

JETRO

Japan External Trade Organization

2012 JETRO Global Trade and Investment Report

-Firms and people move forward towards globalization-

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Chapter 1

The World Economy, Trade and Direct Investment

The world economy slowing further

■ Growth in a number of major emerging/developing countries has been lower than forecast

According to the IMF's estimate as of July 2012, the world's real GDP growth in 2012 is expected to be 3.5%. The pace of the slowdown is apparent from 2011. Compared to its estimate of April 2012, all the growth in India, Brazil and China were revised down. The GDP growth in 2013 is likely to stay modest at 3.9%. The IMF, on the other hand, points to downside risks of the world economy, including a further deterioration of the debt crisis in the euro zone, massive fiscal deficits and accumulated debts of Japan and the United States, and rapid economic slowdown of some emerging and developing countries.

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

	2011		2012 (Projections)			2013 (Projections)		
	Percent change	Contribution	Percent change	Difference from April 2012 WEO Projections	Contribution	Percent change	Difference from April 2012 WEO Projections	Contribution
World	3.9	3.9	3.5	△ 0.1	3.5	3.9	△ 0.2	3.9
Advanced Economies	1.6	0.8	1.4	0.0	0.7	1.9	△ 0.2	1.0
United States	1.7	0.3	2.0	△ 0.1	0.4	2.3	△ 0.1	0.4
Euro Area	1.5	0.2	△ 0.3	0.0	△ 0.0	0.7	△ 0.2	0.1
Germany	3.1	0.1	1.0	0.4	0.0	1.4	△ 0.1	0.1
France	1.7	0.0	0.3	△ 0.1	0.0	0.8	△ 0.2	0.0
Italy	0.4	0.0	△ 1.9	0.0	△ 0.0	△ 0.3	0.0	△ 0.0
Spain	0.7	0.0	△ 1.5	0.4	△ 0.0	△ 0.6	△ 0.7	△ 0.0
Japan	△ 0.7	△ 0.0	2.4	0.4	0.1	1.5	△ 0.2	0.1
United Kingdom	0.7	0.0	0.2	△ 0.6	0.0	1.4	△ 0.6	0.0
Emerging and Developing Economies	6.2	3.0	5.6	△ 0.1	2.7	5.9	△ 0.2	2.9
Central and Eastern Europe	5.3	0.2	1.9	0.0	0.1	2.8	△ 0.1	0.1
Commonwealth of Independent States	4.9	0.2	4.1	0.0	0.2	4.1	△ 0.1	0.2
Russia	4.3	0.1	4.0	0.0	0.1	3.9	△ 0.1	0.1
Developing Asia	7.8	1.9	7.1	△ 0.3	1.8	7.5	△ 0.4	1.9
China	9.2	1.3	8.0	△ 0.2	1.1	8.5	△ 0.3	1.3
India	7.1	0.4	6.1	△ 0.7	0.3	6.5	△ 0.7	0.4
ASEAN5	4.5	0.2	5.4	0.0	0.2	6.1	△ 0.1	0.2
Latin America and the Caribbean	4.5	0.4	3.4	△ 0.3	0.3	4.2	0.1	0.4
Brazil	2.7	0.1	2.5	△ 0.6	0.1	4.6	0.5	0.1
Middle East and North Africa	3.5	0.2	5.5	1.3	0.3	3.7	0.0	0.2
Sub-Saharan Africa	5.2	0.1	5.4	△ 0.1	0.1	5.3	0.0	0.1
South Africa	3.1	0.0	2.6	△ 0.1	0.0	3.3	△ 0.1	0.0
(Memorandum) European Union	1.6	0.3	0.0	0.0	0.0	1.0	△ 0.3	0.2

Notes: (1)The definitions of advanced economies and emerging and developing countries follow the World Economic Outlook (IMF).

(2)ASEAN5 refers to Indonesia, Malaysia, Philippines, Thailand, and Vietnam.

(3)Contributions by country and region are calculated using the weighted PPP for 2011.

Source: "WEO, July 2012" (IMF).

Differing economic structures are in the background of the crisis

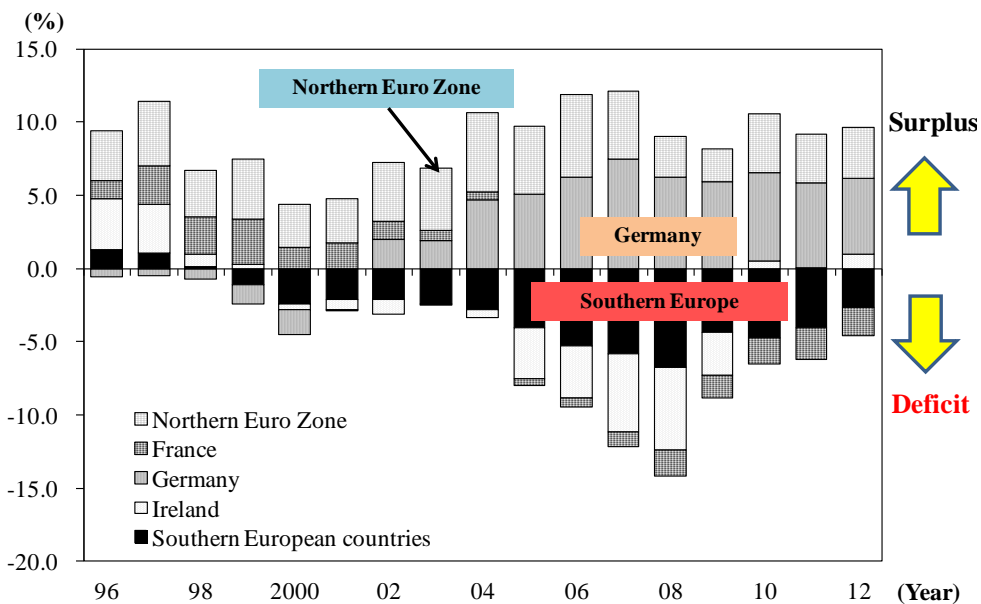
■ The introduction of the euro gave rise to the expansion of current account imbalances

One of the reasons behind the European debt crisis is the participation of Southern European countries with low international competitiveness relative to Germany and the Netherlands in the euro zone in the wake of the introduction of the euro in 1999. In Southern European countries that benefited from low interest rates on the back of the credibility of the euro, an international currency, they were allowed to go on excessive consumption, with their current account deficits continuing to grow since 2000. By contrast, in countries in the northern euro zone with high levels of industry accumulation, such as Germany and the Netherlands, exports to countries with excess consumption in Southern Europe expanded, resulting in the bloating of current account surpluses.

■ Increased inflows of capital reversed, with securities investment turning into net withdrawals

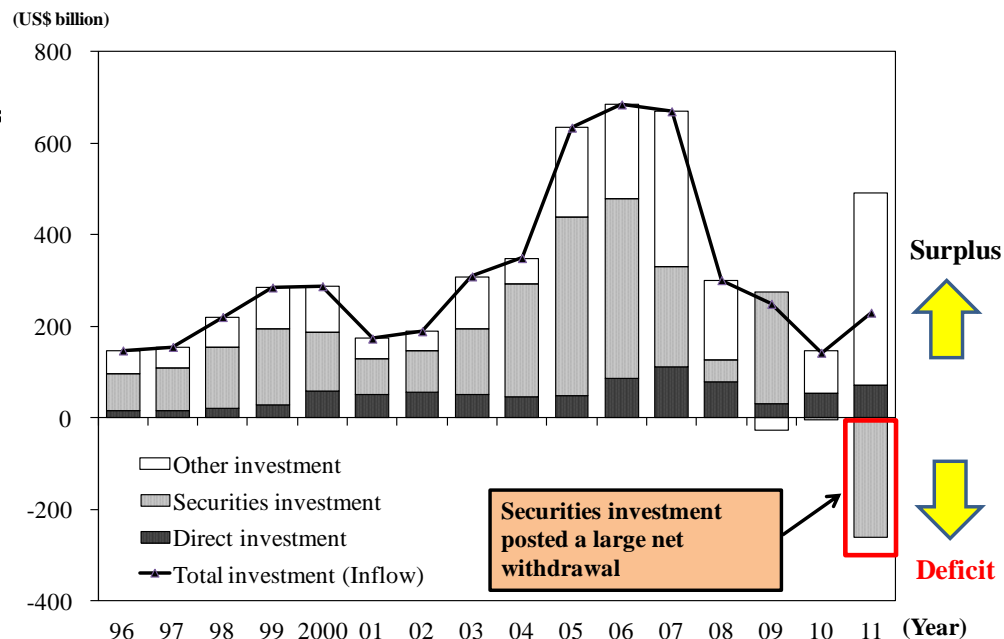
As the current accounts of Southern European countries are in deficit constantly, their capital balances are in the black. Particularly since 2000, after Southern European countries adopted the euro, attractive interest rates relative to the other Euro nations and the disappearance of the foreign exchange risks from the region led to increased securities investment by financial institutions in particular. Since late 2009, however, securities investment began to wane as overseas investors started questioning the creditworthiness of Southern European countries, with securities investment in the region in 2011 posting a large net withdrawal.

Fig. I-2 Ratio of the current account to GDP for major euro zone countries



Notes: (1) Some of original figures include estimates. (2) Northern Euro Zone refers to the Netherlands, Belgium, Austria, Finland and Luxembourg. (3) Southern European countries refer to Italy, Spain, Greece and Portugal. Source: "WEO, April 2012" (IMF).

Fig. I-3 Capital inflows into Southern European countries



Notes: (1) Southern European countries refer to Italy, Greece, Spain and Portugal. (2) "Other investment" include assistance from international organizations. Source: "BOP, June 2012" (IMF).

Impact of the European debt crisis spreading to Asia financially

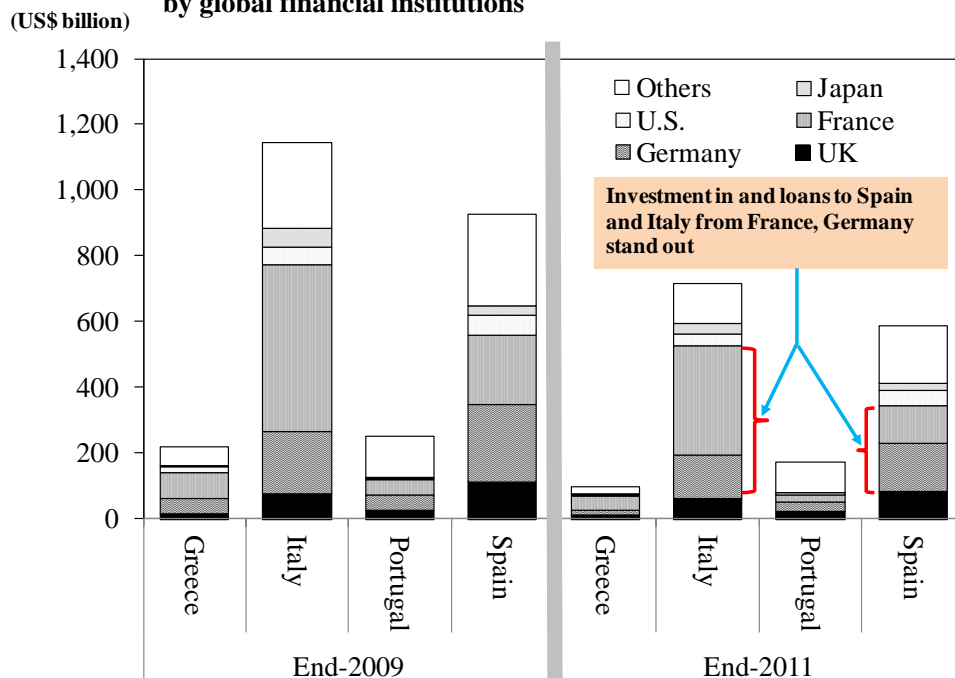
■ The crisis in Southern European countries spreading to major countries in the euro zone

Financial unrest stemming from the debt crisis of Southern European countries might spread to Germany and France, the major economic powers in continental Europe. The claims of investment in and loans to Southern European countries by financial institutions of the two countries have dwindled between 2009 and 2011, but their total exposures to Spain and Italy are still very large.

■ European financial institutions' loans to Asia apparently slowing down

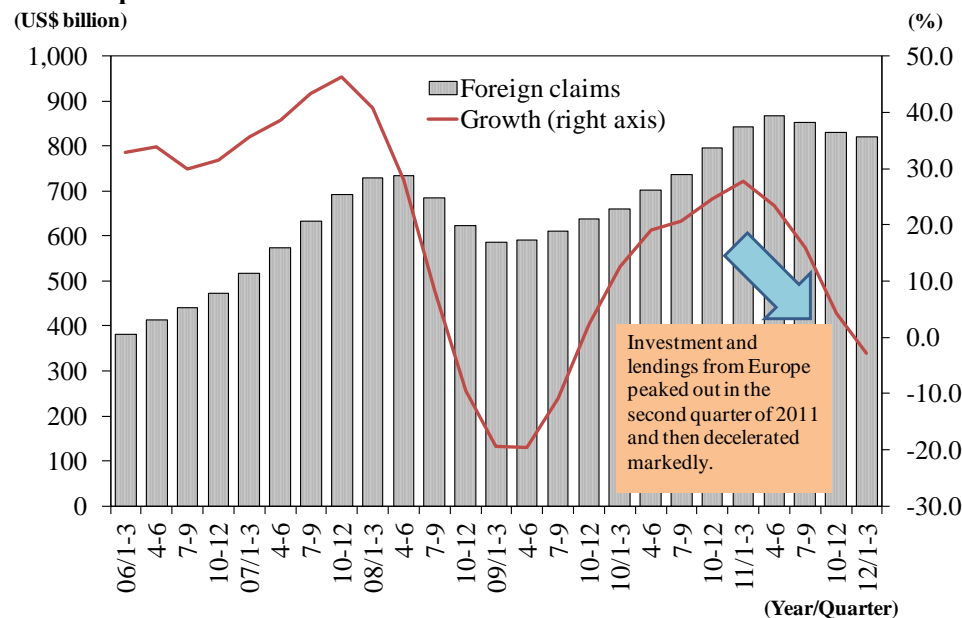
While European financial institutions have been extending increasing amounts of credits to emerging/developing countries in Asia, the deteriorating debt crisis in Southern European countries raises the risk of these institutions withdrawing outstanding loans. In fact, the growth of investment in and loans to the region from Europe has been shrinking since early 2011. Not limited to Asia, many emerging/developing countries depend on financial institutions of developed countries for the raising of funds, which presents a risk factor for these countries with the growing economies. Japan's investment in and loans to emerging/developing economies in Asia maintained year-on-year growth of over 20% as of the end of 2011.

Fig. I-4 Claims of investment in and loans to Southern European countries by global financial institutions



Source: "International Consolidated Banking Statistics" (BIS).

Fig. I-5 Claims of loans to developing countries in Asia from major European countries



Note: (1) Prepared based on figures calculated using the centered moving average for three years.

(2) European countries exclude Southern European countries.

Source: "International Consolidated Banking Statistics" (BIS).

Emerging/developing countries have large growth potential, despite risks

■ Risks varied by country

Emerging/developing countries are showing remarkable economic growth, but also have varying risks by country. Saudi Arabia and China, where personal consumption accounts for the relatively low percentage of GDP, depend on overseas economies and domestic infrastructure development for their economic growth. On the front of debt linked to confidence in governments, emerging/developing countries as a whole show a higher degree of soundness than developed countries. But Turkey and Vietnam have among the lowest ratio of short-term external liabilities to be repaid within a year to exchange reserves among emerging/developing countries. Iran, Vietnam and Pakistan are finding it difficult to keep under control the rises in inflation, which tends to greatly affect people's livelihood.

■ Population growth will support high economic growth going forward

Despite risks, emerging/developing countries have far larger growth potential than developed countries, and the source of their strengths lies in population. While the "demographic bonuses" of developed countries are set to keep declining, many of emerging/developing countries will show higher demographic bonuses in the years ahead, leading to expectations on even higher economic growth going forward. The periods when their "demographic bonuses" peak out vary by country.

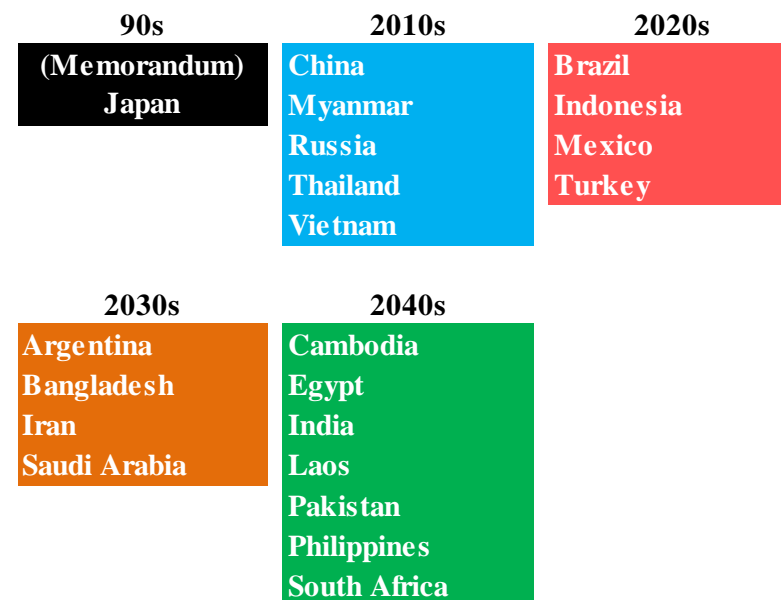
Fig. 1-6 Risks in major emerging/developing countries shown in economic indices

	Ratio of personal consumption to GDP	Ratio of exchange reserves to short-term external debt	Inflation	Unemployment rate
China	35.0	8.5	5.4	4.0
Indonesia	56.7	2.3	5.4	6.6
Thailand	53.7	13.2	3.8	0.7
Philippines	71.6	5.6	4.8	7.0
Vietnam	66.5	1.6	18.7	4.5
Myanmar	69.4	30.6	4.2	4.0
Cambodia	75.2	18.4	5.5	-
Laos	54.8	10.7	8.7	-
India	57.2	2.0	8.6	-
Pakistan	82.5	5.7	13.7	6.0
Bangladesh	75.4	2.5	10.7	-
Turkey	71.3	1.0	6.5	9.9
Saudi Arabia	34.1	18.9	5.0	10.0
Iran	51.0	-	21.3	15.1
Egypt	74.7	1.8	11.1	10.4
South Africa	59.2	2.8	5.0	24.5
Nigeria	59.5	8.2	10.8	23.9
Brazil	60.6	3.1	6.6	6.0
Mexico	64.8	3.0	3.4	5.2
Argentina	57.3	3.5	9.8	7.2
Russia	51.9	7.4	8.4	6.5
South Korea	52.5	2.5	4.0	3.4
Japan	59.1	2.1	-0.3	4.5

Notes: Figures are calculated using 2011 figures, except for "the ratio of personal consumption to GDP." "The ratio of personal consumption to GDP" is for 2010. The unemployment rate in Saudi Arabia is for 2010. "Exchange reserves / short-term external debt" of Laos, Myanmar and Vietnam is for 2010.

Sources: "National Accounts Main Aggregate Database"(UN), "WEO, April 2012" (IMF), "International Consolidated Banking Statistics" (BIS).

Fig. 1-7 Peak times of the demographic bonuses of major emerging/developing countries



Note: The population bonus was calculated by dividing the productive-age population by the dependent population.

Source: "World Population Prospects" (U.N.).

World trade set a new record high in 2011

■ Nominal exports topped the peak value, driven by higher prices

JETRO estimates that world trade in 2011 based on merchandise trade and nominal exports rose 19.1% over the previous year to US\$17.969 trillion, surpassing the 2008 level that marked the peak. The increase in the amount of world trade stemmed largely from the increase of 11.4% in prices, with the growth in real terms standing at a modest 7.7%. The suspension of oil production in the wake of the civil war in Libya and political unrest throughout the Middle East drove up oil prices.

Fig. I-8 World trade indices

	2007	2008	2009	2010	2011
World merchandise trade, export basis (US\$ billion)	13,843	16,024	12,358	15,089	17,969
percent change (nominal,%)	14.5	15.8	-22.9	22.1	19.1
percent change (real,%)	6.2	5.1	-12.0	16.2	7.7
percent change (price,%)	8.3	10.6	-10.8	5.9	11.4
World merchandise trade, import basis (US\$ billion)	14,098	16,297	12,518	15,197	18,512
percent change (nominal, %)	15.3	15.6	-23.2	21.4	19.3
percent change (real, %)	7.3	3.3	-10.3	14.9	6.2
percent change (price, %)	7.9	12.3	-12.9	6.5	13.0
World trade in services, export basis (US\$ billion)	3,407	3,834	3,409	3,747	4,150
percent change (%)	20.5	12.5	-11.1	9.9	10.8
World trade in services, import basis (US\$ billion)	3,145	3,589	3,190	3,502	3,868
percent change(%)	18.6	14.1	-11.1	9.8	10.5
World real GDP growth (%)	5.4	2.8	-0.6	5.3	3.9
Industrial production index growth (Advanced economies, %)	3.0	-2.4	-13.0	6.8	2.3
Crude oil					
Average price (\$/barrel)	71.1	97.0	61.8	79.0	104.0
Quantity of demand (million bbl/day)	86.3	85.8	84.6	87.4	88.0

Notes: (1) 2011 trade value and growth rates are JETRO estimates.

