hikes and import quotas on steel, automobiles, electric appliances, textiles, etc. by developed countries, and import restrictions caused by deteriorated balance of payments in some developing countries.	OECD adopted the trade restriction "restraint declaration" in 1974.
The second oil crisis (1979)	Under the prolonged economic stagnation, protectionist pressures increased in developed countries including the western countries. In the name of "reciprocity" or "equilibrium of profits," various types of trade restriction measures, such as voluntary export restraint, import quotas, anti-dumping, and complicated import procedures, were implemented.	The Uruguay Round started in 1986, followed by the launch of WTO in 1995.
Asian currency crisis (1997)	Liberalization of trade and investment in East Asia brought brought a double-structured status of competitive foreign multinational companies and vulnerable local companies. On the background of economic stagnation since the Asian currency crisis, some countries raised tariffs, encouraged usage of domestic products, and imposed import restrictions.	ASEAN started the ASEAN Industrial Cooperation (AICO) scheme in 1996, later to AFTA.
IT bubble burst (2000)	World trade sharply slowed down due to the collapse of the IT bubble in the United States, and invocations of anti-dumping in 2001 and safeguards in 2002 recorded the highest levels.	–
Lehman Shock (2008)	Measures to protect domestic industries were implemented by governments across the world, regardless of developed or developing countries. Various types of trade restriction measures were introduced, such as raising tariffs on specific items, introducing mandatory standards including steel products, request of local procurement, and governmental support for specific industries.	WTO, G20, OECD, etc. declared the avoidance of protectionism, and WTO, etc. started "Trade Monitoring Report."
Europe's debt crisis (2010)	Influential countries, such as G20 members, took more measures, transition from tariff measures to non-tariff measures occurred, and then such measures were prolonged, which became an issue. Trade restrictions by developing countries increased, mainly on steel products, chemicals, etc.	Repeating declaration of protectionism avoidance at the G20 summit, etc.

Sources: "JETRO White Paper on International Trade," "JETRO Global Trade and Investment Report," etc. of each fiscal year (JETRO)

Global Economic Policy Uncertainty Index

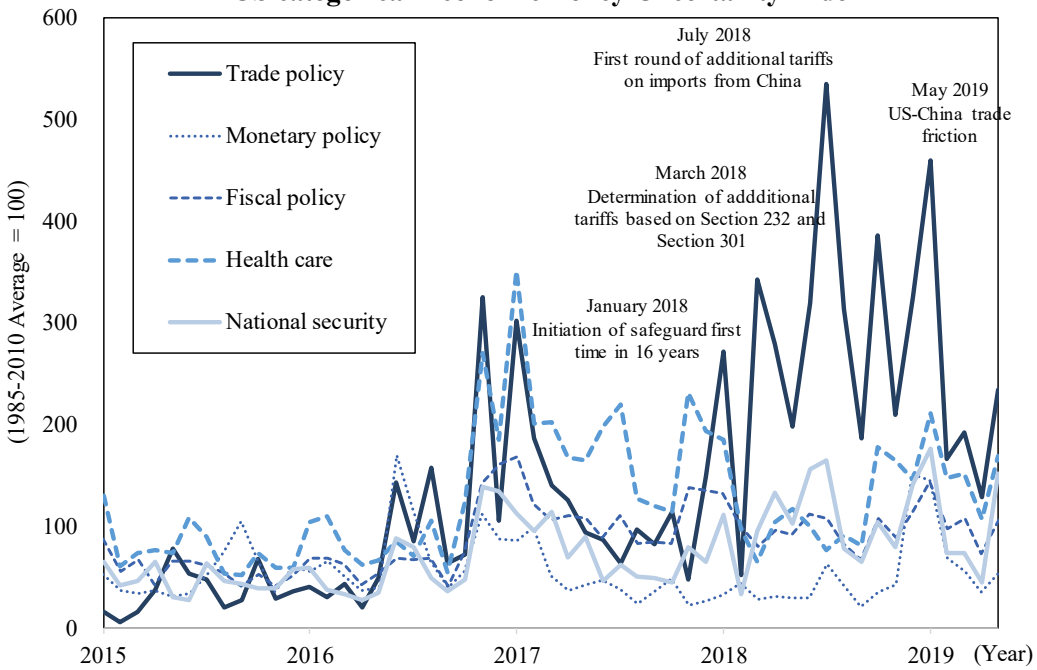


Note: Index developed by Stanford University based on data collected through articles of leading newspapers from 20 countries on a monthy basis. The larger the figure, the higher the uncertainty.
Source: "Economic Policy Uncertainty Project" (Policy Uncertainty.com)

US administration uses all tools available in trade policy

- The current US administration, immediately after inauguration, has actively utilized trade remedy measures such as initiation of investigation by authority and the first safeguard used in 16 years. In 2018, the total number of anti-dumping and countervailing duty measures was 59, recording the highest level ever.
- Meanwhile, the usage of unilateral measures based on domestic laws has become active since 2018. Uncertainty in trade policy is increasing due to the invocation of measures that have not been used for many years, including Article 232 of the Trade Expansion Act and the repeated tariff increases on Chinese products.

US categorical Economic Policy Uncertainty Index



Note: Index developed by Stanford University based on data collected through articles of 10 leading newspapers in US on a monthy basis. The larger the figure, the higher the uncertainty.
Source: "Economic Policy Uncertainty Project" (Policy Uncertainty.com)

Major trade-related decisions taken by the Trump administration

	Date	Outline of measures
2018	23-Jan	President approves safeguard measures on large residential washers and crystalline silicon photovoltaic products
	8-Mar	Determination of additional import tariffs on steel and alminum based on the investigation conducted under Section 232 of the Trade Expansion Act of 1962
	22-Mar	Determination of additional import tariffs on imports from China and strengthened investment restriction on Chinese investment in the US, based on the investigation conducted under Section 301 of the Trade Act of 1974
	27-Mar	Agreement in principle of an amended US-Korea FTA (KORUS FTA)
	23-May	Initiation of investigation under Section 232 of the Trade Expansion Act of 1962 regarding the effects of imported automobiles and parts on national security
	6-Jul	First round of additional tariffs on imports from China based on Section 301 of the US Trade Act of 1974
	13-Aug	Enactment of the National Defense Authorization Act (NDAA) for FY2019, including FIRRMA to strengthen CFIUS, ECRA to enhance export control regulations, and stipulations to prohibit government procurement of Chinese telecommunication equipment
	23-Aug	Second round of additional tariffs on imports from China
	24-Sep	Third round of additional tariffs on imports from China
	30-Nov	Signature of the US-Mexico-Canada Agreement (USMCA)
2019	17-Feb	Submission of Section 232 Investigation Report on automobiles and parts from the DOC to the President
	1-Mar	Submission of the 2019 Trade Policy Agenda and 2018 Annual Report to Congress
	15-Apr	Trade Agreement on Goods (TAG) negotiation starts with Japan
	10-May	Raising of tax rate on the third round of additional tariffs on imports from China
	13-May	Announcement of the list of products subject to the fourth round of additional tariffs on imports from China
	16-May	Addition of Huawei and its 68 affiliates to the Entity List of the DOC
	17-May	Proclamation postponing for 180 days a final decision on whether to impose Section 232 tariffs on automobiles and parts
	20-May	Areement to remove Section 232 steel and aluminum tariffs on Canada and Mexico
	23-May	DOC proposes rulemaking to impose countervailing duties on countries that act to undervalue their currency
	30-May	Announcement of additional tariffs on products imported from Mexico based on the 1977 International Emergency Economic Powers Act → Indefinitely suspended on June 7

Sources: White House, JETRO website

Current administration's unilateral measures related to security

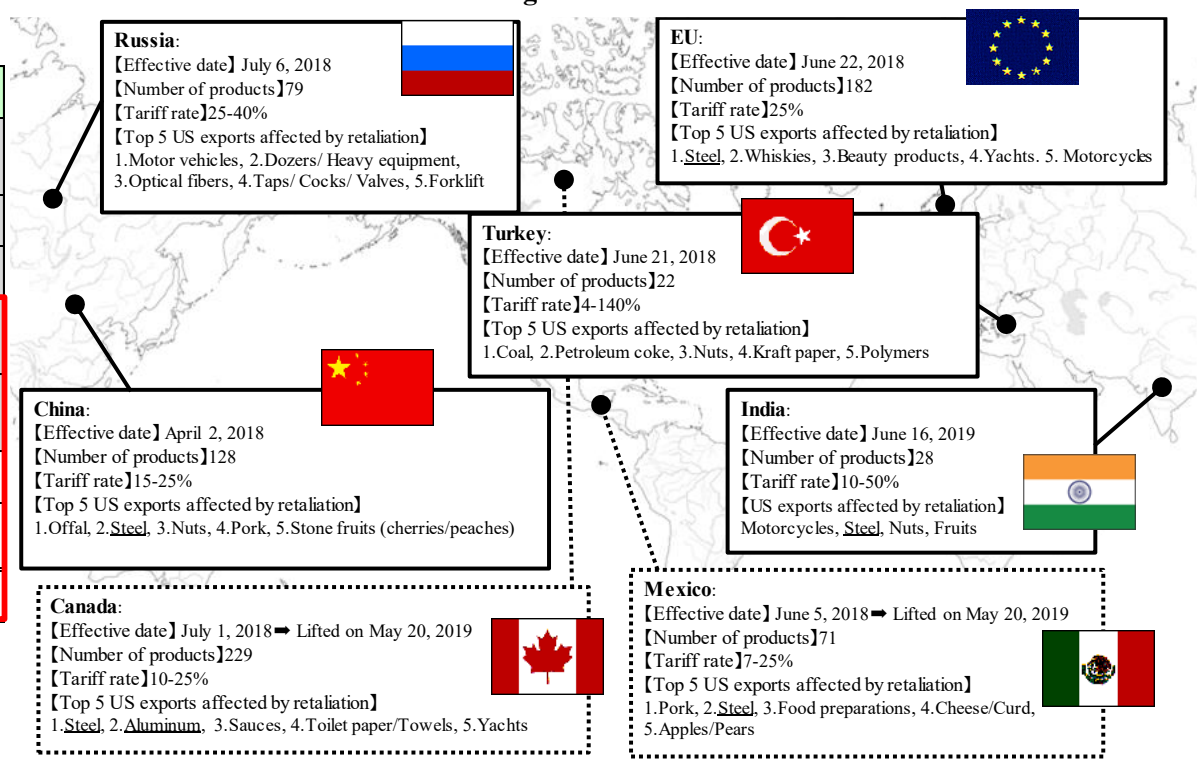
- Unilateral measures taken by the current administration are characterized by relating economic issues to security. Many of the measures introduced are related to tariffs, including raising tariff rates on steel and aluminum based on Section 232 of the Trade Expansion Act of 1962, and imposing additional tariffs on Chinese products based on Section 301 of the Trade Act of 1974.
- While previous administrations were cautious about using Section 232, the current administration, which started investigations by authority for the first time in 16 years, is aggressive in both investigation and invocation. US trade partners have reacted quickly against the measures and taken countermeasures.
- Non-tariff measures include the US market access restrictions based on the National Defense Authorization Act of 2019. The law involves the Foreign Investment Risk Review Modernization Act (FIRRMA), the Export Control Reform Act (ECRA), and government procurement restrictions.