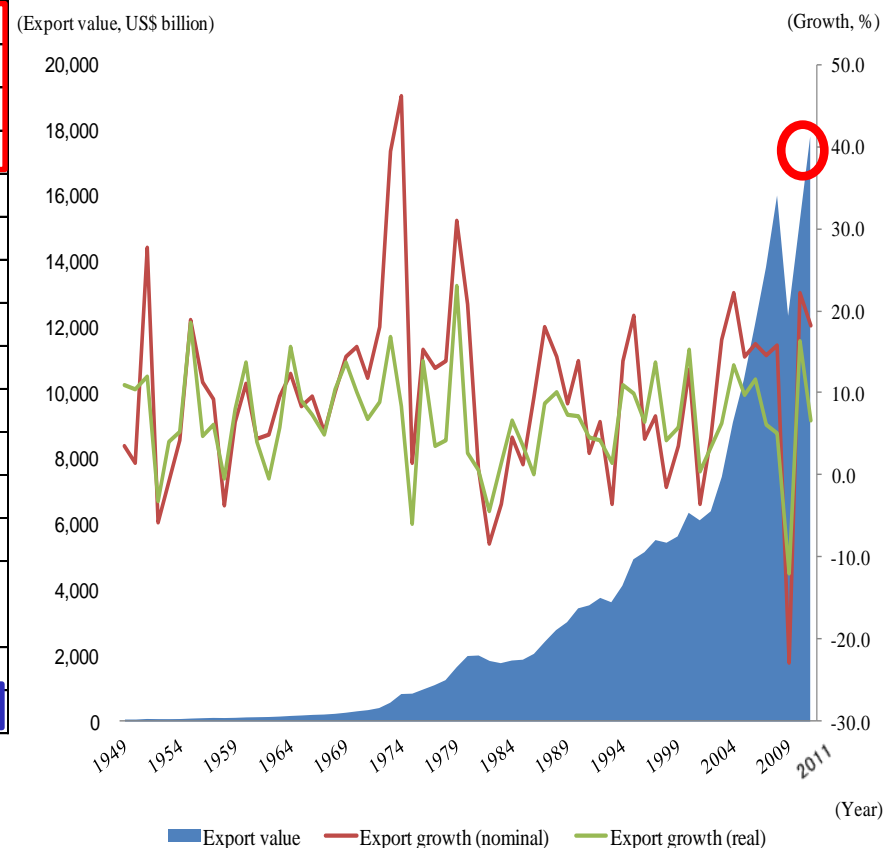
(2) Percent change (real) = percent change (nominal) - percent change (price).

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

(4) Definition of Advanced economies follows IFS classification.

Sources: "IFS, June 2012" (IMF), "WEO, April 2012" (IMF), WTO, BP plc.. and statistics of individual countries/regions.

Fig. I-9 Long-term trends in world trade (exports)



Source: "IFS, June 2012" (IMF).

China's export growth sluggish

Fig. I-10 World trade by country and region (2011)

(US\$ million, %)

	Export				Import			
	Value	Growth Rate	Share	Contribution	Value	Growth Rate	Share	Contribution
NAFTA	2,282,711	16.2	12.7	2.1	3,009,709	15.5	16.3	2.6
U.S.	1,480,432	15.8	8.2	1.3	2,207,824	15.4	11.9	1.9
Canada	452,711	16.7	2.5	0.4	451,029	15.0	2.4	0.4
Mexico	349,568	17.2	1.9	0.3	350,856	16.4	1.9	0.3
EU27	6,075,127	17.5	33.8	6.0	6,213,435	16.6	33.6	5.7
EU15	5,347,924	17.0	29.8	5.1	5,416,866	16.1	29.3	4.8
Germany	1,472,714	17.0	8.2	1.4	1,254,472	18.9	6.8	1.3
The Netherlands	660,992	15.0	3.7	0.6	598,774	15.9	3.2	0.5
France	596,050	13.8	3.3	0.5	713,895	17.1	3.9	0.7
Italy	523,462	17.1	2.9	0.5	557,730	14.5	3.0	0.5
Belgium	476,941	16.6	2.7	0.5	461,587	17.3	2.5	0.4
UK	512,080	22.1	2.8	0.6	670,687	13.9	3.6	0.5
Japan	820,793	7.0	4.6	0.4	853,070	23.4	4.6	1.0
East Asia	4,414,172	18.2	24.6	4.5	4,185,320	21.4	22.6	4.7
China	1,899,281	20.3	10.6	2.1	1,741,430	24.9	9.4	2.2
South Korea	555,405	19.1	3.1	0.6	524,375	23.3	2.8	0.6
Hong Kong	455,663	13.6	2.5	0.4	511,293	15.7	2.8	0.4
Taiwan	291,453	11.2	1.6	0.2	281,066	11.6	1.5	0.2
ASEAN6	1,212,369	18.0	6.7	1.2	1,127,156	20.5	6.1	1.2
Singapore	409,722	16.4	2.3	0.4	365,961	17.7	2.0	0.4
Malaysia	227,192	14.3	1.3	0.2	187,828	14.0	1.0	0.1
Thailand	227,010	16.2	1.3	0.2	229,036	24.1	1.2	0.3
Indonesia	203,497	29.0	1.1	0.3	177,436	30.8	1.0	0.3
Russia	378,688	8.7	2.1	0.2	278,690	31.8	1.5	0.4
India	306,727	37.6	1.7	0.6	462,964	32.0	2.5	0.7
Australia	270,715	27.2	1.5	0.4	234,616	21.2	1.3	0.3
Brazil	256,040	26.8	1.4	0.4	226,243	24.5	1.2	0.3
South Africa	96,702	18.9	0.5	0.1	100,008	24.7	0.5	0.1
World trade (estimate)	17,968,804	19.1	100.0	19.1	18,512,314	19.3	100.0	19.3
Advanced economies	10,589,466	16.4	58.9	9.9	11,295,391	17.1	61.0	10.6
Emerging and developing economies	7,379,338	23.3	41.1	9.2	7,216,923	22.8	39.0	8.6
BRICs	2,840,735	20.8	15.8	3.2	2,709,327	26.7	14.6	3.7

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

(2) EU27, EU15 includes internal trade.

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

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

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

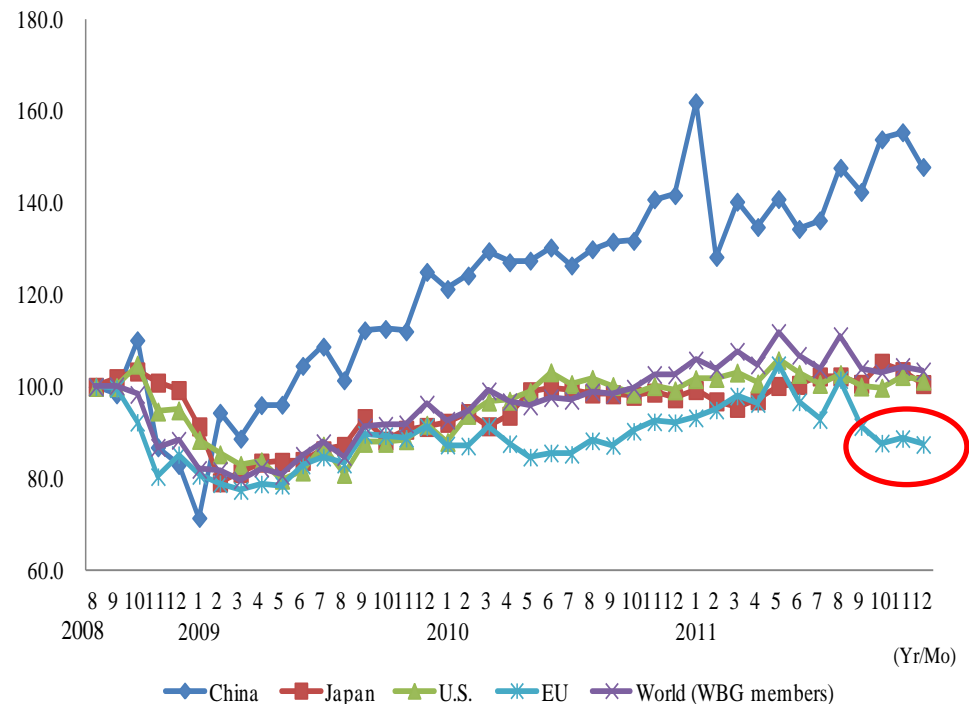
Source: Statistics from individual countries/regions.

China's export growth lower than that of emerging/developing countries as a whole

China's exports grew only at a sluggish pace due in part to slow import demand from the U.S. and EU, affected by the European debt crisis. On the other hand, exports by Indonesia, Australia and Brazil increased due to higher resource prices.

Figure I-11 Import volumes for major importing countries/regions and the world

(seasonally-adjusted figures: August 2008=100)



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

Note: EU in this chart stands for the EU27 countries other than Cyprus, Malta and Bulgaria (including internal trade).

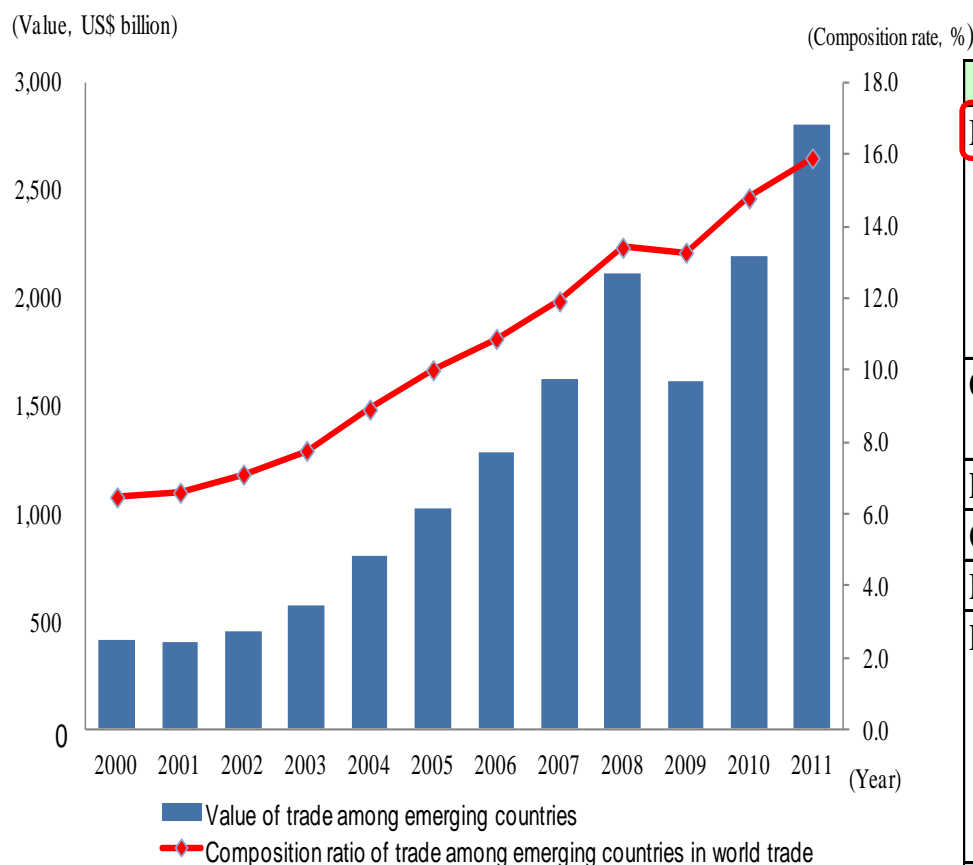
Trade among emerging countries expands

Exports of machinery and equipment among emerging countries grow

Trade among emerging countries, which stood at US\$ 411.9 billion in 2000, shot up 6.8 times to US\$ 2,806.7 billion in 2011, and its share in world trade also expanded from 6.5% to 15.9%. On a product basis, while the ratios of exports of mineral fuels and textiles decreased, the ratio of machinery and equipment rose, with the increase in exports of transport equipment particularly notable. With market expansion of emerging countries, exports of passenger cars to emerging countries from Thailand, India and Mexico are growing.

※ “Emerging countries” in this item includes developing countries.

Fig. I-12 Trade between emerging countries (exports)



Source: Statistics from individual countries/regions.

Figure I-13 Changes in product composition ratios in trade among emerging countries (period average)

	2000–2005	2006–2011
Machinery and equipment	23.0	24.2
General equipment	7.7	7.8
Electrical equipment	9.4	9.3
Transport equipment	4.5	5.3
Precision instruments	1.4	1.8
Chemicals	11.2	11.1
Industrial chemicals	7.0	6.6
Foodstuffs	8.0	7.1
Oils, fats and other animal and vegetable products	2.4	2.5
Miscellaneous manufactured goods	2.0	2.2
Raw materials and other manufactured goods	52.5	51.3
Iron ore	0.7	1.3
Mineral fuels, etc.	26.8	26.5
Textiles and textile products	7.5	6.1
Base metals and base metal products	9.5	9.7

Source: Statistics from individual countries/regions.

World trade expected to slow down in 2012

■ The impact of the European debt crisis still evident

Exports by 22 major countries/regions in the world in the first quarter of 2012, for which the latest data are available, showed a slower year-on-year growth of 4.6%. Exports of mineral fuels continued to see a robust increase of 14.5%, but products like electrical equipment decreased sharply. Against the backdrop of the European debt crisis, exports by China, particularly those to the EU, slowed down further, up only a modest 7.6% over the same period in 2011. The WTO estimates that world exports in real terms will grow 3.7% for the full year of 2012, slower than in 2011.

Fig. I-14 World trade for major countries/regions by product and export/import

(US\$ million, %)

	22 major countries / regions' share of world total in 2011	Exports					Imports					
		2011				2012	2011				2012	
		I	II	III	IV	I	I	II	III	IV	I	
Total	64.1	2,640,745 21.3	2,857,796 19.5	2,917,785 17.6	2,907,328 9.3	2,761,543 4.6	63.2	2,727,567 23.0	2,953,748 22.2	3,032,018 20.2	2,991,451 12.5	2,907,721 6.6
Machinery and equipment	77.7	1,194,213 17.4	1,269,044 13.1	1,306,113 11.6	1,316,495 5.1	1,251,474 4.8	77.2	1,069,851 19.5	1,138,610 13.8	1,169,229 10.6	1,183,879 5.9	1,122,039 4.9
General equipment	75.1	361,126 18.3	393,795 17.7	401,226 14.1	395,679 4.7	382,361 5.9	75.8	330,806 20.5	360,490 18.8	366,787 14.2	356,231 6.0	351,815 6.4
Electrical equipment	80.6	406,254 17.3	425,875 8.4	449,233 5.5	447,924 0.8	408,309 0.5	81.4	409,467 19.0	430,933 9.8	448,675 4.4	459,872 3.3	412,069 0.6
Transport equipment	76.2	318,695 17.7	332,515 13.5	335,519 17.6	351,004 10.4	347,387 9.0	71.6	232,897 20.4	242,087 13.0	245,722 16.7	257,427 9.8	255,834 9.8
Precision instruments	80.9	108,138 14.1	116,860 14.7	120,135 11.3	121,887 7.6	113,416 4.9	79.7	96,680 15.7	105,099 16.1	108,045 12.5	110,348 8.0	102,321 5.8
Chemicals	64.2	366,888 17.8	391,570 22.1	393,057 19.6	369,094 8.0	373,715 1.9	68.9	357,396 18.5	387,091 23.2	391,428 20.6	368,926 9.8	363,457 1.7
Foodstuffs	54.5	143,164 21.9	159,077 27.6	162,252 23.7	165,595 13.5	147,470 3.0	65.9	150,774 17.3	169,001 24.3	163,200 20.6	173,248 14.1	162,106 7.5
Iron ore	83.2	25,557 103.7	32,111 57.3	36,012 39.1	32,506 17.7	24,581 -3.8	91.3	38,938 85.3	39,183 40.1	45,468 42.1	41,099 15.1	37,257 -4.3
Mineral fuels	38.7	254,418 30.1	288,238 32.8	262,527 24.1	289,490 21.9	291,351 14.5	75.6	457,435 33.2	518,593 40.5	532,832 43.9	523,487 35.3	549,770 20.2
Crude oil	21.8	82,058 25.3	84,303 13.3	53,905 -24.0	86,663 8.9	93,565 14.0	78.9	261,423 33.6	294,542 36.1	297,923 39.6	294,751 35.1	309,581 18.4
Textiles and textile products	61.9	102,702 23.8	117,553 24.3	129,757 17.8	112,600 5.9	101,263 -1.4	71.4	100,674 21.8	103,677 22.8	120,185 16.2	103,177 4.9	102,315 1.6
Steel	61.5	109,822 27.7	122,707 19.6	121,322 25.1	115,950 14.2	112,366 2.3	64.4	96,903 29.2	110,612 25.8	105,255 18.8	99,913 11.7	101,264 4.5

Notes: (1) Based on data available as of the end of July 20, 2012.

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

(3) Figures in lower column are YoY growth rates.

Source: Statistics from individual countries / regions.

Japan incurs the first trade deficit in 31 years

■ Japan posts the first trade deficit in 31 years in 2011

In trade on a customs clearance basis in 2011, Japan exported US\$ 820.8 billion, up 7.0% over the previous year, and imported US\$ 853.1 billion, up 23.4%, with the trade balance in the red by US\$ 32.3 billion. Japan incurred the trade deficit for the first time since 1980 (a deficit of US\$ 10.7 billion) soon after the second oil shock. In terms of volume, while exports decreased 2.9%, imports rose 3.2% to post the second consecutive year-on-year increase. In the first half of 2012, Japan has been running trade deficits. In imports, demand remains strong for fuels for power generation, and resource prices are staying at high levels.

In the current account balance for 2011, the income balance expanded its surplus, but the current account surplus dwindled substantially due to the trade deficit.