Cases for the United States to invoke measures under Section 232 and investigations initiated under the Trump administration

Year initiated	President	Subject of investigation	Initiator	Presidential Action
1973	Nixon (R)	Petroleum	Chairman of the Oil Policy Committee	Transitioned away from existing quota system to a license fee
1979	Carter (D)	Petroleum from Iran	Secretary of the Treasury	Embargo imposed on petroleum from Iran
1982	Reagan (R)	Petroleum from Libya	Presidential request	Embargo imposed on petroleum from Libya
2017	Trump (R)	Steel	Secretary of Commerce	Imposed tariffs of 25% on steel imports from all countries
2017	Trump (R)	Aluminum	Secretary of Commerce	Imposed tariffs of 25% on steel imports from all countries
2018	Trump (R)	Automobiles and parts	Secretary of Commerce	Waiting for the President's decision.
2018	Trump (R)	Uranium ore and products	UR-Energy and Energy Fuels	The president announced his intention not to impose import restriction.
2019	Trump (R)	Titanium sponge (2)	Titanium Metals Corp.	In Process

Note: 1) The shaded area indicates the cases for which import restrictions based on Section 232 were imposed, 2) Investigation on titanium sponge is ongoing. TIMET, which requested the investigation, is the only manufacturer of this product in the United States and requested an anti-dumping investigation of the product in 2017. The US International Trade Commission (USITC) did not recognize any damage to domestic industries, and as a result, it did not lead to imposition of anti-dumping duty. Thus, investigation based on Section 232 was requested.
Source: US Congressional Research Service

Retaliations against US Section 232 measures



Note: Steel and aluminum products underlined.
Sources: US Congressional Research Service, Website of each government, "Biznews" by JETRO, various press releases and media reports

US-China trade friction: Trade issues are part of struggle for supremacy

- The current US administration, which aims to reduce its trade deficit, has put a high priority on measures against China, with which the US has the largest trade deficit. However, the conflict between the US and China is a matter of supremacy, including security and advanced technology competition. The trade friction is part of the conflict.
- China has countered with decent countermeasures against US unilateral measures. The conflict has intensified again, especially since May 2019.

US-China claims for each issue

Issue	US→China	China→US
Trade imbalance	The trade deficit with China is preventing the US from maximizing employment	Trade deficits are determined based on the economic and industrial structures of the two countries and should not be coordinated by the government.
Opening market	Criticizing the market entry regulations in the financial and cloud computer fields	China has so far voluntarily carried out deregulation
Industrial subsidies	Subsidy system for state-owned companies violates the WTO rules, demanding total abolition	Subsidy abolition is unacceptable due to the impact on local companies and financial institutions
Technology transfer	The Chinese government is forcing US companies to transfer technology, requiring joint ventures with Chinese companies and restrictions on investment ratio	Objecting, saying China is not forcing US companies to transfer technology as claimed by the United States, but explicitly prohibiting such enforcement by the Foreign Investment Law.
Intellectual property rights	The Chinese government provides unfair support for Chinese companies to acquire companies with advanced technology and intellectual property rights in the United States	Emphasizing the enhancement of intellectual property rights protection for steady legislation
China manufacture 2025	"Made in China 2025" is a strategy to violate US intellectual property rights and promote China's advanced technology, which would distort fair competition	"Made in China 2025" is implemented under the philosophy of openness, development, and cooperation. The plan is fair and transparent, and meets international economic rules