Fig. I-15 Japan's trade (2010 to June 2012)

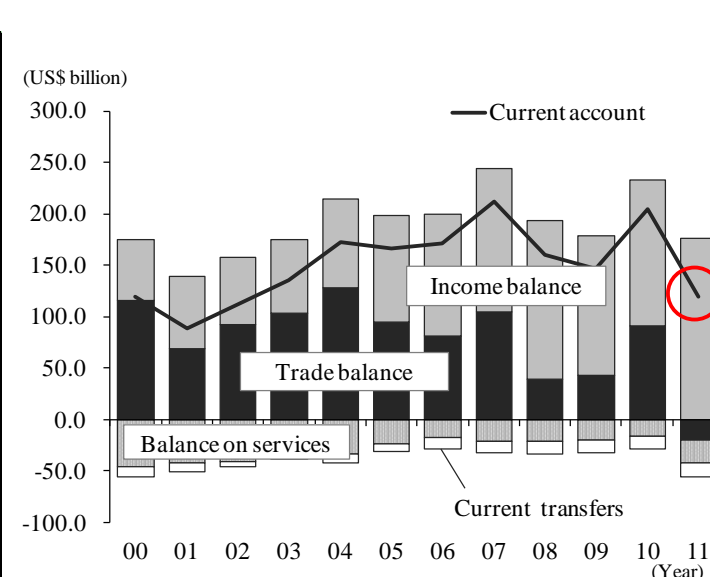
(US\$ million, billion yen, %)

		2010	2011	2012						
				Jan-June	January	February	March	April	May	June
Dollar-based	Total exports	767,025	820,793	409,419	58,448	70,501	76,476	67,663	65,162	65,162
	(Percent change)	32.1	7.0	4.7	-2.6	3.9	7.6	9.0	11.4	11.4
	Total imports	691,447	853,070	446,112	77,515	70,180	77,588	73,924	76,478	76,478
	(Percent change)	25.2	23.4	10.8	17.4	16.8	12.4	8.9	10.9	10.9
Trade balance		75,578	-32,277	-36,693	-19,067	320	-1,112	-6,261	-11,316	-11,316
	(Difference from same quarter, previous year)	47,043	-107,854	-25,072	-13,079	-7,444	-3,178	-444	-838	-838
Yen-based	Total exports	67,400	65,546	32,595	4,510	5,438	6,204	5,566	5,233	5,233
	(Percent change)	24.4	-2.7	1.5	-9.2	-2.7	5.9	7.9	10.0	10.0
	Total imports	60,765	68,111	35,519	5,992	5,413	6,291	6,090	6,150	6,150
	(Percent change)	18.0	12.1	7.4	9.6	9.3	10.6	8.1	9.4	9.4
Trade balance		6,635	-2,565	-2,924	-1,481	25	-87	-524	-917	-917
	(Difference from same quarter, previous year)	3,963	-9,199	-1,961	-984	-612	-258	-46	-57	-57
Export volume index		101.4	98.4	96.1	80.5	97.4	108.1	97.4	92.7	92.7
(Percent change)		24.2	-2.9	0.2	-10.1	-3.8	3.7	4.7	9.3	9.3
Import volume index		100.5	103.7	104.4	109.8	96.0	108.7	103.0	107.7	107.7
(Percent change)		13.9	3.2	3.2	3.1	3.2	3.1	1.9	8.5	8.5
Crude oil import price (US\$/barrel)		79.2	108.7	119.7	113.4	116.3	121.4	127.0	124.6	124.6
(Percent change)		30.5	37.3	13.8	23.4	21.3	17.8	13.5	5.0	5.0
Average exchange rate (yen/US\$)		87.8	79.8	79.7	77.0	78.5	82.4	81.5	79.7	79.7
(yen appreciation, %)		6.6	10.0	2.9	7.4	5.2	-0.8	2.3	1.9	1.9

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

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

Fig. I-16 Japan's balance of payments



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

Exports to U.S., ASEAN recovering

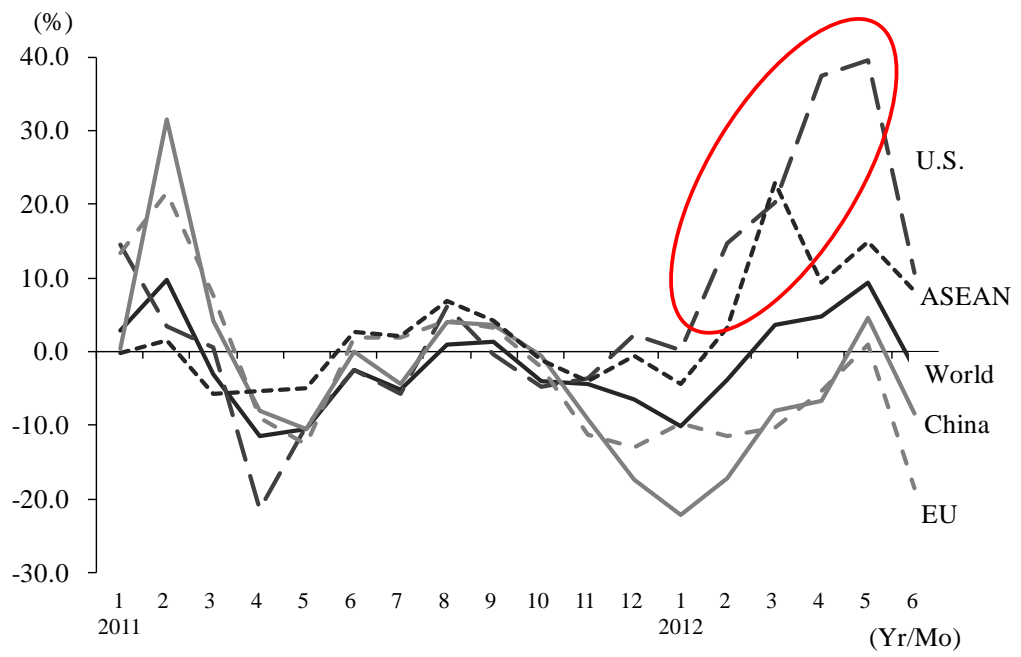
Exports to the EU, China fail to grow much

In exports to China, Japan's largest export market, in 2011, general equipment such as semiconductor-manufacturing equipment grew, while exports to Indonesia and Vietnam were robust among ASEAN countries. In exports to the U.S., transport equipment decreased in the aftermath of the Great East Japan Earthquake, but mining and construction machinery and steel increased over the levels a year before. In terms of volume, exports to Europe and China grew only at a sluggish pace partly because of the impact of the European debt crisis, but exports to the U.S. and ASEAN were on the recovery.

Automobiles and electrical equipment significantly affected by the earthquake

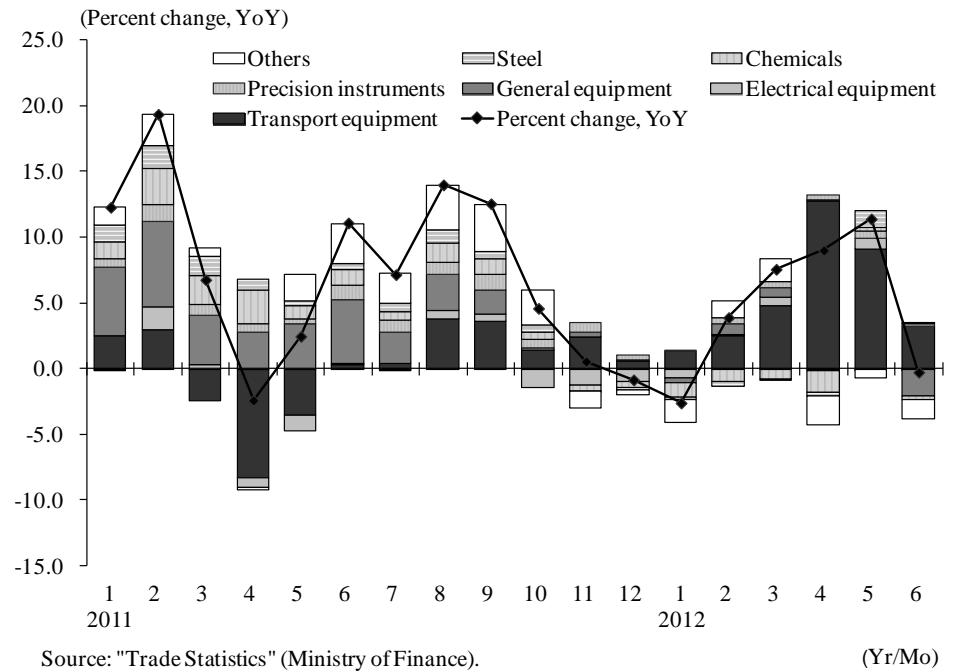
The greatest impact of the earthquake was felt by the automobile and electrical equipment industries, with stagnant production resulting in steep falls in exports. While exports of automobiles began recovering in tandem with the production recovery, exports of electrical equipment, mainly those to Asia, were slow in their recovery, as exports to Europe by Asian countries were weak amid the deteriorating debt crisis in the euro zone.

Fig. I-17 Growth of export volume index (year-on-year comparison)



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

Fig. I-18 Monthly percent change of Japan's exports (contribution by product, year-on-year comparison, dollar-based)



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

Exports of highly functional Japanese consumer goods steadily increase

■ Increased exports of highly functional leisure-related products, cosmetics, accessories and stationery items

In spite of a still severe export environment, due in part to repercussions of the earthquake, appreciation of the yen and the European debt crisis, not a few Japanese products have steadily increased in exports. While many of them were capital goods and intermediate good, there was an unexpected increase in exports of final consumer goods directly delivered to customers as “made in Japan.”

-Leisure-related products: motorcycles, vessels for pleasure, pianos, playing cards and other cards, table tennis/badminton goods, fishing poles

-Cosmetics: skincare goods, eye make-up

-Accessories: gold and platinum accessories, sunglasses

-Stationary items: laminated paper, highlighter pens, ballpoint pens (half of writing materials, including gel-ink ballpoint pens, produced in Japan were exported).

-Foodstuff such as marine products, sake, green tea, color televisions (used CRT televisions after Japan's digitalization of terrestrial broadcasting), electric cars

Fig. I-19 Finishes consumer goods increased in export quantities even after the Earthquake (April 2011-March 2012)

HS Code	Items	Value (million US\$)	Volume			Main Partner Countries (volume basis)		
			2009.4~ 2010.3	2011.4~ 2012.3	Unit			
711319	Gold or platinum jewelry and parts	2,128	26	45	MT	Hong Kong	Australia	Switzerland
840721	Outboard engines for marine propulsion	1,687	391	588	thousand NO	U.S.	Belgium	Russia
871150	Motorcycles, cylinder capacity > 800 cc	1,443	128	141	thousand NO	U.S.	Netherlands	France
871140	Motorcycles, cylinder capacity > 500 cc, < 800 cc	1,104	126	161	thousand NO	U.S.	Italy	France
330499	Beauty & skin care preparation, not compressed	1,100	19	24	thousand MT	China	Taiwan	Hong Kong
870390	Passenger motor vehicles, without gasoline or diesel engine	1,064	3	30	thousand NO	U.S.	France	U.K.
960810	Ball point pens	427	722	873	million NO	U.S.	Mexico	Hong Kong
871120	Motorcycles, cylinder capacity > 50 cc, < 250 cc	423	154	173	thousand NO	U.S.	Australia	Cambodia
481151	Paper & paperboard coated or covered with plastics, wt>150g/square meter	246	45	52	thousand MT	Netherlands	U.S.	China
852872	Color television	228	2,612	3,017	thousand NO	Vietnam	Philippines	Thailand
300420	Antibiotics, except containing penicillins, streptomycins or their derivatives	225	609	818	MT	China	Belgium	Taiwan
030799	Sea urchins, jellyfish, and sea cucumbers, frozen, dried or salted	218	33	39	thousand MT	China	Vietnam	Peru
960820	Felt tipped & other porous-tipped pens & markers	174	320	352	million NO	U.S.	Germany	Saudi Arabia
920110	Upright pianos	162	96	104	thousand NO	China	Vietnam	U.S.
890399	Yachts, etc. for pleasure or sports, except sailboats or motorboats	136	20	30	thousand NO	U.S.	Russia	Thailand
330420	Eye make-up preparations	133	982	1,161	MT	Taiwan	Hong Kong	South Korea
920120	Grand pianos	127	13	14	thousand NO	U.S.	China	Germany
340590	Polishes and creams, except for footwear, wooden furniture or metal.	125	14	19	thousand MT	Taiwan	U.S.	China
950440	Playing cards	121	98	148	million sets	Macao	Singapore	Hong Kong
900410	Sunglasses	119	2,661	3,076	thousand NO	U.S.	Hong Kong	South Korea
220600	Fermented beverages (sake, cider etc)	118	14	16	thousand KL	U.S.	South Korea	Taiwan
871110	Motorcycles, cylinder capacity < 50 cc	114	264	301	thousand NO	Russia	UAE	Nigeria
380892	Fungicides	104	5	6	thousand MT	China	Vietnam	U.S.

Notes:(1) Regarding the classification of final consumer goods, see “note (3)” in “Chapter I” of *2012 JETRO Global Trade and Investment Report*.

(2) The consumer goods are chosen among 959 final consumer goods (6-digit level HS codes) which a) are countable with clarified unit prices; b) have been exported for three straight years from 2009; c) have export quantities which have increased for two straight years; and c) exceeded 100 million USD in accumulated export values from April 2011 to March 2012.

(3) The areas in color are trading partners to which Japan's exports quantities increased for two straight years.

(4) NO: raw number, MT: metric ton, KL: kilo liters

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

Imports of mineral fuels increase substantially

■ Largely affected by sharp rises in prices of energy, primary commodities

Imports from China rose for the second consecutive year, led by chemicals and communication equipment. Regarding ASEAN, imports from Thailand slowed in the wake of major flooding in the country, but imports from Malaysia and Indonesia were robust, led by growth of energy resources. Imports of grains from the U.S. increased largely due to sharp price rises.

■ Demand for LNG increase sharply

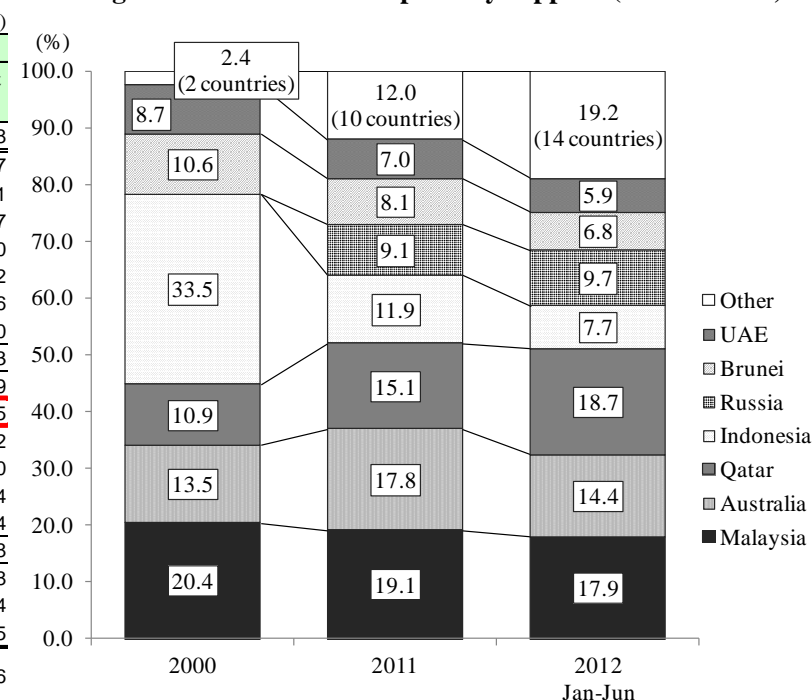
Mineral fuels were the major factor behind the expansion in imports, as prices of resources stayed high and demand for liquefied natural gas (LNG) as fuel for thermal power plants increased rapidly. LNG imports marked a new all-time high, in both value and quantity, in 2011. Comparing the trade balance one year before and after the Great East Japan Earthquake, increased imports of LNG led to more than 20% difference in the trade balance, dropping Japan's trade surplus into the red. In response to the sharply rising demand, efforts to diversify the sources of LNG supply are moving ahead at a fast pace (8 countries in 2000 to 21 countries in the first half of 2012).

Fig. I-20 Japan's imports by product (2011)

	World		U.S.		EU27		China		ASEAN	
	Value	Percent change	Value	Percent change	Value	Percent change	Value	Percent change	Value	Percent change
Total	853,070	23.4	74,231	10.5	80,287	21.3	183,487	20.1	124,607	23.8
Machinery and equipment	206,100	10.4	28,013	1.8	28,916	19.0	83,980	16.1	30,694	5.7
General equipment	63,797	14.2	8,608	6.6	8,461	20.2	30,736	17.0	8,265	6.1
Electrical equipment	92,556	6.9	7,713	-2.4	4,320	12.1	44,042	14.1	17,372	3.7
Transport equipment	22,160	13.4	4,011	-8.4	9,817	30.5	3,562	23.1	2,223	9.0
Automobiles	9,225	35.3	556	62.2	7,269	38.0	17	18.3	673	30.2
Passenger vehicles	8,858	36.9	519	65.8	7,149	39.9	14	13.2	492	29.6
Precision instruments	27,586	11.9	7,682	7.3	6,318	7.3	5,641	23.9	2,834	16.0
Chemicals	89,532	24.7	14,384	12.7	26,410	21.5	17,667	42.1	13,006	31.3
Foodstuffs	74,053	23.8	17,097	24.5	9,915	29.0	9,568	17.0	9,981	24.9
Mineral fuels, etc.	274,259	38.1	2,868	48.8	517	133.3	1,882	4.3	41,905	47.5
Coal	30,961	28.0	1,608	166.7	0	634.2	1,007	16.7	4,799	32.2
LNG	60,352	52.4	209	-41.9	-	n.a.	-	n.a.	24,522	33.0
Petroleum and petroleum products	170,656	36.4	799	23.6	499	143.0	528	-19.8	12,293	98.4
Crude oil	142,095	34.5	-	n.a.	67	n.a.	50	-52.0	7,896	120.4
Textiles and textile products	41,039	24.7	556	21.5	1,977	22.4	30,660	20.4	4,815	53.8
Steel	18,291	29.1	715	16.8	818	22.8	6,356	39.3	1,015	31.8
Primary steel products	11,382	33.7	310	40.3	396	33.5	2,349	64.4	339	83.4
Steel products	6,909	22.2	405	3.6	422	14.1	4,007	27.9	676	15.5
(Reference)										
IT-related equipment (total)	105,965	6.6	11,093	-0.8	6,400	15.6	51,583	14.2	16,463	0.6

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

Fig. I-21 Share of LNG imports by supplier (volume basis)



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

Imports of energy saving devices and disaster prevention products soared after the Earthquake

■ Imports of electric fans, bamboo blinds, oil space heaters, flashlights and portable radios doubled, mostly from China

In 2011, a significant number of energy saving and disaster prevention products soared in imports. Regarding energy saving products, imports of highly energy efficient air-conditioners surged under fears of a power shortage due to the closer of most nuclear power stations after the earthquake. Electric fans and oil space heaters are among examples. Based on import volumes, imports of air-conditioners reached 5.58 million, exceeding the 4.17 million a year earlier when special demands peaked due to introduction of “eco points”*. Electric fans, which are almost entirely imported into the Japanese market, saw imports increased 2.2 times from the previous year, from an average of 8-10 million per year to 17.24 in 2011. The imports of oil space heaters doubled to 320,000. Regarding disaster prevention products, the imports of batteries, flashlights, and portable radios soared in response to increased demands, besides bottles of mineral water which had become serious shortage right after the earthquake.

(*“Eco points” were given if consumers bought electronics appliances that had a high energy-saving level.)

Fig. I-22 Surged imports products of energy saving and disaster prevention (2011)

	HS Code	Unit	2009 Volume	2010 Volume	2011		(Reference) Past Peak		Main Partner Countries (2011) (Inside of a parenthesis is a country share)		
					Volume	Percent change (%)					
Air-conditioners	8415.10	thousand NO	3,152	4,172	5,579	33.7	4,172	2010	China (96.1%)	Thailand (3.8%)	Taiwan (0.1%)
Electric fans	8414.51-010	thousand NO	9,539	7,689	17,242	124.2	9,568	2006	China (96.1%)	Thailand (1.4%)	Taiwan (1.3%)
Bamboo blinds	4601.29-910	thousand MT	24	15	30	95.9	25	2007	China (100%)	-	-
Oil space heaters	7321.82	thousand NO	102	164	318	93.6	245	2004	China (98.2%)	South Korea (1.6%)	Taiwan (0.2%)
Blankets and traveling rugs	6301	thousand NO	45,717	48,516	56,465	16.4	48,516	2010	China (97.0%)	Indonesia (1.6%)	India (1.6%)
Primary cells and primary batteries	8506.1	million NO	847	830	1,226	47.7	847	2009	China (54.9%)	Indonesia (18.8%)	Thailand (13.4%)
Flashlights	8513.10-000	thousand NO	36,347	42,339	87,521	106.7	54,940	2006	China (96.2%)	Indonesia (1.4%)	U.S. (0.7%)
Portable radios	8527.19-000	thousand NO	4,315	3,827	10,530	175.2	10,924	2005	China (93.3%)	Indonesia (6.5%)	Taiwan (0.1%)
Candles	3406.00-000	MT	5,807	5,977	7,668	28.3	8,020	2004	China (44.9%)	Vietnam (35.6%)	Malaysia (7.3%)
Mineral water	2201	KL	483,700	472,852	695,308	47.1	657,621	2007	U.S. (39.3%)	France (37.5%)	South Korea (9.0%)

Notes: (1) The area in color are all-time high in import of volume. (2) In this table, HS code for air-conditioners is 8415.10. (3) NO: raw number, MT: metric ton, KL: kilo-Liters

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

Global FDI increases 16.5% in 2011

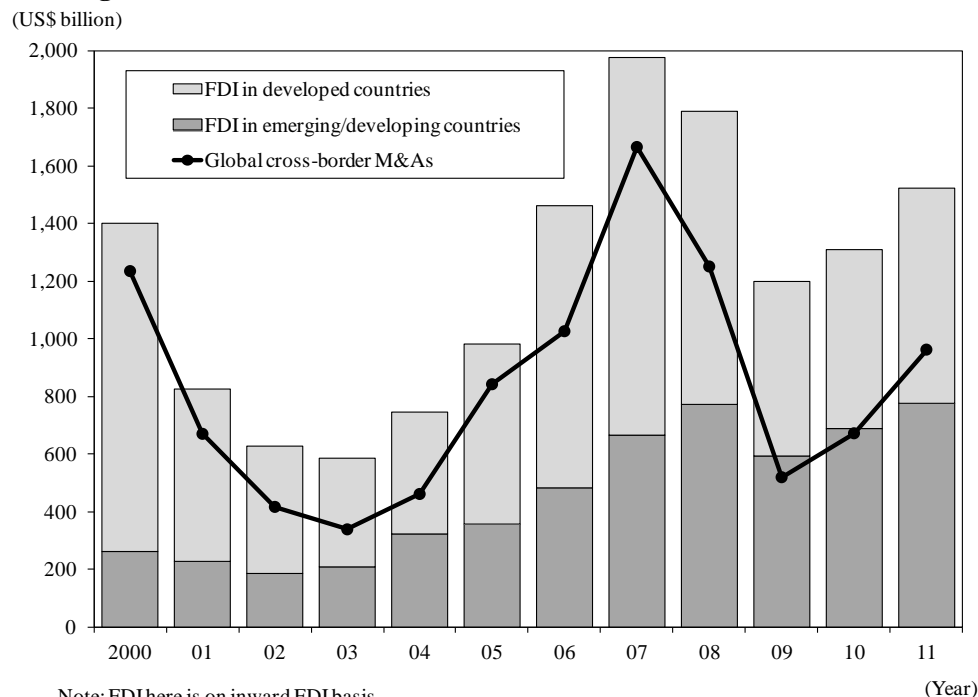
Large-scale cross-border M&As and reinvested earnings boost global FDI

In 2011, global FDI (balance of payments basis, net flows) increased 16.5% over the previous year to US\$1,524 billion according to UNCTAD. The robust growth stemmed mainly from an increase in large-scale cross-border M&As and an expansion of reinvested earnings (undistributed profits internally reserved by subsidiaries of foreign companies within a region). However, the total amount of global FDI was still at around 80% of the peak level, showing a slower pace of recovery compared with world trade.