Sources: "Biznews" by JETRO, media coverage and press releases

China's response to US measures

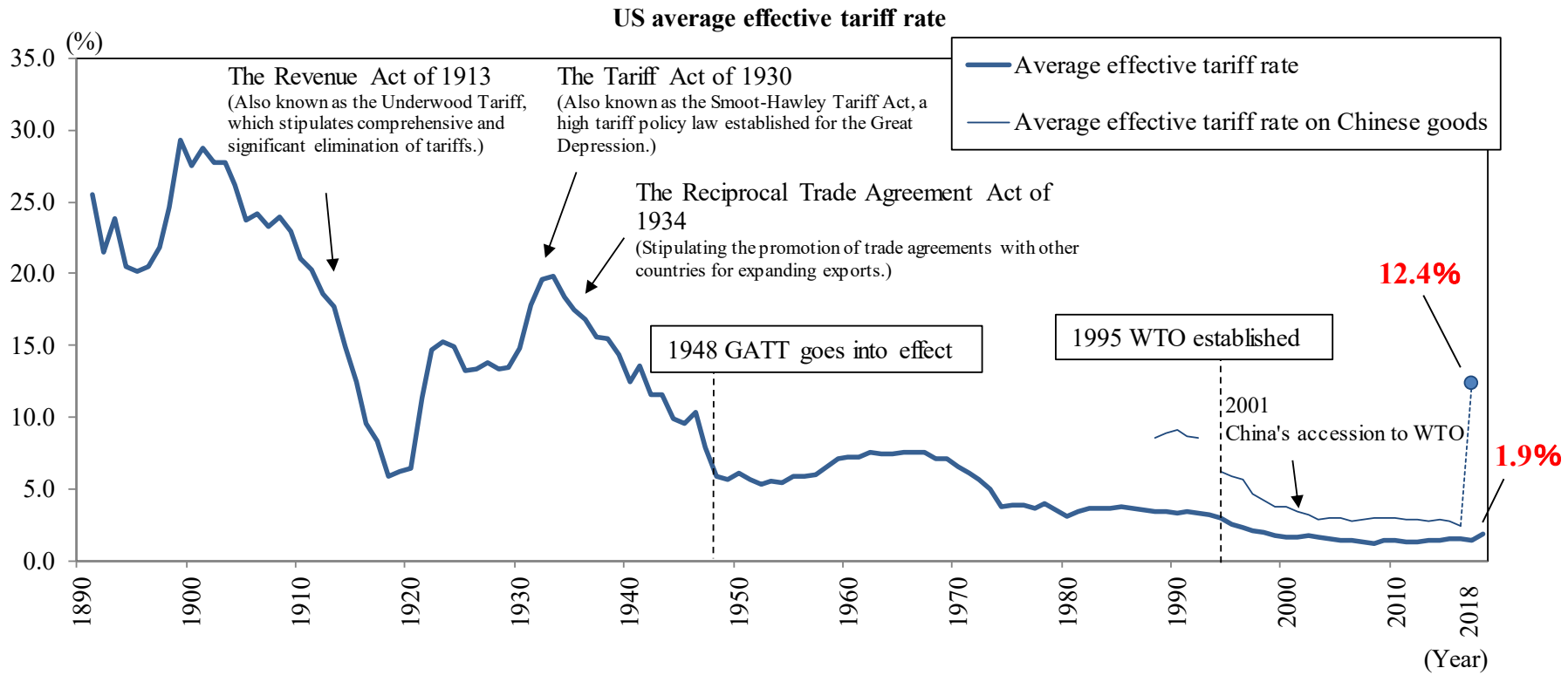
Date	US (Degree of dependence upon foreign trade: 20.5% Imports from China: $539.5 billion) [Note 1)]	Date	China (Degree of dependence upon foreign trade: 34.3% Imports from US: $153.6 billion) [Note 1)]
Feb. 2018 3.3%	Invocation of the safeguards for solar panels and large washing machines based on section 201 of the Trade Act of 1974	Feb. 2018	Initiation of the Anti-dumping investigation on US sorghum → provisional decision in April, abolishment in May
		Aug. 2018	WTO dispute (DS562)
Mar. 2018 3.9%	Additional tariffs imposed on steel and aluminum based on Section 232 of the Trade Expansion Act of 1962 [Note 2)]	Apr. 2018	・WTO dispute (DS544) ・Additional tariffs up to 25% on 128 items such as fruits, pork, steel products, and aluminum products
Mar. 2018	Deciding to impose additional tariffs on imports from China (refer to the following) and strengthen restrictions on investment in the United States based on Section 301 of the Trade Act of 1974	Apr.& Aug.2018	WTO dispute (DS543, 565)
Jul. 2018	First round of additional tariff Subject items: 818 items (Approx. $32.0 billion including automobiles, pumps, electronic parts) Additional rate: 25%	Jul. 2018	First round of countermeasures Subject items: 545 items (Approx. $34.0 billion including agricultural products, livestock products, automobiles, marine products) additional rate: 25%
Aug. 2018	Second round of additional tariff Subject items: 279 items (Approx. $14.0 billion including plastic, semiconductors, railroad cars) Additional rate: 25%	Aug. 2018	Second round of countermeasures Subject items: 333 items (Approx. $14.0 billion including automobiles, chemical products, energy products) Additional rate: 25%
Sep. 2018 12.4% ⬇ 18.3%	Third round of additional tariff Subject items: 5,745 items (Approx. $190.0 billion including furniture, clothing, miscellaneous goods) Additional rate: 10% ⬇	Sep. 2018	Third round of countermeasures Subject items: 5,207 items (Approx. $53.0 billion including liquid natural gas, electrical products, food) Additional rate: 5%, 10% ⬇
May. 2019	Third round of additional tariff＜raising rate＞ 25%	Jun. 2019	Third round of countermeasures＜raising rate＞ 25%
Invocation date not decided yet 27.8%	Fourth round of additional tariff Subject items: 3,805 items (Approx. $260.0 billion including mobile phones, laptop computers, toys) Additional rate: 25%	-	- Subject items: - Additional rate: -

Notes: 1) Based on the data in 2018. 2) The average US tariff rate on Chinese products after imposition of measures, estimated by the Peterson Institute for International Economics.

Sources: White House, Peterson Institute for International Economics, foreign trade statistics of each country

US-China trade friction: tariff rate change after US's measure intensification

- The US has added tariffs on Chinese products three times since July 2018, after deciding to impose sanctions against China based on Section 301 of the Trade Act of 1974 in March 2018.
- Largely due to the expansion of additional tariffs against Chinese products, the US's average applied tariff rate rose from around 1.4% in the 2000s to 1.9% in 2018. This is about the same rate as 1998 (2%) shortly after establishment of the WTO. According to the estimation of Peterson Institute for International Economics, the invocation of the third round of additional tariffs against Chinese products could have raised the US's average applied tariff rate on Chinese products to 12.4%.

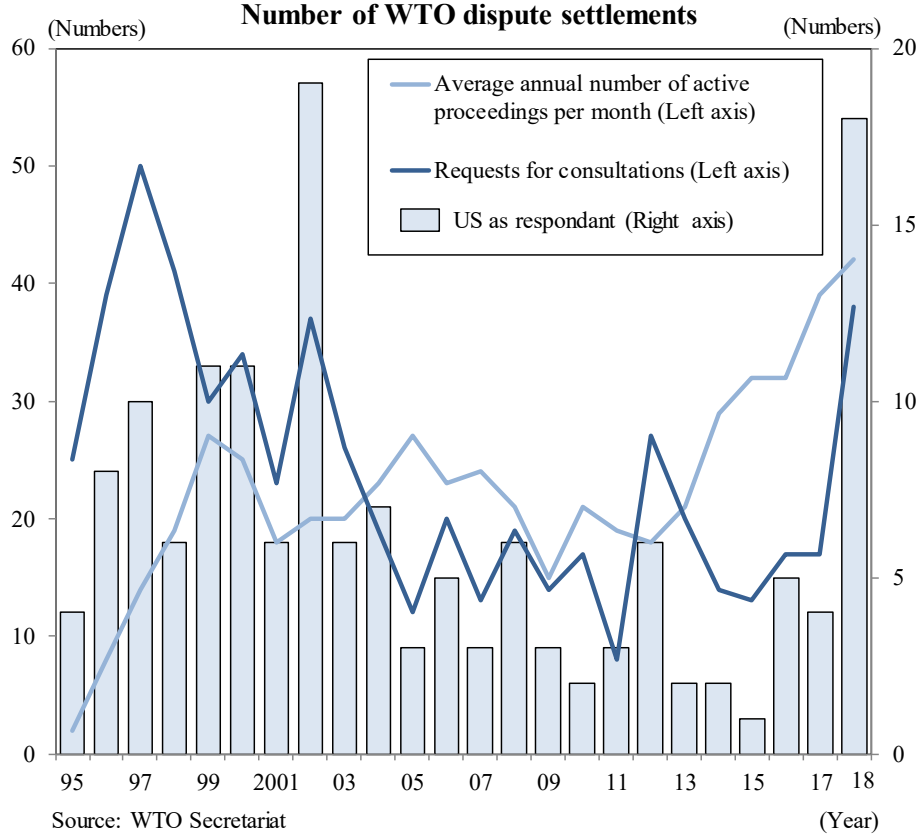


Note: Average effective tariff rates on Chinese products are the actual rates imposed from 1989 to 2017. Only the figure for 2018 is estimated by the Peterson Institute for International Economics, taking into account the effects of additional tariffs imposition.
Sources: Unites States International Trade Commission, World Integrated Trade Solution (World Bank), The Peterson Institute for International Economics

Multilateral free trade system based on WTO rules is at a critical moment

- The number of complaints filed with the WTO in 2018 rapidly increased to 38, surpassed only by 1997 (50 cases) and 1996 (39 cases). Many countries/regions referred the disputes to the US, especially regarding the measures based on Section 232 of the US Trade Expansion Act. The point in question is whether the US measures are justified as trade restrictions for security (GATT Article 21). In a case dealing with this Article (DS512), however, it was determined that trade restrictions for security should not be enforced just by the member countries' self-judgment.
- Any of those US measures and retaliations against them can violate the WTO rules. Imposing measures that do not follow the international trade rules could undermine the rule of law established by the WTO for 25 years since its founding. It would be necessary to share a sense of crisis for protectionist trade so that the WTO rules are not ignored, to thereby maintain the multilateral free trade system.