Investment in developed countries rise sharply, investment in emerging/developing countries slow but still steady

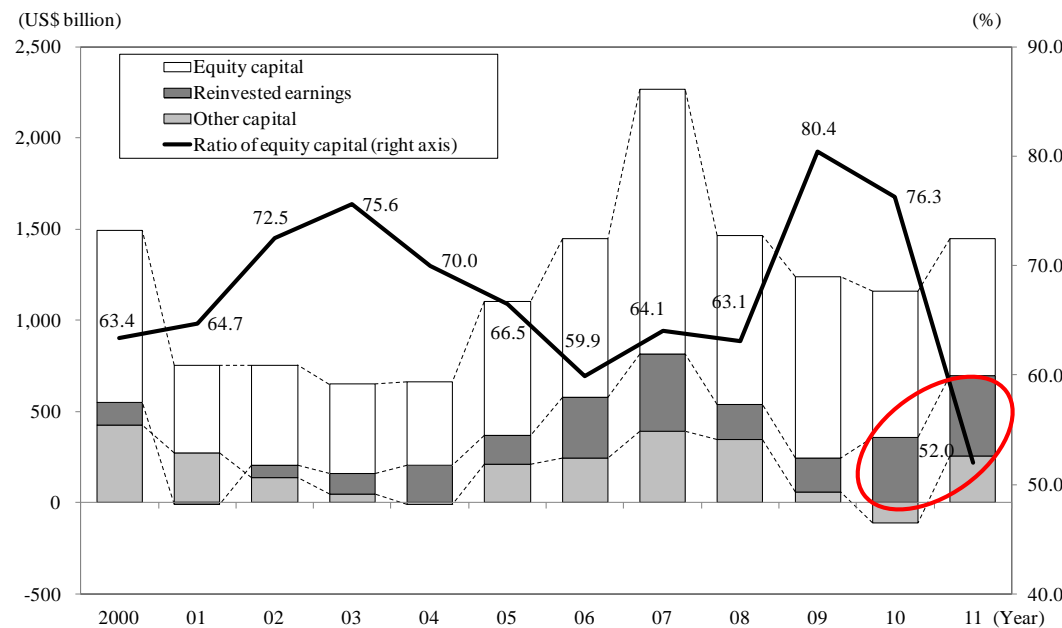
In many countries/regions, inward FDI recorded double-digit increases. With the U.S. maintaining the level reached in 2010 with a large increase and the EU posting a rise of 30%, inward FDI in developed countries (up 20.9% year-on-year to US\$748 billion) grew faster than inward investment in emerging/developing countries (up 12.5% to US\$777 billion). While the pace of investment expansion slowed down somewhat in emerging/developing countries as a whole, major countries such as India, Brazil and Russia received higher investment on the back of expanding domestic demand and sharp rises in resources prices.

Fig. I-23 Global FDI and cross-border M&As



Note: FDI here is on inward FDI basis.
Sources: UNCTAD and Thomson Reuters.

Fig. I-24 Major economies' inward FDI by type



Note: The sum of 53 countries/regions for which data are available (together, they account for 75.0% of the total of global FDI as of 2010).
Source: "BOP, June 2012" (IMF).

Fig. I-25 FDI of major countries/regions
(balance of payments basis, net flows)

	Inward FDI			Outward FDI		
	Value	Percent change	Composition ratio	Value	Percent change	Composition ratio
U.S.	226,937	14.7	14.9	396,656	30.3	23.4
Canada	40,932	74.8	2.7	49,569	28.5	2.9
EU27	420,715	32.2	27.6	561,805	16.3	33.2
EU15	383,946	31.9	25.2	548,791	15.9	32.4
Belgium	89,142	9.8	5.8	70,706	26.9	4.2
U.K.	53,949	6.6	3.5	107,086	171.1	6.3
France	40,945	33.6	2.7	90,146	17.3	5.3
Germany	40,402	-13.8	2.7	54,368	-50.3	3.2
Spain	29,476	-27.7	1.9	37,256	-2.8	2.2
Italy	29,059	216.6	1.9	47,210	44.6	2.8
12 new EU member states	36,769	35.2	2.4	13,014	40.6	0.8
Switzerland	-196	n.a.	n.a.	69,612	7.5	4.1
Australia	41,317	16.2	2.7	19,999	56.4	1.2
Japan	-1,758	n.a.	n.a.	114,353	103.2	6.7
East Asia	326,379	12.7	21.4	239,735	-1.4	14.1
China	123,985	8.1	8.1	65,117	-5.4	3.8
Hong Kong	83,156	17.0	5.5	81,607	-14.5	4.8
South Korea	4,661	-45.2	0.3	20,355	-12.6	1.2
Taiwan	-1,962	n.a.	n.a.	12,766	10.3	0.8
ASEAN	116,539	25.7	7.6	59,890	35.6	3.5
Singapore	64,003	31.6	4.2	25,227	18.9	1.5
Indonesia	18,906	37.3	1.2	7,771	191.7	0.5
India	31,554	30.6	2.1	14,752	12.2	0.9
Brazil	66,660	37.4	4.4	-1,029	n.a.	n.a.
Russia	52,878	22.2	3.5	67,283	28.1	4.0
38 developed countries/regions	747,860	20.9	49.1	1,237,508	25.1	73.0
Emerging/developing countries	776,562	12.5	50.9	456,888	-1.1	27.0
World	1,524,422	16.5	100.0	1,694,396	16.7	100.0

Notes: (1) The definition of developed countries follows UNCTAD. The figures for emerging/developing countries are obtained by subtracting the developed countries from the total.

(2) East Asia are the sum of China, South Korea, Taiwan, Hong Kong and ASEAN.

(3) The figures for Japan are based on UNCTAD, and thus are not consistent with 'Japan's FDI Source: UNCTAD.

Fig. I-26 Examples of FDI in emerging/developing countries by industry

Industry	Recipient	Announcement / Execution	Investing company	Country	Amount	Type of investment
Oil and natural gas	India	August 2011	BP	U.K.	US\$9.0 billion	Interest acquisition
	Brazil	March 2012	China Petrochemical	China	US\$4.8 billion	Interest acquisition
		April 2011	Sinochem	China	US\$3.1 billion	Interest acquisition
	Russia	April 2011	Total	France	US\$4.0 billion	Stock acquisition
Mining	Brazil	February 2011	Norsk Hydro	Norway	US\$5.0 billion	Acquisition
		January 2012	Termium	Argentina	US\$2.66 billion	Stock acquisition
	Chile	November 2011	Mitsubishi Corp.	Japan	US\$4.3 billion	Stock acquisition
	Peru	March 2011	Anglo-American	U.K.	US\$3.0 billion	Development
		August 2011	Grupo Mexico	Mexico	US\$2.6 billion	Production enhancement
	Russia	August 2011	Exxon Mobil	U.S.	US\$3.2 billion	Joint development
Transport equipment	China	November 2011	Polymetal Holding	Jersey (U.K.)	US\$5.5 billion	Stock acquisition
		April 2012	Ford	U.S.	US\$760 million	Plant establishment
		May 2011	BMW	Germany	€1.0 billion	Production enhancement
		June 2011	Daimler	Germany	€2.0 billion	Plant establishment R&D
	Thailand	September 2011	GM	U.S.	7.0 billion yuan	Plant establishment
		May 2012	Ford	U.S.	US\$450 million	Plant establishment
	India	September 2011	GM	U.S.	US\$200 million	Plant establishment
		February 2011	Daimler	Germany	44.0 billion rupees	Plant establishment
		July 2011	Ford	U.S.	US\$1.0 billion	Plant establishment
		February 2012	GM	U.S.	US\$410 million	Plant establishment
September 2011		Volkswagen	Germany	€3.4 billion	Plant establishment	
October 2011		Peugeot Citroen	France	US\$960 million	Production enhancement	
Other machinery	Brazil	November 2011	Jianghuai Automobile	China	US\$510 million	Plant establishment
		January 2011	Volkswagen	Germany	US\$550 million	Plant establishment
	Russia	May 2012	Bosch	Germany	US\$2.4 billion	Production enhancement
		June 2011	Fuyao Glass Industry Group	China	US\$200 million	Plant establishment
	China	December 2010	GE	U.S.	US\$2.0 billion	R&D
		May 2012	Samsung Electronics	South Korea	US\$3.0 billion	Plant establishment
	India	November 2011	Caterpillar	U.S.	US\$210 million	Introduction of new equipment
	Vietnam	March 2011	Nokia	Finland	US\$280 million	Plant establishment
	Taiwan	January 2011	Qualcomm	U.S.	US\$1.0 billion	Plant establishment
	Brazil	July 2011	Hyundai Heavy Industry	South Korea	US\$150 million	Plant establishment
July 2011		Hon Hai Precision Industry	Taiwan	US\$12.0 billion	Plant establishment	
Pharmaceuticals	China	October 2011	Astra Zeneca	U.K.	US\$200 million	Plant establishment
		December 2011	Novartis	Switzerland	US\$1.0 billion	R&D
	Russia	December 2011	Merck	U.S.	US\$1.5 billion	R&D
		June 2011	Astra Zeneca	U.K.	US\$1.2 billion	R&D
Infrastructure	Brazil	December 2010	Novartis	Switzerland	US\$500 million	Plant establishment
Telecommunications	Brazil	April 2011	Iberdrola	Spain	US\$2.9 billion	Acquisition
	Belarus	December 2011	Gazprom	Russia	US\$2.5 billion	Acquisition
	Poland	January 2011	Deutsche Telecom	Germany	US\$2.8 billion	Acquisition
		November 2011	Spartan Capital Holdings	Cyprus	US\$6.6 billion	Acquisition
	India	July 2011	Vodafone Group	U.K.	US\$3.3 billion	Stock acquisition
Brazil	March 2011	Portugal Telecom	Portugal	US\$2.7 billion	Stock acquisition	
	June 2011	Telefonica	Spain	US\$5.5 billion	Acquisition	

Note: Amounts of Greenfield investment are the planned amounts based on press releases, expressed in currencies used in press releases.

Sources: Thomson Reuters and press information.

Global cross-border M&As rise for two years running

Acquisitions among developed countries rise; M&As active in the primary industries

In 2011, the total value of global cross-border M&As surged 43.2% over the previous year to US\$963 billion, recording a second consecutive increase. Large-scale acquisitions, mainly among companies of developed countries, were active. Reflecting high resources prices, amounts paid for acquisitions in the primary industries, such as oil and natural gas and mining, grew larger.

M&As likely to slow down in 2012

The value of global M&As has been on the decline after peaking out in the second quarter of 2011. M&A for the first half of 2012 decreased significantly by 42.5% from a year earlier to US\$286 billion. Amid the global economic uncertainties, including the prolonged debt problems in the euro zone, companies are hesitant about making proactive, big-ticket mergers.

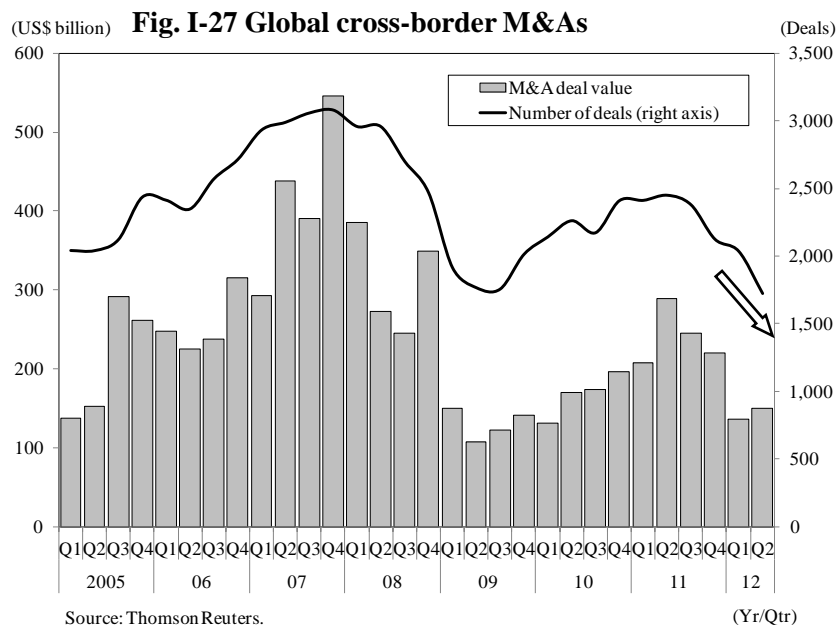


Fig. I-28 10 largest cross-border M&A deals (2011 and January-June 2012)

	Acquiring company		Target company		Value	Ownership % after transaction		
	Country	Industry	Country	Industry				
February 2011	International Power PLC	U.K.	Electricity, Gas and Water Distribution	GDF Suez Energy Europe	Belgium (6)	Electricity, Gas and Water Distribution	25,056	100.0
April 2011	VimpelCom Ltd	The Netherlands	Telecommunications	Weather Investments Srl	Italy	Telecommunications	22,382	100.0
April 2011	Sanofi-Aventis SA	France	Pharmaceuticals	Genzyme Corp	U.S.	Pharmaceuticals	20,856	100.0
August 2011	BHP Billiton PLC	Australia	Steel Manufacturing	Petrohawk Energy Corp	U.S.	Oil and Natural Gas	15,557	100.0
September 2011	Takeda Pharmaceutical Co Ltd	Japan	Pharmaceuticals	Nycomed Intl Mgmt GmbH	Switzerland	Pharmaceuticals	13,683	100.0
December 2011	SABMiller Beverage Investments	U.K.	Investment	Foster's Group Ltd	Australia	Foodstuffs	12,419	100.0
October 2011	Hewlett-Packard Vision BV	U.S.	Computer Manufacturing	Autonomy Corp PLC	U.K.	Software Services	10,295	100.0
October 2011	Microsoft Corp	U.S.	Software Services	Skype Global Sarl	Luxembourg	Software Services	9,124	100.0
August 2011	BP PLC	U.K.	Oil and Natural Gas	Reliance Industries Ltd-21 Oil	India	Oil and Natural Gas	9,000	30.0
May 2011	EnSCO PLC	U.K.	Oil and Natural Gas	Pride International Inc.	U.S.	Oil and Natural Gas	8,685	100.0

January-June 2012

	Acquiring company		Target company		Value	Ownership % after transaction		
	Country	Industry	Country	Industry				
June 2012	Electrabel SA	France	Electricity, Gas and Water Distribution	International Power PLC	U.K.	Electricity, Gas and Water Distribution	12,856	100.0
June 2012	LAN Airlines SA	Chile	Transportation	TAM SA	Brazil	Transportation	6,502	100.0
April 2012	Investor Group	Cyprus	Investor Group	MegaFon	Russia	Telecommunications	5,200	56.2
June 2012	InterCement Austria Holding	Brazil	Investment	CIMPOR Cimentos de Portugal	Portugal	Ceramics and Quarrying	5,177	95.7
March 2012	Sinopec Intl	China	Oil and Natural Gas	Petrogal Brasil Ltda	Brazil	Oil and Natural Gas	4,800	30.0
May 2012	ABB Ltd	Switzerland	Electric Machinery	Thomas & Betts Corp	U.S.	Electric Machinery	3,924	100.0
June 2012	Molson Coors Brewing Co	U.S.	Foodstuffs	StarbeV Management Services	Czech Republic	Foodstuffs	3,531	100.0
May 2012	China Three Gorges Europe	China	Investment	EDP	Portugal	Electricity, Gas and Water Distribution	3,516	21.3
February 2012	SAP America Inc.	Germany	Software Services	SuccessFactors Inc.	U.S.	Software Services	3,411	100.0
April 2012	AF Telecom Holding	Cyprus	Investment	Telekominvest	Russia	Telecommunications	3,292	100.0

Notes: (1) Year and month indicate the completion date of the transaction. (2) Country of the acquirer is that of its ultimate parent company. (3) The definition of M&A follows Thomson Reuters. (4) The ranking is based on the value of a single transaction. (5) If the acquirer is a single purchasing unit of a business corporation, the business corporation name is cited; if there is more than one business corporation, the industry is denoted as "Investor Group." (6) The energy division of GDF Suez in Belgium merged with International Power to establish a new company. GDF Suez effectively placed International Power under its control.

Source: Thomson Reuters.

China's inward FDI accompanied by qualitative change

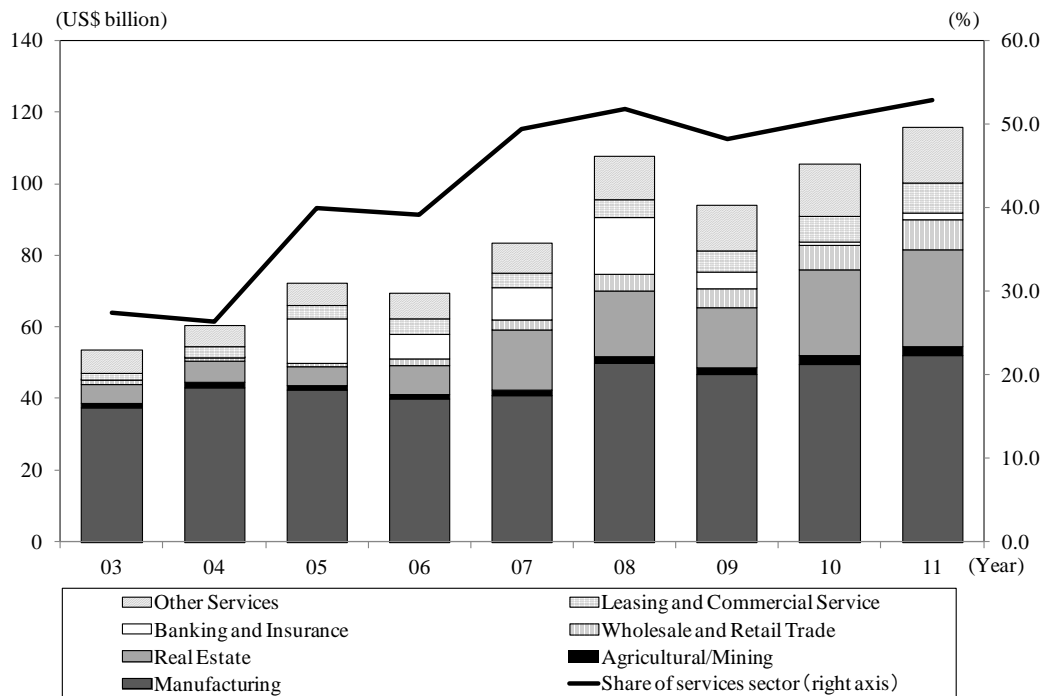
Investments shifting to non-manufacturing industries

China's recent inward FDI is characterized by the diversification of the industries being invested in. Though China used to receive mainly manufacturing investment as the "world's factory", the share of inward FDI in the non-manufacturing industries surged by 52.8% in 2011. According to JETRO's survey on the international operations of Japanese firms, the trend of subject Japanese companies perceiving China as a crucial market is gaining strength. Among companies planning to expand their business in China, those engaging in the B-to-C (business-to-customer) operations exceeded those engaged in B-to-B (business-to-business) operations, 79.8% to 65.1%.

Obvious diversification of investment destinations

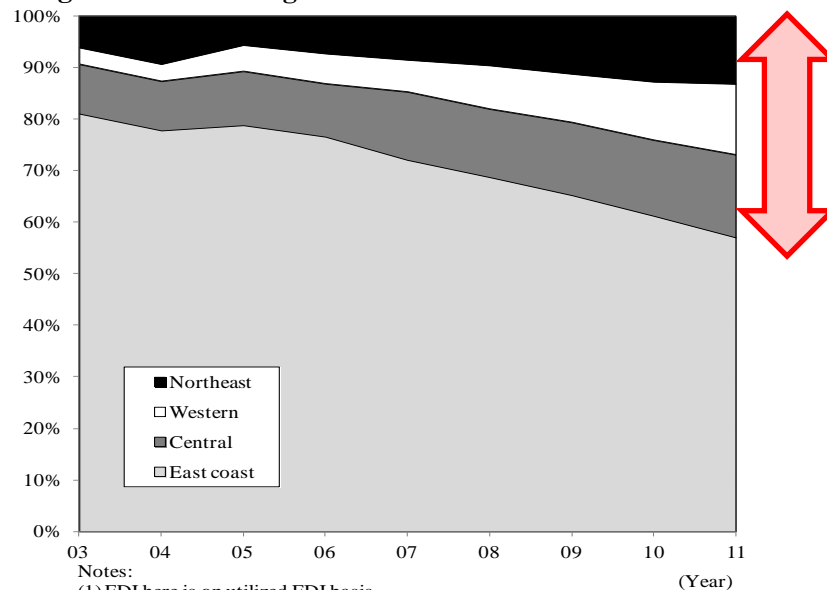
Another trend within China's inward FDI is the diversification of regions of investment. While the east coast of China currently remains at 60% of total investment, destination the shares of other areas including northeast, western and central areas have remarkably increased. These areas maintain high economic growth exceeding those of east coast, and local governments are making efforts to attract FDI.