Number of WTO dispute settlements



Source: WTO Secretariat

WTO disputes related to the Trump administration's measures

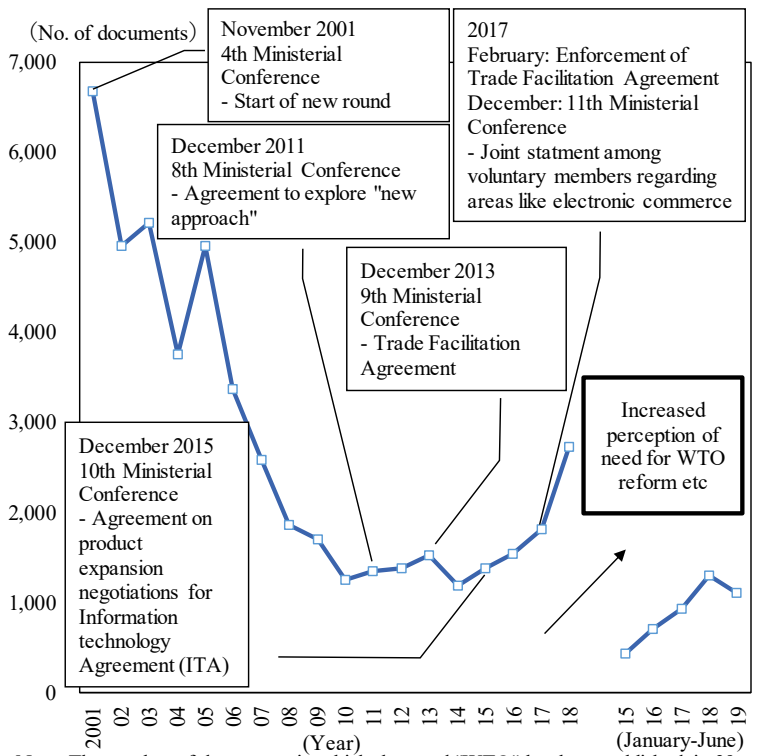
Dispute number	Respondent	Complainant	Request for consultations (2018)	Measures in question	Violations of the WTO agreement claimed by the alleging country
542	China	United States	23-Mar	Intellectual property infringement	TRIPS (national treatment, patent right exclusivity)
543	United States	China	4-Apr	Additional tariffs against Chinese products based on Section 301 of the Trade Act of 1974	GATT (most-favored nation treatment) DSU (Strengthening multilateral system)
565	United States	China	23-Aug		
544	United States	China	5-Apr	Additional tariffs imposed on steel and aluminum based on Section 232 of the Trade Expansion Act of 1962	GATT (most-favored nation treatment, concession, prohibition of quantitative restrictions, etc.) Safeguard agreement (conditions, investigation, determination of serious injury, application of measures, applicable period, concession level, notification/consultation, etc.)
547		India	18-May		
548		EU	1-Jun		
550		Canada*	1-Jun		
551		Mexico*	5-Jun		
552		Norway	12-Jun		
554		Russia	29-Jun		
556		Switzerland	9-Jul		
564		Turkey	15-Aug		
545	United States	Korea	14-May	Safeguard measure on imports of crystalline silicon photovoltaic products	GATT (non-discriminatory administration of quantitative restrictions, etc.) Safeguard agreement (conditions, investigation, determination of serious injury, application of measures, applicable period, concession level, notification/consultation, etc.)
562		China	14-Aug		
546		Korea	14-May	Safeguard measure on imports of large residential washers	
557	Canada*	United States	16-Jul	Countermeasures taken by countries/regions in response to US Section 232 measures	GATT (most-favored nation treatment, concession)
558	China		16-Jul		
559	EU		16-Jul		
560	Mexico*		16-Jul		
561	Turkey		16-Jul		
566	Russia		27-Aug		

Note: Later, the two countries marked with (*) and the US agreed to mutually withdraw the complaints against each other, after the abolition of measures against Canada and Mexico by the United States.
Sources: WTO Secretariat, "Report on Compliance by Major Trading Partners with Trade Agreements"(Ministry of Economy, Trade and Industry)

Increasing momentum for WTO reform

- The outcome document of the 11th WTO Ministerial Conference held in December 2017 was not a ministerial declaration agreed by all participating members, but the Chair's statement. This emphasized the difficulty of unanimous approval among many members in various positions including developed and developing countries. There spreads a sense of crisis that current state of WTO is insufficient.
- As a new approach, plurilateral discussions on current issues including electronic commerce (EC) has been advancing. The ambitions on EC differ depending on the economies. The US aims for a high level of liberalization, the EU defines the protection of personal information and privacy as “fundamental rights," and China asserts autonomy over cyberspace.

Major developments surrounding the WTO and number of documents published



Note: The number of documents in which the word "WTO" has been published in 39 major overseas newspapers/magazines which could be identified since 2001.
Source: "Factiva (July 2, 2019)" (Dow Jones), website of Ministry of Foreign Affairs, various materials

Proposals by major economies related to EC in the WTO (outline)