Fig. I-29 China's inward FDI by industry sector



Note: FDI here is on utilized FDI basis. Year 2003 does not include banking and insurance.
Source: CEIC.

Fig. I-30 China's regional inward FDI share



Notes:
 (1) FDI here is on utilized FDI basis.
 (2) The regions are classified as follows:
 East coast: Jiangsu, Guangdong, Shandong, Zhejiang, Shanghai, Tianjin, Beijing, Fujian, Hebei, Hainan.
 Central: Hubei, Hunan, Jiangxi, Henan, Anhui, Shanxi.
 Western: Inner Mongolia, Sichuan, Shaanxi, Chongqing, Guangxi, Qinghai, Guizhou, Gansu, Ningxia, Yunnan, Xinjiang, Tibet.
 Northeast: Liaoning, Jilin, Heilongjiang.
 Source: CEIC.

Japan's outward FDI in 2011 rises for the first time in three years

■ Outward FDI in 2011 double the 2010 level

Japan's outward FDI in 2011 (on the balance of payments basis, net flows) shot up 102.2% over the previous year to US\$ 115.7 billion, posting the first rise in three years. The large increase mainly reflects large-scale M&A deals, a string of new overseas business bases established and enhancement of existing bases for overseas business operations.

■ Investment in Asia sets a new record

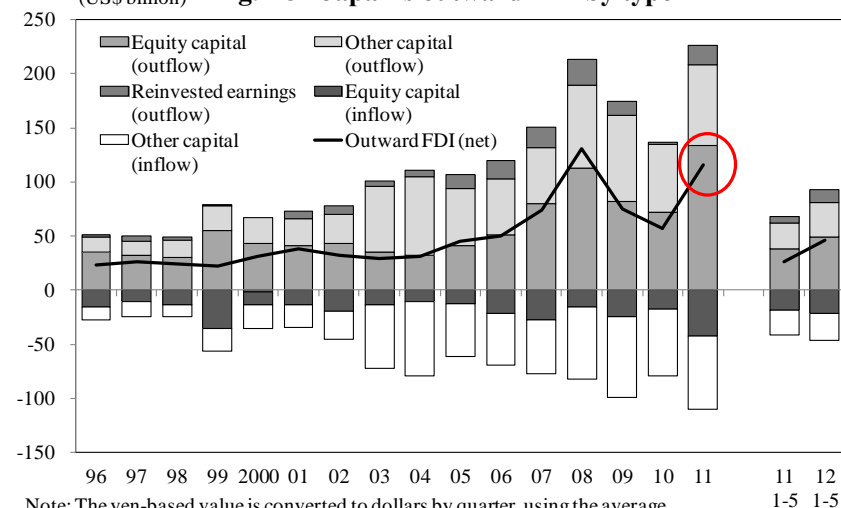
By region of destination, FDI in Asia surged 78.4% to US\$ 39.5 billion, rising for two years on end and setting a new all-time high. Particularly strong growth in FDI was seen in China and ASEAN. As for the share in outward FDI stock at the end of 2011 by industry, while transport equipment and electrical equipment saw their shares shrink, the share of the non-manufacturing sector expanded.

Fig. I-32 Japan's outward FDI by country/region (on the balance of payments basis, net flows)

	2010	2011			2012		
			Share	Percent change	January-May	Share	Percent change
Asia	22,131	39,492	34.1	78.4	9,873	21.3	-10.3
China	7,252	12,649	10.9	74.4	5,646	12.2	30.3
ASEAN	8,930	19,645	17.0	120.0	1,046	2.3	-79.7
India	2,864	2,326	2.0	-18.8	557	1.2	221.0
North America	9,016	15,166	13.1	68.2	16,141	34.8	759.5
U.S.	9,193	14,730	12.7	60.2	14,646	31.6	743.5
Central/South America	5,346	11,287	9.8	111.1	2,314	5.0	10688.9
Brazil	4,316	8,290	7.2	92.1	1,807	3.9	10.6
Oceania	6,407	8,767	7.6	36.8	5,446	11.7	26.7
Australia	6,371	8,149	7.0	27.9	5,397	11.6	44.1
Europe	15,043	39,841	34.4	164.8	12,101	26.1	48.5
EU	8,359	36,052	31.2	331.3	11,187	24.1	50.6
World	57,223	115,732	100.0	102.2	46,365	100.0	77.0

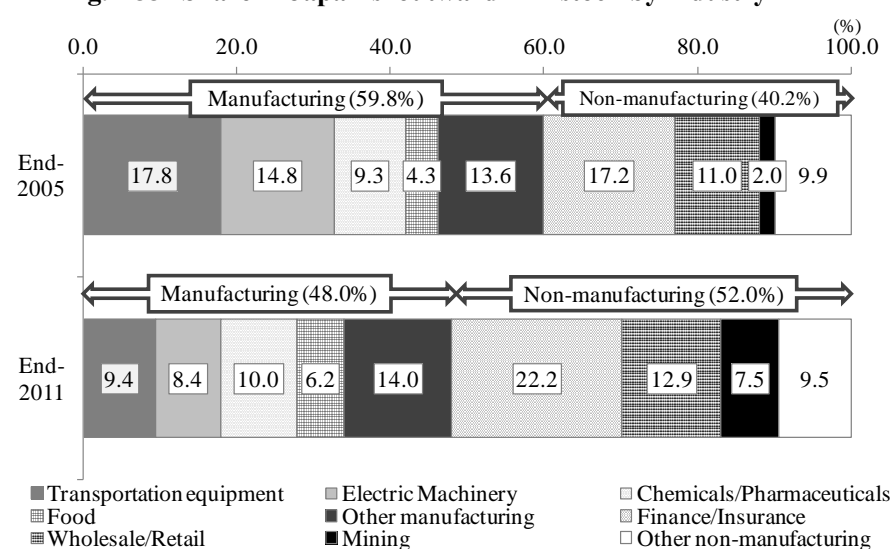
Notes: (1) The yen-based quarterly value is converted to dollars, using the average quarterly Bank of Japan interbank rate. (2) Some data for January-May 2012 are provisional.
Source: "Balance of Payments Statistics" (Ministry of Finance, Bank of Japan).

Fig. I-31 Japan's outward FDI by type



Note: The yen-based value is converted to dollars by quarter, using the average quarterly Bank of Japan interbank rate, and then the annual total is calculated.
Source: "Balance of Payments Statistics" (Ministry of Finance, Bank of Japan).

Fig. I-33 Share in Japan's outward FDI stock by industry



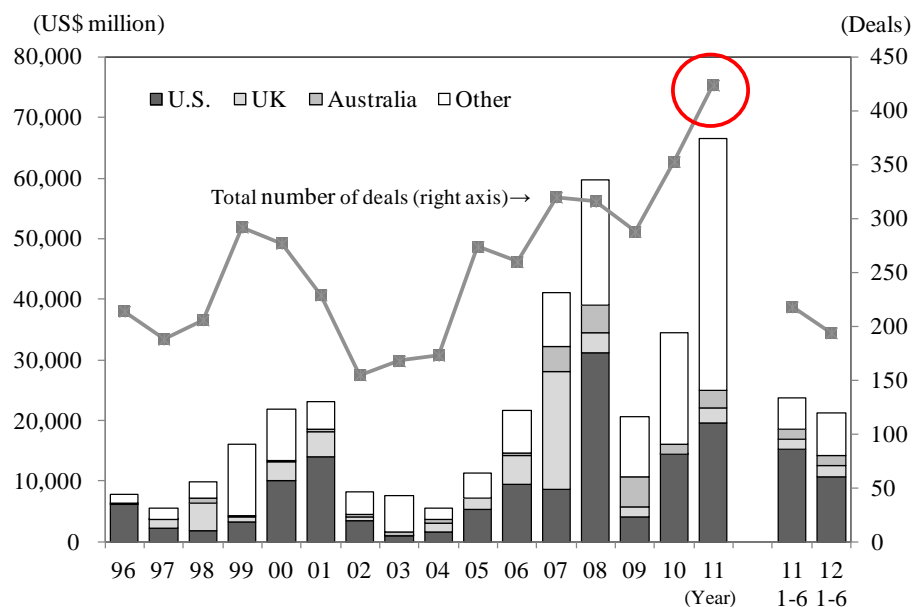
Source: "Japan's Balance of External Assets and Liabilities statistics" (Ministry of Finance, Bank of Japan).

Outward M&As by Japanese firms mark record value

Number of outward M&A deals also almost matches the record high

The value of outward M&A deals by Japanese companies in 2011 surged 93.0% over the previous year to US\$ 66.5 billion to set a new all-time high. The number of M&A deals came to 424, almost matching the record high of 427 registered in 1990. The huge increase in the annual value of M&A deals reflects a string of big-ticket M&As. In the first half of 2012, the M&A value was more modest, decreasing 10.2% from a year earlier to US\$ 21.3 billion.

Fig. I-34 Value of Japan's outward M&As and number of deals



Source: Thomson Reuters.

Fig. I-35 Japan's top 10 M&A deals (2011 – June 2012)

Transaction completed	Acquiring company		Target company			Value (US\$ million)	Ownership % after transaction
	Industry		Nationality	Industry			
September 2011	Takeda Pharmaceutical	Pharmaceuticals	Nycomed	Switzerland	Pharmaceuticals	13,683	100.0
June 2011	Mitsubishi UFJ Financial Group	Banking	Morgan Stanley	U.S.	Banking	7,800	22.4
November 2011	Mitsubishi Corp.	Trading	Anglo American Sur (Δ)	Chile	Mining (copper)	5,390	24.5
May 2012	Tokio Marine Holdings Inc.	Insurance	Delphi Financial Group	U.S.	Insurance	2,648	100.0
April 2012	Dainippon Sumitomo Pharma	Pharmaceuticals	Boston Biomedical Inc.	U.S.	Pharmaceuticals	2,630	100.0
April 2011	Terumo	Healthcare equipment	Caridian BCT Inc.	U.S.	Healthcare equipment	2,625	100.0
August 2011	Kirin Holdings	Beverages	Aleadri (owns a 50.45% equity stake in the Schincariol)	Brazil	Beverages	2,523	100.0
July 2011	Toshiba	Electronic / electrical equipment	Landis + Gyr	Switzerland	Precision instruments	2,300	100.0
April 2012	Asahi Kasei	Chemicals	ZOLL Medical	U.S.	Healthcare equipment	2,122	100.0
October 2011	Itochu Corp.	Trading	Drummond International	Colombia	Mining (coal)	1,524	20.0

Notes: (1) Year and month indicate the completion date of the transaction. (2) The definition of M&A follows Thomson Reuters. (3) The ranking is based on the value of a single transaction. (4) Mitsubishi Corp. acquired 24.5% of stake in a copper mine in Chile held by Anglo American. (5) In November 2011, Kirin Holdings acquired Jadangil, which owned a 49.54% equity stake in the Schincariol Group for US\$1.4 billion. (6) Itochu acquired a 20% stake in a coal mine in Colombia owned by Drummond of the U.S.

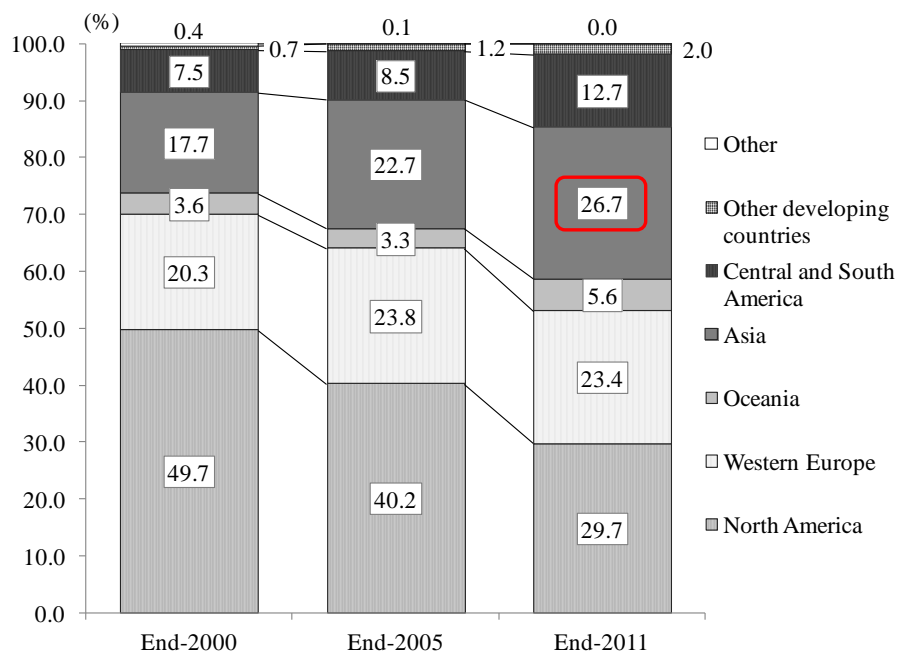
Source: Thomson Reuters.

Focus on emerging countries becoming more evident

■ Securing access to the markets of emerging countries

Emerging countries in Asia and Central and South America are looming large as the destinations of Japan's outward FDI in recent years. As of the end of 2000, FDI in North America accounted for the outstanding outward FDI stock, with developed countries together commanding an overwhelming share of around 70%. With the fast growth of investment in emerging countries, however, the share of developed countries declined at the end of 2011, with Asia and Central and South America increasing their shares. In particular, marked increases in investment by Japanese companies are being witnessed in the transport equipment sector in Asia and in the mining sector in Central and South America. Japanese companies appear to be focusing on the emerging markets in new investment and additional investment going forward. In the automotive sector, for instance, Japanese automakers are setting up new production plants or investing in new equipment one after another in a bid to capture fast-growing demand in emerging countries.

Fig. I-36 Share in Japan's outward FDI stock by region



Note: The share of Western Europe at the end of 2011 was calculated by subtracting Eastern Europe and Russia from Europe.
Source: "Japan's Balance of External Assets and Liabilities statistics" (Ministry of Finance, Bank of Japan).

Fig. I-37 Major automakers' plans for investment in emerging countries (plans announced since mid-2011)

	Country	Announcement	Investment amount	Overview
Toyota	China	Oct 2011	US\$689 million (about 5.3 billion yen)	Newly install major facilities at the local R&D center
	Thailand	Jan 2012	About 16.9 billion yen	Decide to build a second plant, scheduled to go on stream in 2013. Annual production of 290,000 units, combined with the existing plant.
		Feb 2012	About 14 billion yen	Enhance the production capacity of an engine production firm. Export to Vietnam and Taiwan.
	Indonesia	Sep 2011	41.3 billion yen	Establish the second Karawang plant. Expand the initial plan in February 2012.
		May 2012	23 billion rupiahs	Establish a Learning center.
	India	Jul 2011	31.6 billion yen	Enhance production facilities at two plants. Start exports of Indian-made low-price vehicles to South Africa.
Argentina	Dec 2011	About US\$ 126 million	Expand the production capacity of the IMV series vehicles. Increase exports to countries within Central and South America.	
	Russia	Feb 2012	About 2.75 billion ruble (about 7 billion yen)	Expand production processes. Additional facilities set to go into operation in 2014.
Nissan	China	Jul 2011	50 billion yuan (about 610 billion yen)	Dong Feng Nissan announces a new medium-term management plan. Construct a new plant and enhance the existing plant.
		May 2012	2 billion yuan	Produce the Infiniti at the Xiangyang plant.
	ASEAN	Jul 2011	-	Announces a new medium-term business plan for ASEAN region. Double production in the region to 700,000 units by 2016.
	Indonesia	Jul 2011	25 billion yen	Further expand the vehicle production plant now being enlarged. Establish a new engine plant.
		Mar 2012	33 billion yen	Expand the existing plant's production capacity to make it one of the largest plants in the region.
	Brazil	Oct 2011	2.6 billion real	Construct a new plant in Rio de Janeiro, which is set to go on stream in 2014 with an annual output of 200,000 units.
Russia	May 2012	€167 million	Expand the production capacity by enhancing the existing plant and commencing production of new models.	
Honda	China	Apr 2012	3.56 billion yuan (about 46 billion yen)	Guangqi Honda Automobile decides to add a third production line. Establish a new engine plant.
	Indonesia	Mar 2012	About 3.1 trillion rupiahs (about 27 billion yen)	Decide to build a plant to produce compact vehicles, set to go on stream in 2014.
	Mexico	Aug 2011	About US\$800 million (about 64 billion yen)	Decides to build a plant to assemble finished vehicles, set to go on stream in 2014.

Note: Investment amounts are based on press releases by individual companies. Sources: Press releases of individual companies and news reports.

Returns on FDI also growing in emerging countries

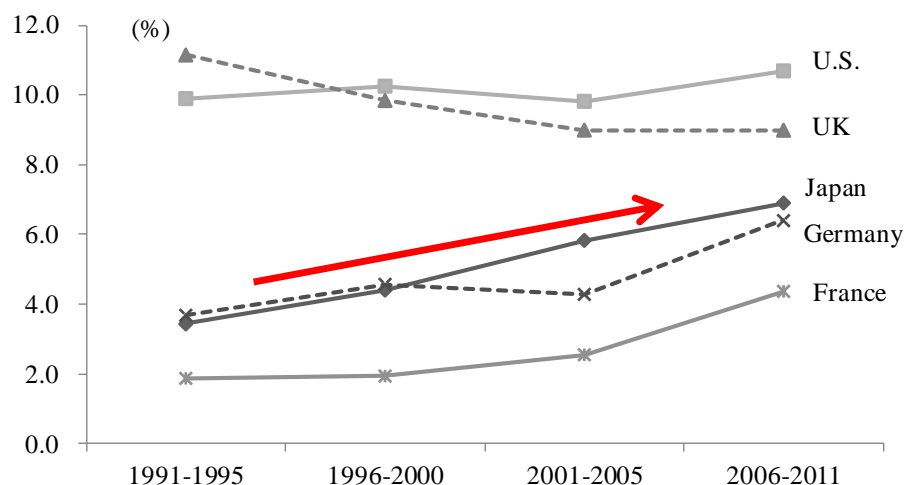
Rate of return on FDI rises

The rate of return on outward FDI in 2011 came to 6.6%, the first rise in four years. By region, the rate of returns were higher in China and ASEAN than in the U.S. and EU. Comparing with other major countries, Japan lagged far behind the U.S. and UK in the rate of return on FDI in the 1990s, but the gap with these countries has been narrowing steadily.

Receipts of earnings from FDI also rising

Receipts of earnings on FDI are also increasing from emerging markets, including China and ASEAN. Compared with 2007, when the largest receipts were recorded, the U.S. remained the biggest source of FDI earnings in 2011, but the U.S. share in the total receipts shrank substantially and the amount of earnings was almost halved. Coming in second was China, where FDI earnings receipts doubled. ASEAN countries, such as Thailand, Singapore and Indonesia, also moved up in the ranking with higher receipts.

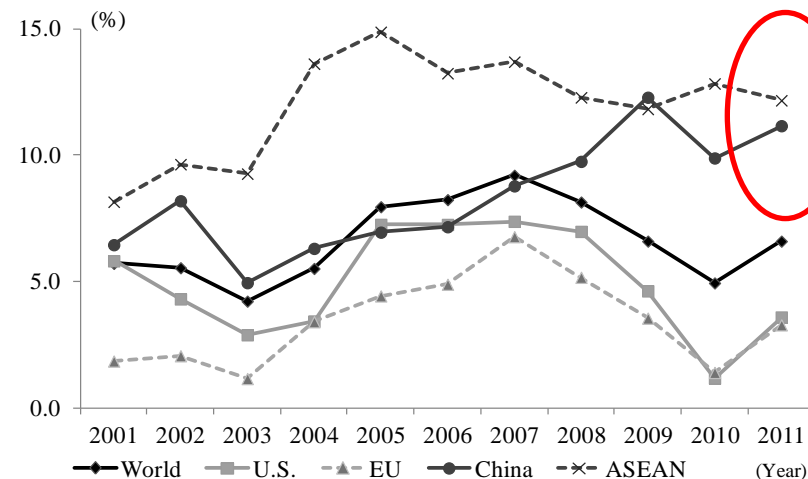
Fig. I-38 Major countries' rate of return on outward FDI



Note: Rate of return on outward FDI = Annual average of FDI earnings / Annual average balance of outward FDI x 100 (%).

Source: "BOP June, 2012" (IMF).

Fig. I-39 Japan's rate of return on outward FDI



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

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

Fig. I-40 Top 10 countries in Japan's FDI earnings receipts

2007				2011			
		Value	Share			Value	Share
Total		53,093	100.0	Total		47,012	100.0
1	U.S.	14,140	26.6	1	U.S.	7,524	16.0
2	Australia	4,436	8.4	2	China	6,638	14.1
3	UK	3,550	6.7	3	Australia	6,004	12.8
4	China	3,462	6.5	4	Thailand	2,946	6.3
5	The Netherlands	3,256	6.1	5	Singapore	2,562	5.4
6	Thailand	3,173	6.0	6	The Netherlands	2,172	4.6
7	Singapore	2,858	5.4	7	Brazil	2,144	4.6
8	Hong Kong	1,818	3.4	8	Indonesia	2,067	4.4
9	Brazil	1,663	3.1	9	Hong Kong	1,895	4.0
10	South Korea	1,634	3.1	10	UK	1,572	3.3

(Rank 12:Indonesia)

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

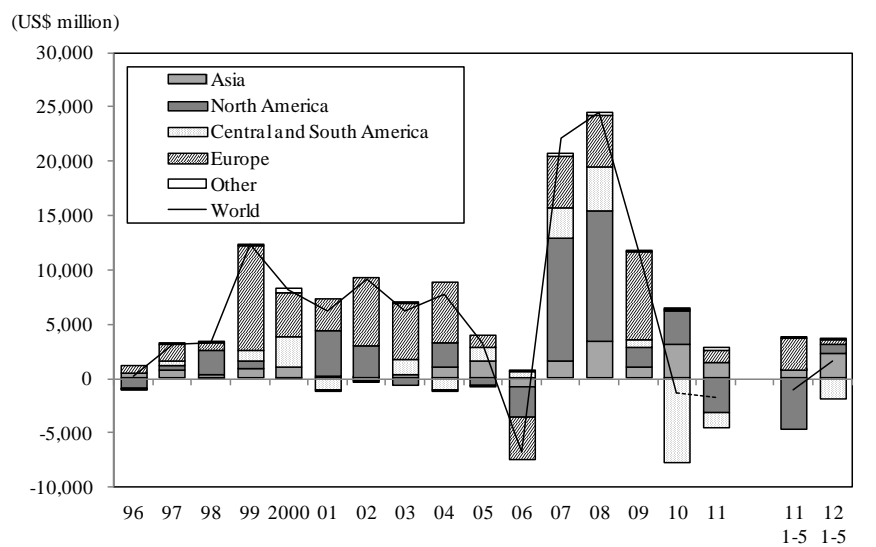
FDI in Japan shows a net outflow for the second straight year

■ Inward FDI in the manufacturing sector robust

In 2011, inward FDI in Japan (on a balance of payments basis, net flow) registered a net outflow (withdrawal) of US\$ 1.7 billion, the second consecutive net outflow, affected by massive net outflows (US\$ 4.11 billion, mostly by the U.S.) in the non-manufacturing sector, such as telecommunications and finance/insurance. FDI in Japan in the manufacturing sector was robust, showing a net inflow for six years on end.

From January - April 2012, inward FDI in Japan posted a net inflow of US\$ 920 million due to increased investment from Asia (Singapore and Taiwan, etc.), Switzerland and the U.S.

Fig. I-41 Inward FDI in Japan by region (net)



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

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

Fig. I-42 Inward FDI in Japan by industry (net)

	(US\$100 million)						
	2006	2007	2008	2009	2010	2011	First quarter 2012
Manufacturing	2.5	13.8	22.6	34.9	17.7	24.1	8.0
Foodstuffs	△ 7.2	3.6	△ 0.9	4.2	2.2	2.8	△ 0.4
Chemicals/Pharmaceuticals	15.4	△ 10.1	2.5	3.1	△ 28.6	7.7	4.0
Iron & steel, nonferrous metals, metal products	0.6	2.3	1.2	2.9	2.3	5.2	△ 0.2
General machinery and equipment	△ 0.2	△ 0.2	7.2	1.2	10.9	0.7	1.0
Electric machinery and equipment	0.3	△ 3.9	6.4	17.1	△ 2.8	11.3	4.6
Transport machinery and equipment	△ 14.1	3.3	△ 0.6	4.7	33.6	2.5	0.3
Precision machinery and instruments	6.0	0.2	1.1	0.9	2.9	△ 2.5	△ 0.3
Non-manufacturing	△ 70.4	208.0	222.9	83.5	△ 31.2	△ 41.1	△ 1.6
Transportation	0.3	△ 2.9	0.4	△ 0.9	2.0	△ 2.6	△ 0.2
Telecommunications	△ 97.1	△ 6.3	△ 10.3	6.2	△ 32.4	△ 27.5	3.1
Wholesale/Retail	△ 3.9	16.6	11.6	10.6	△ 2.3	15.9	△ 3.1
Finance/Insurance	22.7	176.6	198.2	52.0	△ 15.0	△ 37.0	△ 4.1
Real estate	0.7	14.1	5.8	△ 0.7	2.2	△ 2.4	1.5
Services	1.2	2.9	4.7	13.4	8.7	7.9	0.7
Total	△ 67.9	221.8	245.5	118.4	△ 13.6	△ 17.0	6.4

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

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

Establishment and expansion of manufacturing and R&D bases active

■ High value-added investment drawn by Japan's strengths

Foreign-affiliated firms are successively establishing and/or expanding production and R&D bases in Japan even after the earthquake in March 2011. These moves are being driven by strategies to leverage manufacturing technologies, knowhow, brands and human resources of Japanese companies to develop and manufacture high value-added products and market them in Japan as well as in Asian markets.

■ New incentives offered to accelerate attraction of foreign firms

The attraction of production and R&D bases not only supports the Japanese economy and employment but also is expected to produce other positive effects, such as increased procurement within Japan and an expansion of sales channels overseas for Japanese companies through networks of foreign-affiliated firms. It is hoped that incentives introduced since 2011, such as the "Subsidy Program for Projects Promoting Asian Site Location in Japan," the "Comprehensive Special Zone System" and the "Reconstruction Special Zone System," will encourage FDI in Japan and produce positive effects on the Japanese economy, including recovery from the earthquake.

Fig. I-43 Examples of establishment/expansion of production/R&D bases by foreign / foreign affiliated firms

Company (Country)	Industry	Overview
Dou Yee International (Singapore)*	Electronic components / materials	Dou Yee will establish a manufacturing base with the development function for film liquid crystal displays in Shobara City, Hiroshima Prefecture. The company purchased the site from Japanese electronics firm, through the good offices of the Hiroshima prefectural government. The initial investment is expected to be 1.0 billion yen. The manufacturing base is set to commence full-scale production in the summer of 2012.
L'Oreal (France)	Cosmetics	L'Oreal announced in January 2012 that it increased personnel and expanded the site of its R&D site in Kawaki City and also established three new sections. Plans to develop products for Asian markets by making use of technologies and materials originating in Japan and introduce advanced technologies from the entire Asian region.
Eurocopter (France)*	Helicopters	Eurocopter establish a new product development base at the maintenance warehouse at Kobe Airport in April 2012. On the back of increasing demand in Japan and Asia, it will develop new products jointly with Japanese SMEs that have high-precision processing technology and are strong in the manufacturing of a wide variety of products in small quantities, and develop helicopters and trim parts for special purposes such as disaster prevention and medical services.
BASF (Germany)	Chemicals	BASF established an R&D base specialized in engineering plastics in Yokohama City in January 2012. The company will develop high-functional materials for automobiles.
DSM Engineering Plastics (The Netherlands)*	Chemicals	DSM will set up a technical center in Yokohama City in the latter half of 2012 or early 2013 to develop environment-friendly next-generation plastics and new uses for automobiles and electric/electronics products.
Umicore (Belgium)*	Nonferrous metal materials / chemicals	Following the establishment of an R&D base for positive-electrode materials for lithium-ion batteries in Kobe, Umicore established a design/development/manufacturing base for platinum-based glass dissolution systems in Yokohama (started operations in November 2011). In response to global needs of automakers, it plans to establish an R&D base for automotive catalysts for overseas markets in Tokoname, Aichi Prefecture, in 2013.
Intelligent Energy (UK)*	Fuel cell systems	The company established SMILE FC System in a 50-50 joint venture with Suzuki Motor in February 2012. It will establish a research facility at Suzuki's research laboratory to develop fuel cell mass-production technology, including lightweight, compact and low-cost air-cooled fuel cell systems.
Mikado-Kyowa (France)*	Seedlings	Mikado-Kyowa will set up a R&D base at its own farm in Chiba Prefecture around 2013. Using technologies of Vilmorin, French parent company, it plans to improve high-quality Japanese vegetable seeds, such as tomatoes and squash, to make them strongly resistant to diseases in Asia and then export them to Asian markets.
MAG-ISOVER (France)	Thermal insulation materials	In September 2011, the company decided to locate a new plant for glass wool for housing and industrial use, its fourth manufacturing base in Japan, in Mie Prefecture. It plans to invest a total of some 15.0 billion yen and employ about 100 workers. After completion of the Tsu plant, its production capacity will be substantially enhanced to a combined 150,000 tons a year. The new plant is set to go on stream in 2014.
Mahle (Germany)	Automotive parts	Mahle established an air cleaner plant in Noogata City, Fukuoka Prefecture, which is set to start operating by the end of 2012. It aims to expand transactions with automakers having plants in the Kyushu region and ensure the stable supply of products.
Volvo Technology (Sweden)*	Large commercial vehicles	Volvo Technology will establish its first R&D base in the Asia-Pacific region in Tokyo around 2013 to conduct basic R&D in the fields of electrophoretic mobility and predictive mobility for large commercial vehicles, including buses and trucks.
Cabot Microelectronics (U.S.)*	Electronic materials	Cabot Microelectronics will expand its R&D center in Tsu, Mie Prefecture, for completion in 2013, for the transfer of part of the development function for abrasive compound for ultrahard material base, the material for energy-saving devices from the U.S. The R&D is expected to improve performance of abrasive compound, thereby contributing to cutting costs and enhancing the productivity of energy-saving devices.
3M Health Care (U.S.)*	Healthcare products	Plans to develop products that respond more closely to customer needs in Japan and Asia to replace healthcare products it has been importing from the U.S. (surgical tape, sterilization products, dental materials and products related to food sanitation), and develop high value-added products that are more suitable for Asian consumers.

Notes: (1) Projects decided or announced in and after April 2011. (2) Firms with * are those that selected for "Subsidy Program for Projects Promoting Asian Site Location in Japan" in 2011.

Source: Prepared by JETRO based on press releases of companies and newspaper articles.

Enhanced presence of Asian firms in Japan

Fig. I-44 Examples of distinctive entries into Japan by Chinese and other Asian firms

(1) Equity participations attracted by Japanese firms' managerial resources

Company (Country)	Industry	Overview
Hon Hai Precision Industry (Taiwan)	Electronics Manufacturing Service (EMS)	Four group firms, led by Hon Hai, made an equity participation of 9.8% in Sharp, and also acquired a 46.4% equity stake in the operating company for large-scale liquid crystal panel plant in Sakai City for joint management (announced in March 2012). Hon Hai and Sharp will also cooperate in smartphone business for Chinese market, including a project to market multiple models of smartphones in China from 2013 (announced in June 2012).
Futong Group (China)	Optical cables	In September 2011, Futong Group became the largest shareholder of SWCC Showa Holdings by acquiring an equity stake of 18.54% through a Hong Kong subsidiary. SWCC Showa is expanding electric cable business in China, establishing materials research center under a joint venture with Futong Group (the center started operations in October 2011) and a production base for continuous copper wire rods (expected to go on stream in January 2013).
Haier Group (China)	Electrical home appliances	Sanyo Electric reached a definitive agreement on the transfer of its washing machine and refrigerator businesses to Haier (November 2011). In January 2012, Haier established a new company for domestic sales of washing machines and refrigerators. In spring 2012, Haier established Washing Machine R&D Center in Kyoto, planning to form business tie-ups with parts makers with high technological capabilities located around the center and also eyes research through industry-university partnership.
Shandong Ruyi Science & Technology Group (China)	Apparel manufacturing and sales	Established a joint venture with Renown in which Shandong Ruyi Science & Technology Group has an equity stake of 41.18% and launched sales of Renown-brand products in China (August 2011).
Suning Appliance (China)	Home electronics mass retailer	Increased the equity stake in Laox to 65% by responding to a third-party allotment of new shares (June 2011). In December 2011, it opened the first retail outlet for Laox-brand products in Nanjing.
Lenovo (China)	PC manufacturing	NEC Lenovo Japan Group with a joint venture with NEC and two firms under the aegis of Lenovo as its members (July 2011).

(2) Establishment of business bases and market entries for which the Japanese market served as the "priming water"

Company (Country)	Industry	Overview
JA Solar (China) Hanwha (South Korea)	Solar cells	Following Japanese legal entity set-ups of Suntech (China) and Motech (Taiwan), JA Solar entered a tie-up accord with Marubeni and Takashima, the largest seller of photovoltaic power generation systems (November 2011). Hanwha, the largest solar cell maker in South Korea, established a sales office in Fukuoka to expand sales to mega solar system operators in Western Japan.
Huawei Technologies, ZTE (China)	Communication equipment	Huawei began delivering portable wireless LAN routers to Japanese cell phone operators. Huawei Japan joined Keidanren in February 2011. The R&D Center is scheduled to be completed by the end of 2012. ZTE also increased regular employees at its Japanese subsidiary following expanded sales of cell phones and smartphones, and reinforced R&D and sales team in Japan.
Zydus Pharma (India)	Generic pharmaceuticals	Zydus plans to launch seven generic drugs it produced in India on the Japanese market in 2012.
GLP, Mapletree (Singapore)	Real estate/Distribution	<ul style="list-style-type: none"> • Government-affiliated major real estate firm Mapletree purchased Itochu Corp.'s Hiroshima distribution depot (March 2011). • Government-affiliated distribution facility operating firm Global Logistic Properties (GLP), in partnership with China Investment Corp. (CIC), purchased 15 distribution facilities in Japan owned by U.S. real estate investment firm LaSalle (February 2012).
Air Asia (Malaysia), etc.	Aviation service (LCC)	<ul style="list-style-type: none"> • Air Asia, the largest LCC in Asia, and All Nippon Airways (ANA) set up a joint venture firm, AirAsia Japan in August 2011. AirAsia Japan plans to inaugurate flights on three domestic routes in August 2012 and on the South Korea route in October 2012, from New Tokyo International Airport at Narita. • Air Busan(South Korea),Teeway (South Korea), Spring Airlines (China) and Scoot (Singapore) inaugurated flight routes.

Note: Typical cases of investment (including additional investment) and market entries made in and after 2011.

Sources: Prepared by JETRO based on press releases of companies and newspaper articles.

Asian firms trying to strengthen business bases by acquiring equity stakes in Japanese companies

While U.S. and European firms remain as main players in FDI in Japan, the presence of Asian firms is rising steadily. Particularly noteworthy are moves of Taiwanese and Chinese firms to take in resources of Japanese companies and strengthen their business bases by acquiring equity stakes and/or setting up joint ventures. Alliances with these firms enable Japanese companies to expand business operations in China and other parts of Asia.

Active new entries into the Japanese market

Asian firms are entering the Japanese market in droves by taking advantage of expanding demand and deregulation. Among typical areas of business they are advancing into are the manufacturing of solar cells, communication equipment and generic pharmaceuticals and aviation services.

Chapter 2

Development of World Trade Rules

Evaluating the functions of the WTO

■ Reconstruction of the WTO's rule-making function is needed

The WTO Doha Round remains stalled. The WTO has failed to function adequately on the rule-making front of developing multilateral trade rules and expanding opportunities of trade liberalization. However, it would not be accurate to regard the crippled rule-making function as the dysfunction of the WTO as a whole.

First, there is the function of monitoring trade measures of member countries. While protectionist measures increased since the financial crisis in 2008, there is no question that the WTO has served as sort of brakes on that trend. Furthermore, the WTO's powerful judicial function is highly evaluated in settling trade disputes.

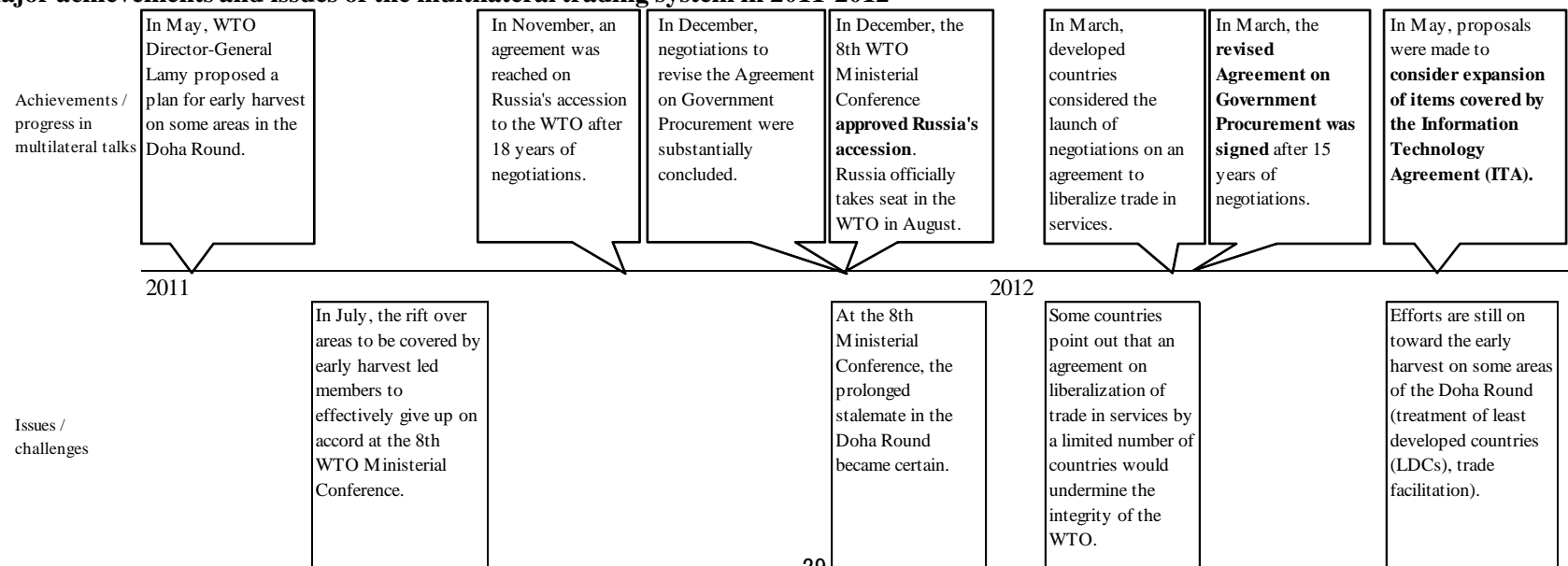
If the rule-making function is to remain incapable of responding to current trade issues, however, it may be rendered difficult to maintain the judicial function. The reconstruction of the rule-making function, including a review of the agreement formula, is urgently needed.

Fig. II-1 Three functions of the WTO and evaluation

Function		Evaluation		Issues
Rule-making function	Development of multilateral trade rules and agreements on trade liberalization.	×	Negotiations on the Doha Round stand stalled, and rule-making and an expansion of liberalization are all but in the state of dysfunction.	Formation of sectoral consensus, such as trade facilitation. Consideration of the plurilateral (among multiple countries) agreement formula.
Monitoring function	Examination of the status of implementation of existing trade rules and reporting on problems.	○	Member states report trade and investment measures to relevant committees. Reports visualize problems.	The deterrent effect on the implementation of rule-violating measures and the remedial effect on reported problems questionable.
Judicial function	Judicial settlements of trade disputes by the Dispute Settlement Body and securing implementation of its decisions.	○	Parties to disputes generally respect decisions by the Dispute Settlement Body. Also contributes to the clarification of existing rules.	There is the risk that strong judicial function may not be sustainable without adequate functioning of rule-making power.

Source: Prepared based on information obtained from various media reports and seminars.

Fig. II-2 Major achievements and issues of the multilateral trading system in 2011-2012



Some achievements in greater trade liberalization in the WTO framework

■ Revision of the Agreement on Government Procurement, Russia's accession to the WTO

While negotiations on the Doha Round, the core of the WTO's legislative function, went nowhere, some achievements were made in negotiations outside the Doha Round over the past year. They include the conclusion of 15 years of negotiations on the revision of the Agreement on Government Procurement, with the official signing in late March 2012, and Russia's accession to the WTO, realized 18 years after its application to join the General Agreement on Tariffs and Trade (GATT), the WTO's predecessor, in 1993. In addition, in May 2012, talks got under way in earnest to expand a list of IT products subject to tariff elimination under the Information Technology Agreement (ITA).