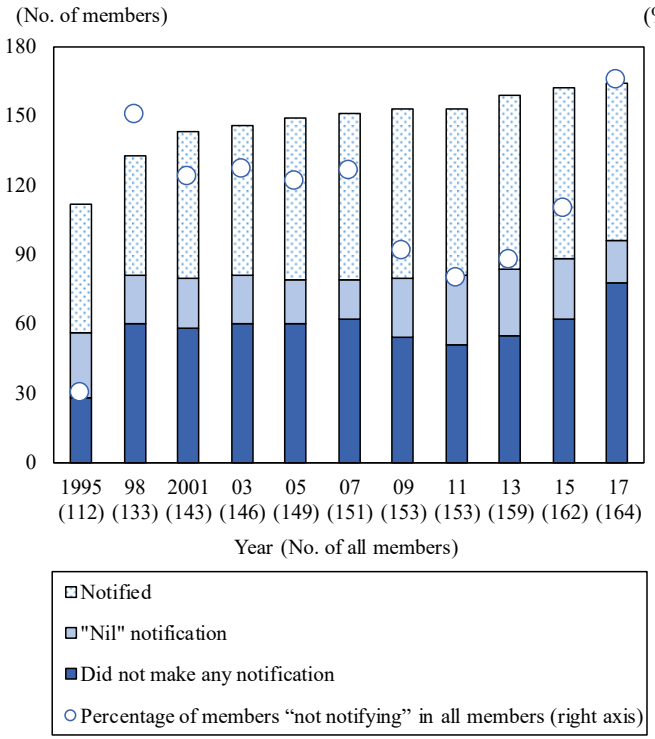
Economies	Customs duties	Personal information protection	Others: Cross-border transfer of information by electronic means	Others: Location of computing facilities	Others: Source code
US	Not imposing customs duty on electronic transmissions.	• Adopting a legal framework that provides for the protection of the personal information of the users of digital trade. • Encouraging the development mechanisms to promote interoperability. • Restricting on cross-border flows of personal information and proportionate to the risks presented.	• In principle, not prohibiting or restricting. • Not preventing of adopting measures to achieve a legitimate public policy objective.	Not requiring to use or locate computer facilities in party's territory.	• In principle, not requiring the transfer of, or access to source code. • The disclosure shall no construes to negatively affect the source code status as a trade secret.
EU		For the protection of personal data and privacy: • Fundamental right. • Adopting safeguards to ensure the protection of personal data and privacy.	Cross-border data flows shall not be restricted by: • Requiring the use of computing facilities in the member's territory for processing. • Requiring the localization of data in the member's territory for storage and processing. • Prohibiting storage and processing in the territory of other members.		With some exceptions, in principal, not requiring the transfer of, or access to, the source code.
Japan		Adopting a legal framework that provides for the protection of the personal information of the users of electronic commerce.	• In principle, allowing. • Not preventing of adopting measures to achieve a legitimate public policy objective.	Not requiring to use or locate installation of computing facilities in the member's territory.	In principle, not requiring the transfer of, or access to, source code.
China	Not imposing customs duty on electronic transmissions until the next session of the ministerial conference.	Adopting measures that protect the personal information of users of electronic commerce.	• No preventing of adopting any measures for the purpose of guaranteeing cybersecurity, safeguarding cyberspace sovereignty, protecting the lawful rights and interests of citizens, juridical persons and other organizations, and achieving other legitimate public policy objectives. • This agreement shall not be construed to require any member to furnish any information, to prevent any member from taking any action which it considers necessary for the protection of its essential security interest, or to prevent any member from taking any action in pursuance of its obligations under the United Nations Charter for maintenance of international peace and security.		

Note: The issues and contents are just partial; not everything is covered.
Source: WTO documents and media press reports

Ongoing debate on strengthening monitoring functions

- In recent years, there has been a widespread international recognition that market-distorting subsidies cause the problem of excessively large production capacity. The WTO agreement on subsidies requires the members to notify the subsidies with specificity, but 78 countries (48% of the members) did not report them for 2017. The performance of notification obligation is a challenge.
- In order to ensure the global level playing field, Japan, the EU, and the US are collaborating to cope with market distorting measures by third countries, such as excess capacity by subsidies. In November 2018, they made a proposal with Argentina, Costa Rica, and others to encourage the members to comply with the notification rule by increasing the cost to be covered by the members which have failed to make any notification.

Status of subsidy notification (1995-2017)



Note: As of March 29, 2019.
Source: WTO document (G/SCM/W/546/Rev.10)

Major reform proposals for notification functions

Economies (Proposal date)	Main proposals etc.
Japan, US, EU, Argentina, Costa Rica, Taiwan, Australia (November 2018)	・A developing country member encountering difficulties to fulfil notification obligations is encouraged to request assistance and support for capacity building from the Secretariat. ・After one but less than two full years from a notification deadline, representatives of the member cannot be nominated to preside over WTO bodies, the member will be assessed a supplement of [X] percent on its normal assessed contribution to the WTO budget, etc. ・After two but less than three full years following a notification deadline, the member will be designated as an Inactive Member, representatives of the member will be called upon in WTO formal meetings after all other members have taken the floor, and before any observes, etc.
Japan, US, EU, Argentina, Costa Rica, Taiwan, Australia, Canada, New Zealand (March 2019)	・Almost the same content as the above proposal. Canada and New Zealand joined as co-sponsors. ・Such wording as the increased amount in budget burden "may be used for the purpose of providing members with technical assistance to fulfil notification obligations" was added. ・If the notification is delayed for more than two years, the member shall be designated as a "Member with notification delay" not "Inactive Member." As in the proposal above, representatives of the member will be called upon in WTO formal meetings after all other members have taken the floor, and before any observes.
China (May 2019)	・Developed members should lead by example in submitting comprehensive, timely, and accurate notifications. ・Members should improve the quality of their counter-notifications, other members notify the measures that should be notified by the countries concerned so as to remind them. ・Members should increase exchange of their experiences on their notifications. ・The WTO secretariat needs to update *Technical Cooperation Handbook on Notifications* as soon as possible and intensify training in this regards. ・Developing members should also endeavour to improve their compliance of notification obligations. Technical assistance and capacity building should be provided to developing members, in particular LDCs, if they are unable to fulfil notification obligations on time.
Cuba, India, Nigeria, South Africa, Tunisia, Uganda, Zimbabwe (June 2019)	・Given the challenging issue of resource constraints, developing countries cannot agree to any transparency obligations which go beyond existing obligation. Further, punitive approaches to enforce notification and transparency obligations are not acceptable. ・Flexibilities must be provided to developing countries, SVEs and LDCs in relation to existing notification obligations so that they are commensurate with their levels of development. ・Some developed countries are chronically low in their level of compliance with existing notification requirements, notably under GATS.