Fig. I-3 Public procurement by major GPA members
(US\$ billion, %, year)

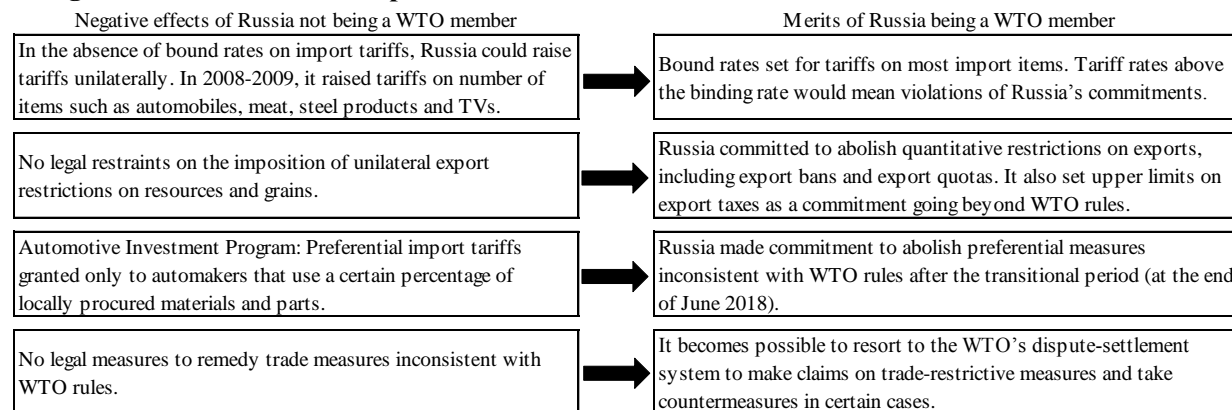
Country/Region	GPA-covered procurement (Note (1))	Share against GDP	Nominal GDP	Year covered (Note (2))
U.S. (Note (3))	861.8	6.0	14,292	2008
EU	402.2	2.4	16,994	2007
Japan	29.5	0.5	5,869	2010
Canada	3.1	0.2	1,338	2009
South Korea	2.9	0.3	1,015	2010
Switzerland	2.5	0.8	325	2003
Norway	9.1	2.4	375	2009
Taiwan	8.0	1.9	430	2010
Singapore	16.8	8.8	190	2008
Hong Kong	10.4	4.6	224	2010
Total for members (Note (4))	1,353.7	2.8	41,319	-

Estimate of pre-revision GPA-covered procurement: US\$1,353.7 billion
→ **The revision newly covers procurement worth US\$80-100 billion.**

Notes: (1) "AGP-covered procurement" means an amount of tender in excess of the base amount committed by countries/regions. Every tender in excess of that amount may not necessarily have been put to international procurement because of restrictions on industries imposed by each country/region. Data disclosed vary by each country/region. (2) The year covered is the year covered by the latest report submitted to the WTO Secretariat by each member country/region. (3) The amount of procurement for the U.S. was estimated by reference to data provided by the WTO Secretariat (WP ERSD-2011-15). (4) For countries that have never submit reports to the WTO (Israel, Iceland and Armenia), the procurement was estimated on the basis of the factor of 2.8 (the simple average for 10 countries covered) for the share against GDP. Other members (the Netherlands-Aruba and Lichtenstein) were excluded from the compilation because of the small sizes of procurement.

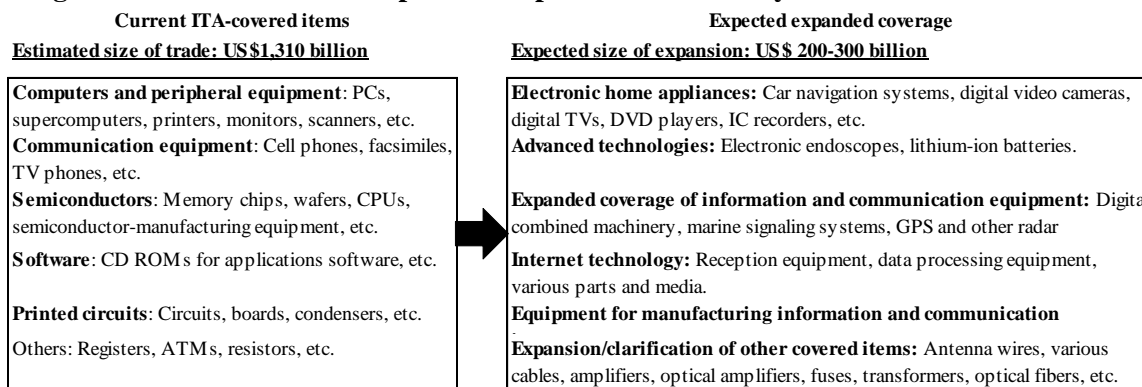
Sources: Prepared based on data of the WTO Secretariat, data of the Cabinet Secretariat, WEO (IMF) and OECD data.

Fig. II-4 Overview of the impact of Russia's accession to the WTO



Sources: Data of the WTO Secretariat.

Fig. II-5 Discussions on the expansion of products covered by the ITA



Notes: (1) Actual coverage of items is based on a schedule of commitments by countries/regions based on HS numbers. Details of the expansion are based on various proposals. (2) The amount of trade and the estimated size of expansion are based on the calculations by the European Centre for International Political Economy (ECIPE).

Sources: Data of the WTO Secretariat, "Status of Implementation of WTO Agreements by Major Countries" (JETRO) and ECIPE data.

Multilateral trading rules restraining protectionism

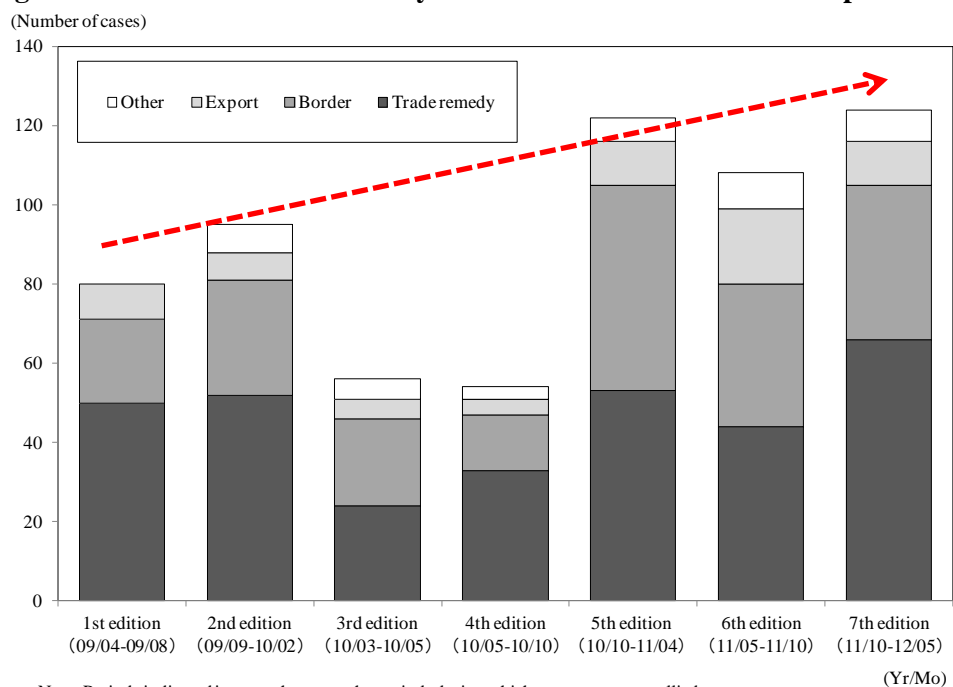
Protectionism changing its form

Since 2011, there are signs of a resurgence of protectionist measures. Recent trends can be characterized by (1) expansion of protectionist measures by major countries, (2) a shift from tariffs to nontariff measures, and (3) the accumulation of measures. According to the WTO, the trade coverage of G20 protectionist measures put in place is estimated to be around 3% of world merchandise trade.

Anti-dumping investigations decline in the long term

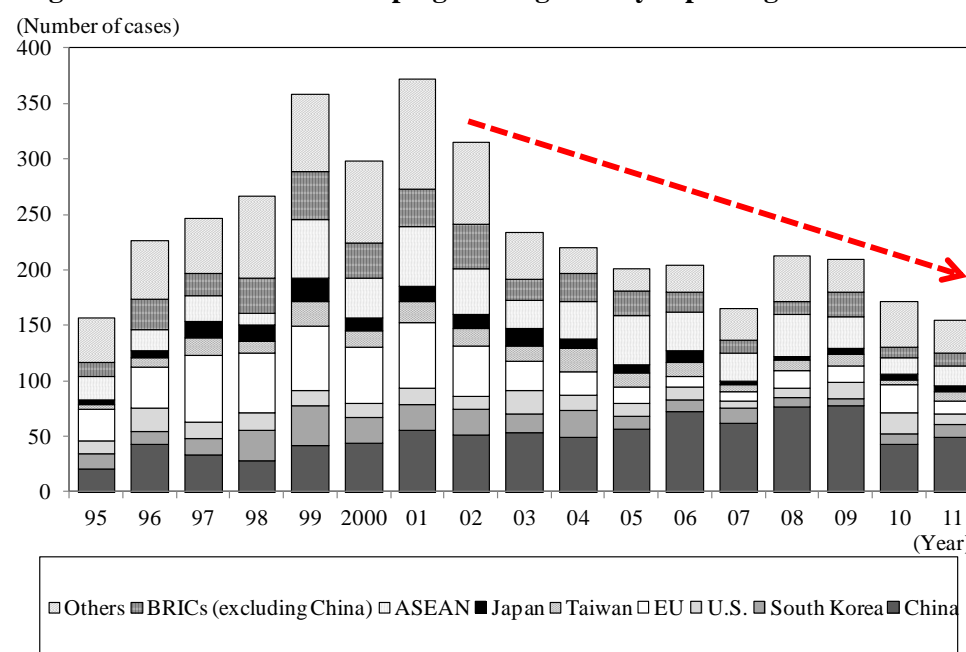
The number of anti-dumping investigations, believed to increase during recessions, is on the decline in the long term. Even in the aftermath of the Lehman Shock, the number of investigations increased only slightly, unlike the sharp rise observed a decade ago. The multilateral trade rules are evaluated to have worked as a deterrent.

Fig. II-6 Protectionist measures by G20 countries based on WTO reports



Note: Periods indicated in parentheses are the periods during which measures were tallied.
Source: WTO.

Fig. II-7 Number of anti-dumping investigation by exporting countries



Note: For the EU, the number of investigations for the EU and that for individual member states were added together.
Source: WTO.

Challenges in the development of multilateral trade rules

Companies developing independent responses while rules regulating export restrictions are not fully functioning

Insufficient rules regarding exports is cited as one of the problems in multilateral trade rules. There have been moves in recent years to clarify export rules in the course of dispute settlements at the WTO. At present, however, there are many loopholes to allow export restrictions under exceptional circumstances, and India, China and Russia, among others, have been introducing export restrictions in such areas as foodstuffs and resources. Japanese companies have strong concerns about China's strengthening of its rare earth control policy, and are taking measures such as diversifying the sources of supply.

Responses to international application of competition law are necessary

Similarly, competition law (also called antimonopoly law or antitrust law) is another area where the development of multilateral rules necessary for modern business activities is inadequate. In tandem with globalization of corporate activities, it is necessary to take full responses to competition law in major countries/regions, in particular cartels laws and M&A regulations.

Fig. II-8 Recent efforts regarding rare earths by the Japanese government and firms

	Entities	Overview
Diversification of supply sources	Toyota Tsusho/Sojitz	Concluded a memorandum with Vietnam's Lai Chau-VIMICO Rare Earth Co. on the joint development of the Dong Pao rare earth mine in Vietnam in May 2012. They will produce lanthanum (optical lenses, etc.), cerium (glass abrasive compound, etc.) and neodymium (motor magnets, etc.). The project was confirmed in a joint statement by the leaders of Japan and Vietnam in October 2011.
	Sojitz/Japan Oil, Gas and Metals National Corporation	In March 2011, they provided a total of US\$250 million (about 20 billion yen) to Lynas Corp. of Australia in investment and loans and concluded a long-term contract to export rare earth (cerium and lanthanum) produced at the Mount Weld mine owned by Lynas to Japan over 10 years.
	Hitachi Metals	In August 2011, Hitachi Metals entered into a master supply agreement for the supply of rare earth materials for neodymium magnets with Molycorp, a major U.S. rare earth supplier. Molycorp holds controlling interests in the Mountain Pass mine in California, one of the world's largest rare earth mines.
	Toyota Tsusho	Beginning in August 2012, Toyota Tsusho plans to produce and export rare earth oxides jointly with Indian Rare Earth, a resources development firm affiliated with the Indian government. Some 3,000-4,000 tons a year expected.
Development of technology to curb use of rare earth	Shin-Etsu Chemical	Commercialized production facilities that are capable of halving the use of dysprosium, a material for high-performance magnets used in air compressors (reported in May 2012).
	Panasonic	Developed the technology, jointly with Mitsubishi Chemical and National Institute of Advanced Industrial Science and Technology, to maintain the performance of high-performance fluorescent lamps even when the use of europium and terbium by 20% (reported in August 2011).
	Ministry of Economy, Trade and Industry	As the "project to support the reduction of use of rare earth and rare metals and replace parts using these materials" in FY2011, METI selected for subsidization a total of 49 projects in February 2012, including one for the commercialization and development of magnetic motors using lesser or no dysprosium.
Recycling technology	Honda Motor/Japan Metals & Chemicals	In April 2012, they established the technology to extract misch metal, a mixture of rare earth, contained in recovered used nickel-hydrogen batteries for hybrid vehicles in the mass-production process of a recycling plant, and started the recycling in late April for the first time in the world.
	Hitachi Group	The Group is developing the technology to separate and recover rare earth magnets in discarded products (or used products) and also conducting research on the environment-friendly technology to recycle recovered magnets.
	Ministry of the Environment	In 2011, the ministry established a panel on the recycling system for small electric and electronic equipment and the recycling of useful metals in used products under the Wastes and Recycling Subcommittee of the Central Environment Council, including rare earth in the subject of discussion.

Sources: JETRO reports, press releases of individual companies and various media reports.

Fig. II-9 Background and overview of international application of competition law

Background	
● With the deepening of global competition, coordinated actions of companies have also become complex as a side effect.	→ Strengthened control over international cartels, stronger coordination among competition-related authorities.
● Increase in cross-border M&As.	→ Essential to deal with the prior investigation of M&A deals by competition-related authorities.
● Absence of international rules. In the 2000s, many developing countries established competition law.	→ Necessary to deal with competition law systems that differ by each country/region.
● "Extraterritorial application" of competition law has become common.	→ Companies need to stay alert to the competition environment in countries/regions where they do not have business bases.
Two major themes in the international application of competition law	
Control of cartels	Control of corporate combination (M&A screening)
• Price agreements, bid rigging, division of markets, production restrictions, etc.	• Acquisition of equity stakes/assets above certain levels via mergers, etc.
→ Not only "agreements" but also "exchange of information" under control.	→ Prior notifications to countries/regions where the impact on markets are necessary.
• Escalation of fines.	• Clearance from all relevant authorities essential for the completion of M&A deals.
→ Risk factors that could pressure corporate management.	→ In some cases, it takes more than a year to clear all investigation procedures.
• "Leniency" (exemption/reduction of fines) system taking hold.	• Fines are imposed on failure to give necessary prior notifications.
→ The number of cases charged increasing, with some unexpected spill-over.	→ Important to ascertain all markets where the impact of M&As is likely to reach.
• The U.S. increasingly applying competition law to individuals.	• Some conditions may be attached to approval of M&A deals.
→ Corporate officers involved in cartels imprisoned.	→ Necessary to deal with the remedies enforced by M&A authorities.

Sources: "WTO Handbook" (2003, JETRO) and information obtained from various seminars.

From regional FTAs to FTAs across regions and between major countries

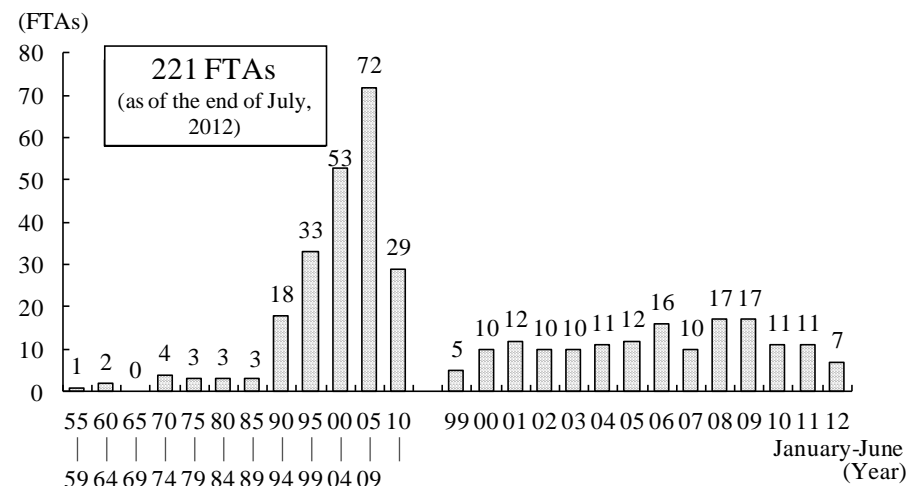
FTAs continuing to spread in the world

The number of FTAs across the world stands at 221 as of July 2, 2012 (including customs unions). As a trend in recent years, cross-regional FTAs and FTAs between major trading partners are increasing.

Looking at the FTA coverage on the basis of the value of trade in 2011 (the ratio of trade with countries/regions with which FTAs are in force to a country/region's overall trade), it was 18.6% for Japan. Japan is making rapid preparations to conclude extensive FTAs with major trading partners.

The Trans-Pacific Partnership (TPP) Agreement and the Regional Comprehensive Economic Partnership in East Asia (RCEP) can be cited as representative cross-regional FTA frameworks. Going forward, Japan needs to deal with trade liberalization at higher levels than in FTAs heretofore concluded.

Fig. II-10 Number of FTAs across the world



Source: The list posted on the WTO website (as of July 2, 2012).

Fig. II-12 Trans-Pacific Partnership (TPP) Agreement and Regional Comprehensive Economic Partnership in East Asia (RCEP)

		TPP	RCEP
Pace of negotiations		<ul style="list-style-type: none"> ◆ Negotiations started in March 2010. ◆ "Broad Outline" announced in November 2011. ◆ 13 negotiating rounds by July 2012. 	<ul style="list-style-type: none"> ◆ Negotiations have yet to start. ◆ ASEAN plus Working Groups getting on with the job aiming for the launch of negotiations by the end of 2012.
	Depth of coverage	<ul style="list-style-type: none"> ◆ Not limited to liberalization of trade in goods and services. ◆ 21 areas of negotiations, including "cross-sectoral items" dealing with consistency between regulatory systems. 	<ul style="list-style-type: none"> ◆ Three Working Groups set up on "Goods," "Services" and "Investment".
Economic scale	GDP (share in the world)	29.8%	28.4%
	Ratio of intra-regional trade	39.0%	44.2%
	Population (share in the world)	9.6%	49.1%

Notes: (1) Data on the economic scale are for 2011. (2) The economic scale of RCEP is based on ASEAN plus Six. (3) The economic scale of TPP is based on the current nine negotiating countries plus Canada and Mexico.

Sources: WEO (IMF) and DOT (IMF).

Fig. II-11 FTA coverage of major countries (%)

	FTA coverage rate			Country/Region with FTA in force (Exports + Imports)		
	Exports + Imports	Exports	Imports	First	Second	Third
Japan	18.6	19.1	18.2	ASEAN (14.8)	India (1.1)	Switzerland (1.0)
U.S.	38.8	45.3	34.4	NAFTA (28.7)	South Korea (2.7)	DR-CAFTA (1.6)
Canada	67.1	76.0	58.7	NAFTA (65.0)	EFTA (1.3)	Peru (0.6)
Mexico	81.4	92.1	70.7	NAFTA (67.0)	EU (8.1)	Japan (2.7)
Chile	91.2	89.8	93.0	China (19.8)	EU (16.5)	U.S. (15.5)
Peru	75.6	75.0	76.3	China (15.9)	U.S. (15.8)	CAN (8.5)
EU	Total Trade Value	73.8	72.8	EU (64.1)	Switzerland (2.5)	EEA (1.6)
	External Trade	26.4	29.6	Switzerland (6.6)	EEA (4.2)	Turkey (3.7)
South Korea	34.0	36.5	31.5	ASEAN (11.6)	EU (9.6)	U.S. (9.3)
China	16.2	12.3	20.5	ASEAN (10.0)	Taiwan (4.4)	Chile (0.9)
India	17.9	21.6	15.4	ASEAN (9.9)	South Korea (2.2)	Japan (2.2)
Singapore	62.7	63.6	62.2	ASEAN (23.0)	China (10.3)	U.S. (9.0)
ASEAN	60.0	59.2	60.8	ASEAN (24.7)	China (13.7)	Japan (10.4)
Australia	26.0	18.2	35.0	ASEAN (14.0)	U.S. (7.2)	New Zealand (3.1)
New Zealand	47.0	47.7	46.3	Australia (18.8)	China (14.3)	ASEAN (11.8)

Notes: (1) The FTA coverage is the ratio of trade with countries/regions with which FTAs are in force (as of the end of July 2012) to overall trade. The coverage is based on trade statistics for 2011. (2) Acronyms are used for the FTA among the United States and the Dominican Republic and Central American countries (DR-CAFTA), the Comunidad Andina (CAN) and the European Economic Area (EEA). (3) China excludes Hong Kong (7.6%) and Macao (0.1%). (4) FTAs for ASEAN include those that have yet to take effect in some member states, but the value of trade for all member states were added up. (5) For Canada, Singapore and New Zealand, export statistics that exclude re-exports were adopted.