Source: WTO documents (JOB/GC/204; JOB/CTG/14, JOB/GC/204/Add.1-2;JOB/CTG/14/Add.1-2, JOB/GC/204/Rev.1;JOB/CTG/14/Rev.1, WT/GC/773,JOB/GC/218;JOB/CTG/15;JOB/SERV/292;JOB/IP/33;JOB/DEV/58;JOB/AG/158)

Dispute settlement function in a crucial phase

- The Appellate Body, the appellate division of the WTO's dispute settlement system, has four vacancies (for seven positions), because the US has opposed the replacement process for the members who have retired from the positions. Under the current number of the Appellate Body, only one committee can be held consisting of three members; additionally, two of the three incumbents will complete their terms in December 2019. As various economies have been making proposals for the issues that the US sees as problems, the WTO has been seeking solutions to the issues.
- It would be difficult to recover the dispute settlement function in the short term, as the US, which has refused to appoint Appellate Body members, has not presented an improvement plan. Although suspension of the Appellate Body does not mean suspension of the dispute settlement function, with the improvement in terms of fairness and reliability of the judicial function by the Appellate Body, which has been in place since the inception of the WTO framework, it should be resolved as soon as possible.

US claims to the Appellate Body and major reform proposals by major economies

US claims to the Appellate Body		Proposals and claims by major economies
(1) Disregard for the 90-day deadline for appeals	WTO members agreed in the Understanding on Rules and Procedures Governing the Settlement of Disputes (DSU) that for each appeal in no case shall the proceedings exceed 90 days. However, since 2011, it no longer consults with the parties, but simply informs the Dispute Settlement Body that it will not comply the DSU deadline.	・ The Appellate Body would need to consult with the parties early in appellate proceedings - or before the appeal is filed - if it estimates that the report will be circulated outside 90 days. ・ The Appellate Body shall strictly observe the 90 day deadlines for Appellate Review.
(2) Continued service by persons who are no longer Appellate Body members	Under the WTO agreement, it is the Dispute Settlement Body, not the Appellate Body, that has the authority and responsibility to decide whether a person whose terms of appointment has expired should continue serving. However, the Appellate Body conducts the substantial appointments itself, and a person who ceases to be a member of the Appellate Body continues to be a member.	・ An outgoing Appellate Body member shall complete the disposition of pending appeal in which a hearing has already taken place during that member's term. ・ The outgoing Appellate Body members should continue discharging their duties until their places have been filled but no longer than for a period of two years following the expiry of the term of office.
(3) Issuing advisory opinions on issues not necessary to resolve a dispute	The purpose of the dispute settlement is not to "make law", but rather help members resolve trade disputes among them. WTO members have not given panels or the Appellate Body the power to give "advisory opinions" as some national or international tribunals have. Yet there are numerous occasions when a panel or the Appellate Body has made unnecessary findings or rendered "advisory opinions".	・ The Appellate Body shall address each of the issues raised on appeal by the parties to the dispute to the extent this is necessary for the resolution of the dispute. ・ The scope of the Appellate Review shall be limited to issues of law covered in a panel report and legal interpretations developed by the panel. ・ The recommendation and rulings of the Dispute Settlement Body (DSB) cannot add to or diminish the rights and obligations.
(4) Appellate Body review of facts and review of member's domestic law de novo	The Appellate Body has reached conclusions that are not based on panel factual findings or undisputed facts, and consistently asserts that it can review the meaning of a member's domestic measure as a matter of law.	・ The Appellate Body cannot review the meaning itself of the members' municipal laws. ・ The Appellate Body shall not review panel's fact-finding, such as meaning of municipal law, as an issue of law.
(5) The Appellate Body claims its reports are entitled to be treated as precedent	The Appellate Body has asserted its reports effectively serve as precedent and that panels are to follow prior Appellate Body reports absent "cogent reasons". However, Appellate Body reports are not themselves agree text nor are they substitute for the text that was actually negotiated and agree.	・ Annual meeting are held between the Appellate Body and WTO members where members could express their views. ・ An interpretation by the Appellate Body of any WTO provision does not constitute a precedent for posterior interpretations.

Source: "2018 Trade Policy Agenda and 2017 Annual Report of the President of the United States on the Trade Agreements Program" (Office of the United States Representative), "2019 Report on Compliance by Major Trading Partners with Trade Agreements-WTO, EPA/FTA and IIA-" (Ministry of Economy, Trade and Industry), and WTO documents (WT/GC/W752/Rev.2, WT/GC/W753/Rev.1, and WT/GC/W768/Rev.1)

Function of WTO and evaluations

Function		2014	2018	2019	
		Publication year of JETRO Global Trade and Investment Report			
		Evaluation			Challenges
Legislative	Multilateral trade rule formation and trade liberalization negotiations	×→△	△	△	Difficulties in decision making among all members. Lack of US involvement in the WTO. (Same as 2018)
Monitoring	Deterrence of protectionism by investigating and publishing the implementation status of current trade rules	○	○→△	△	Elimination of market-distorting measures such as subsidies. Improvement of monitoring function to ensure that all members comply with their notification requirements.
Judicial	Judicial settlement of trade disputes and its implementation by Dispute Settlement Body	○	◎→△	▲	The suspension of the Appelate Body is not the suspension of the dispute settlement function (panel procedures remain), but two of the three members of the current Appellate Body will have their terms end on December 2019.

Note: Each symbol is only to illustrate the current situation of the WTO, and not intended to undervalue the significance and function of the organization.
Source: "Global Trade and Investment" (JETRO, respective years), and various materials

JETRO Global Trade and Investment Report 2019: The fluctuating international economic order and global business in the future

Key Points

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Note: Figures may not sum up to the total because some are less than one unit.