Sources: data from individual governments, DOT (IMF) and trade statistics of individual countries.

Japan accelerating preparations for large-scale FTAs

Progress seen toward negotiations among Japan, China and South Korea and between Japan and the EU

At the trilateral summit of Japan, China and South Korea in May 2012, the three countries endorsed that the trilateral FTA negotiations would be launched by the end of 2012. In late May 2012, Japan also completed prior consultations (scoping exercise) conducted for the launch of FTA negotiations with the EU.

The current status of wide-area FTA schemes

The East Asia Summit in November 2011 adopted the framework of the Regional Comprehensive Economic Partnership (RCEP). If realized, it would complete a huge economic bloc to trade with for Japan, next to FTAAP. Japan is also proceeding with consultations with countries concerned toward the participation in TPP negotiations.

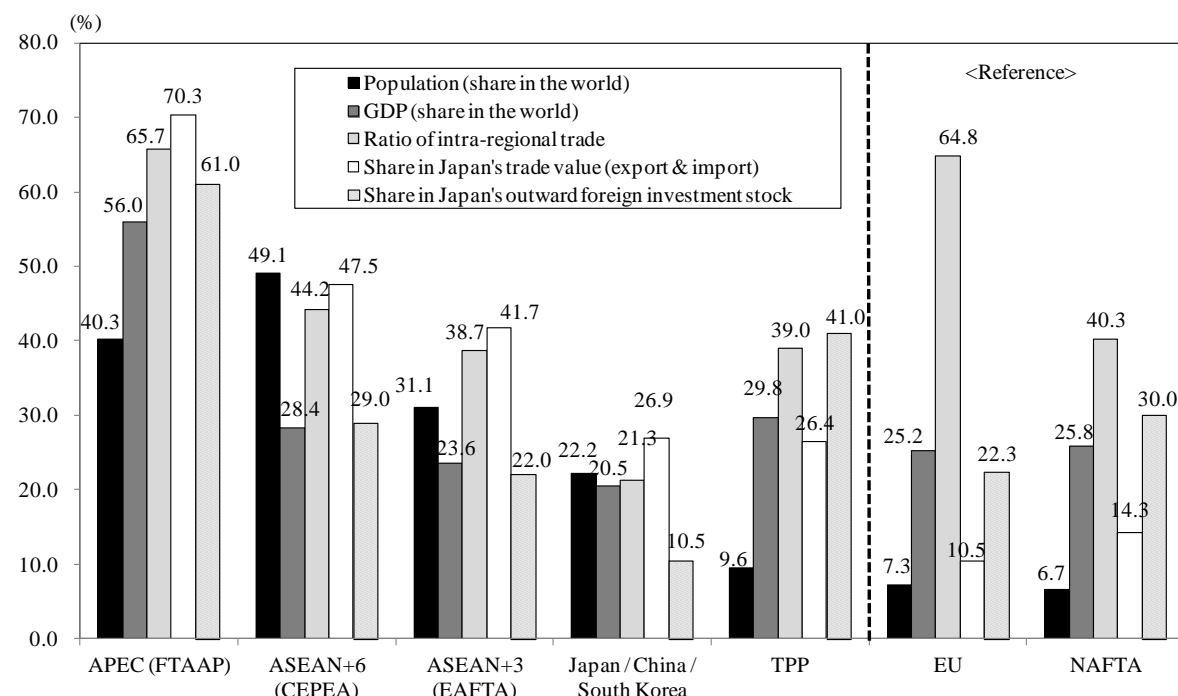
Fig. II-13 The status of FTAs for Japan, China and South Korea (%)

		Japan	Exports / Imports Share	South Korea	Exports / Imports Share	China	Exports / Imports Share
Asia-Pacific	ASEAN	In force	14.8	In force	11.6	In force	10.0
	Singapore	In force	2.1	In force	2.8	In force	1.7
	Malaysia	In force	2.9	In force (ASEAN)	1.6	In force (ASEAN)	2.5
	Thailand	In force	3.7	In force (ASEAN)	1.3	In force (ASEAN)	1.8
	Indonesia	In force	3.1	In force (ASEAN)	2.9	In force (ASEAN)	1.7
	Brunei	In force	0.4	In force (ASEAN)	0.2	In force (ASEAN)	0.0
	Philippines	In force	1.2	In force (ASEAN)	1.0	In force (ASEAN)	0.9
	Vietnam	In force	1.3	In force (ASEAN)	1.7	In force (ASEAN)	1.1
	India	In force	1.1	In force	1.9	(APTA members)	2.0
	Australia	Under negotiations	4.5	Under negotiations	3.2	Under negotiations	3.2
	New Zealand	—	0.3	Under negotiations	0.2	In force	0.2
	Mongolia	Under negotiations	0.0	—	0.0	—	0.2
	Japan	—	—	Negotiations suspended	10.0	—	9.4
	China	—	20.6	Under negotiations	20.4	—	—
	South Korea	Negotiations suspended	6.3	—	—	Under negotiations	6.7
Japan / China / South Korea	Endorsed to start negotiations within 2012	26.9	Endorsed to start negotiations within 2012	30.4	Endorsed to start negotiations within 2012	16.1	
	Taiwan	—	4.4	—	3.0	In force	4.4
North America / Central and South America	Pakistan	—	0.1	—	0.1	In force	0.3
	U.S.	—	11.9	In force	9.3	—	12.2
Europe	Canada	Agreed to start negotiations	1.3	Under negotiations	1.1	—	1.3
	Mexico	In force	0.9	Under negotiations	1.1	—	0.9
	Chile	In force	0.7	In force	0.7	In force	0.9
	Peru	In force	0.2	In force	0.3	In force	0.3
	Colombia	Joint study	0.1	Negotiations concluded	0.2	Joint study	0.2
	Costa Rica	—	0.1	—	0.1	In force	0.1
	EU	Preliminary talks completed	10.5	In force (provisional)	9.6	—	15.6
Other	EFTA	—	1.3	In force	0.7	—	0.6
	Switzerland	In force	1.0	In force (EFTA)	0.3	Under negotiations	0.4
	Norway	—	0.2	In force (EFTA)	0.3	Under negotiations	0.2
	Iceland	—	0.0	In force (EFTA)	0.0	Under negotiations	0.0
	Turkey	—	0.2	Under negotiations	0.5	—	0.5
Other	Trans-Pacific Partnership (TPP)	Consultations for participation in negotiations	26.4 (18.0)	— (5.6)	— (17.6)	—	
	Gulf Cooperation Council (GCC)	Under negotiations	9.7	Under negotiations	10.4	Under negotiations	3.7
FTA coverage		Total in force	18.6	Total in force	34.0	Total in force	16.2

Notes: (1) The coverage is based on trade statistics for 2011. (2) APTA: Asia-Pacific Trade Agreement. (3) The figure in the upper row for TPP is the share vs. 11 countries, including Canada and Mexico, while the figure in the lower row is the share vs. countries among them with which FTAs are not yet in force. (4) The FTA coverage of China does not include Hong Kong and Macao.

Sources: Data from individual governments and trade statistics of individual countries.

Fig. II-14 Positions of wide-area FTA schemes in the world



Notes: (1) The world population is the sum of 181 countries. (2) Regarding the balance of outward FDI from Japan, due to statistical constraints, 1. Brunei and Papua New Guinea are excluded; 2. Local statistics were used for Chile and Peru. (3) TPP includes the current nine negotiating countries plus Canada and Mexico.

Sources: "WEO, April 2012" (IMF), "DOT, June 2012" (IMF), "Trade Statistics" (Ministry of Finance), "Regional Direct Investment Position" (Ministry of Finance, Bank of Japan), "Foreign Exchange Rates" (Bank of Japan), Comité de Inversiones Extranjeras (Chile) and Agencia de Promoción de la Inversión Privada.

Impact of Japan's TPP announcement and Japan's role on FTTAP

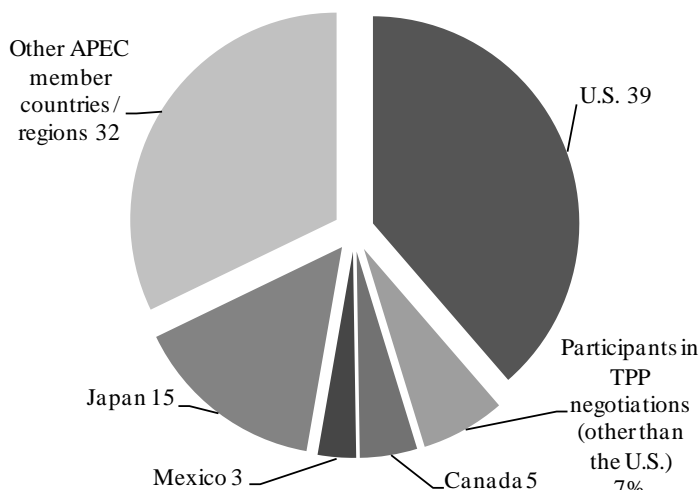
■ Japan's announcement of intent to join consultations on TPP participation affects other countries' policies

Japan's announcement of its intent to join consultations on participation in the TPP encouraged the participation of Canada and Mexico, raised Asian countries' interest in the TPP and also contributed to progress in discussions on other FTAs, including the FTA between Japan and the EU, the FTA among Japan, China and South Korea, and RCEP. Japan's FTA policy has an extensive impact.

■ Japan's role on FTTAP's realization

The share of Japan's nominal GDP in APEC member countries/regions is 15%. The share of the current participants in the TPP Agreement negotiations is 46%, but the U.S. accounts for 39% of that. The participation of Japan, Canada and Mexico in the TPP would raise the combined share to 68%, bringing the realization of FTTAP a step closer. When Japanese companies export their products and make direct investment overseas, they encounter a variety of trade and investment impediments in partner countries. There are numerous trade and investment rules that Japan wants to institute under the TPP Agreement, including those concerning investment restrictions and customs procedures in partner countries.

Fig. II-15 Nominal GDP shares of APEC member countries/regions (% , 2011)



Source: WEO, April 2012 (IMF)

Fig. II-16 Rules Japan wants to seek for trade/investment partner countries through TPP

Objective	Examples of trade rules Japan wants partner countries to agree to
Prevent discrimination against Japanese exports	Prohibit measures to favor home-made products Administer trade remedies (such as safeguards) appropriately
Prevent relative rises in environmental / labor costs in Japan	Abide by international environmental/labor rules Prohibit the easing of environmental/labor regulations for the purpose of attracting investment Introduce the mechanism to monitor the implementation of environmental/labor regulations
Protect technologies	Prohibit the government's demands for the transfer of technology Develop rules concerning disclosure of technology
Earn profits from technology	Prohibit government intervention in licensing agreements between business operators
Protect intellectual property	Toughen control over counterfeit products and pirated versions
Prevent abrupt changes in regulations by partner countries	Improve explanation procedures before changes in regulations Make the reception of public comments obligatory
Remove handicaps in undertaking business operations in partner countries	Prohibit capital controls Restrict demands for employment of own people Restrict preferential measures for domestic firms in government procurement
Secure the stable supply of resources	Prohibit export restrictions on resources Prohibit the imposition of export taxes on resources exports Prevent arbitrary regulations on resources development
Protect the safety and security of products	Develop the system for sharing safety standards and accident information through database development and coordination among relevant organizations
Make efficient distribution possible/Simplify export and import procedures	Develop advance instruction systems for customs clearance, realize the "single window" Centralize information on tariff/country of origin rules Promote development of efficient transportation infrastructure Enhance logistic services through training programs provided to distribution service operators Reduce logistics costs by the use of wireless tags and the Internet, reduce environmental load, realize enhanced safety

Source: METI data.

Impact of South Korea's large-scale FTAs

■ EU imports from South Korea increase one year after the effectuation of the FTA

The FTA between the EU and South Korea marked its first anniversary of its effectuation in July 2001. The trade statistics for the first nine months after the FTA went into force show that even amid the deteriorating euro zone debt crisis, the value of the EU's imports from South Korea of items whose general tariff rates are not zero increased, leading to the positive ratings of the FTA particularly from South Korea's automotive and textile industries. The EU's machinery and automobile industries are placing high expectations on increased exports to South Korea.

■ The impact of the U.S.-South Korea FTA on Japanese firms feared

The FTA between the U.S. and South Korea took effect on March 15, 2012. Japan and South Korea are in fierce competition in that the top three items in U.S. imports from Japan and South Korea are automobiles/auto parts, general machinery and electric equipment and their combined share is about 70%. Tariff advantages for South Korea are becoming apparent gradually. Japan still has an edge in automobiles, partly thanks to local production. But South Korea is fast catching up in electric equipment, and South Korea's competitiveness poses a threat to Japan in some types of general machinery

Fig. II-17 EU imports from Japan and South Korea (July, 2011 – March, 2012)

HS Code	Item	EU Base Tariff Rate (FTA Tariff Rate: %)	South Korea		Japan		Total Value of EU Imports July 2011 - March 2012
			July 2011 - March 2012	Estimated Tariff Amount Saved	July 2011 - March 2012	Estimated Tariffs Paid	
			(Value: US\$1,000)	(YoY: %)	(Value: US\$1,000)	(YoY: %)	
87033219	Passenger cars with engines over 1,500cc up to 2,500cc (diesel)	10.0 (7.0)	2,009,189 55.5	200,919 (60,276)	2,176,167 -28.0	217,617	8,041,946 17.4
85299092	Television modules, etc.	5.0 (0)	1,222,593 -59.5	61,130	332,249 -25.5	16,612 (Note (4))	5,562,385 -34.9
87032210	Passenger cars with engines over 1,000cc up to 1,500cc (gasoline)	10.0 (8.3)	715,049 129.3	71,505 (12,156)	859,348 5.5	85,935	5,037,233 13.2
40111000	Rubber tires for passenger cars	4.5 (3.0)	487,151 -0.4	21,922 (7,307)	644,926 21.9	29,022	4,560,981 21.3
87033319	Passenger cars with engines over 2,500cc (diesel)	10.0 (7.0)	55,793 -57.9	5,579 (1,674)	636,729 -6.6	63,673	3,643,417 30.5
87032319	Passenger cars with engines over 1,500cc up to 3,000cc (gasoline)	10.0 (7.0)	641,792 52.8	64,179 (19,254)	1,767,903 -26.6	176,790	3,567,133 -27.4
84099900	Parts for diesel engines, etc.	2.7 (0)	199,889 30.8	5,397	534,575 9.7	14,434	3,545,112 15.6
87089997	Other auto parts	3.5 (0)	198,236 -23.2	6,938	639,741 -0.1	22,391	3,077,052 4.9
73269098	Other steel products	2.7 (0)	107,469 5.2	2,902	104,030 8.3	2,809	2,266,835 7.3
85371099	Electric control / distribution boards, panels of up to 1,000 volts, etc.	2.1 (0)	122,758 17.2	2,578	179,690 6.0	3,773	1,661,945 24.2
85258019	Television cameras	4.9 (0)	97,036 -11.2	4,755	153,046 -45.3	7,499	1,087,833 -10.8
85078030	Lithium-ion storage batteries (Note (5))	2.7 (0)	68,493 100.2	1,849	305,030 144.9	8,236	925,823 66.4
Total for taxable items			20,772,865 -14.6	1,120,056	42,171,511 -3.9	2,056,696	-
Total amount			37,184,756 -4.2	-	67,810,369 -1.9	-	1,758,718,739 7.2

Notes: (1) Taxable items for which the EU's base tariff rate is not zero and whose exports to the EU from Japan and South Korea are US\$100 million or more. (2) The FTA Tariff Rate is the EU's bound tariff rate for the first year under the EU-Korea FTA. The figure in the parenthesis in the "Estimated Tariff Amount Saved" column shows the amount saved based on that tariff rate. (3) The total tariff amount for all taxable items was calculated based on only items for which the ad valorem tariff rate is set of all taxable items. (4) Currently, the EU voluntarily has suspended the imposition of general tariffs on plasma and LCD display modules. (5) As the classification of lithium-ion storage batteries (8507.8030) was changed in 2012, they were tallied under 8507.8000 for January-March 2012.

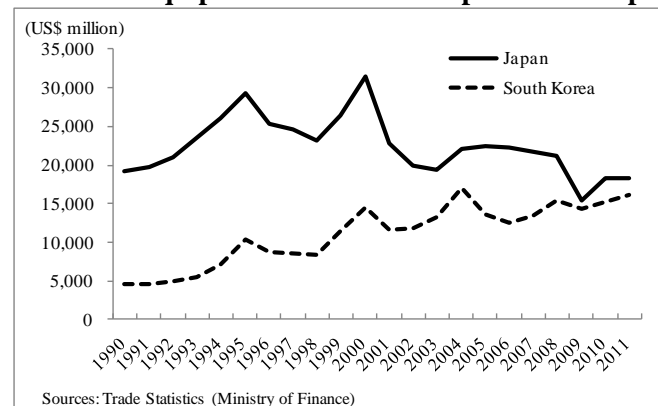
Sources: EU trade statistics, EU tariff schedule and WTO Tariff Analysis Online

Fig. II-18 U.S. imports from Japan and South Korea by product (US\$ million)

Exporter	Item	2009	2010	2011	January-May 2012	Share (%)	YoY (%)
Japan	Total	95,804	120,545	128,811	61,771	100.0	25.0
	Automobiles / Auto parts	31,490	41,571	41,042	21,776	35.3	48.8
	General machinery	19,413	24,887	31,160	14,621	23.7	22.2
	Electric equipment	15,368	18,353	18,299	8,350	13.5	15.8
	Precision instruments	4,839	6,124	6,899	2,855	4.6	7.8
South Korea	Total	39,216	48,875	56,636	24,692	100.0	8.1
	Automobiles / Auto parts	7,191	9,259	11,960	6,364	25.8	34.8
	Electric equipment	14,244	15,267	16,078	5,369	21.8	△20.4
	General machinery	6,740	9,341	10,341	4,841	19.6	16.5
	Articles of Iron or Steel	1,054	1,544	2,145	1,176	4.8	53.9
Mineral fuels	1,648	2,416	2,661	1,003	4.1	2.1	

Source: U.S. trade statistics (Department of Commerce).

Fig. II-19 U.S. Electric Equipments and Parts Import from Japan and South Korea



Japan's potential FTA partners

Countries/regions with which Japan has yet to conclude or consider FTAs and in which Japanese firms can expect to expand business are the following 10 countries/regions (Hong Kong, Panama, Liberia, Marshal Islands and Iran are excluded from the top 50 countries/regions in terms of the value of Japan's exports). While all of them are important countries/regions as destinations of Japan's automobiles, machinery, electric equipment and steel, etc., with some exceptions, they tend to have high tariff rates and low degrees of liberalization of services, and their investment rules are not well-developed.

Fig. II-20 Major countries/regions with which Japan has yet to conclude or consider FTAs

Country / Region	Export ranking	Export value (2011, US\$ million)	Japan's main export items / Share (%) / MFN average tariff rate (%)									All items MFN average-tariff rate (%)	FDI (2005-2011 Cumulative, US\$)	No. of Japanese firms (2011)	No. of WTO services commitments	Investment agreement conclusion	Major FTAs concluded
			Electric equipment	21.7	4.2	General machinery	17.9	3.3	Plastics	6.9	4.0						
Taiwan	4	50,692	Electric equipment	21.7	4.2	General machinery	17.9	3.3	Plastics	6.9	4.0	5.6	4,862	996	119	September 2011 (Private)	Six countries, including Panama. Concluded the Economic Cooperation Framework Agreement (ECFA) with China.
Russia	15	11,801	Automobiles	65.5	10.6	General machinery	14.9	9.0	Electric equipment	4.4	12.7	10.3	1,739	427	116	May 2000	Concluded customs union agreements with CIS countries, and FTAs with Serbia and Montenegro.
Brazil	26	6,195	General machinery	32.0	12.1	Automobiles	25.6	19.0	Electric equipment	9.8	12.6	12.5	25,350	360	43	Unconcluded	Joined the Mercado Comun del Cone Sur (MERCOSUR) and the Asociacion Latinoamericana de Integracion (ALADI). Concluded FTAs as MERCOSUR with Israel and Egypt. An FTA with the EU is under negotiation.
South Africa	28	4,311	Automobiles	47.2	11.5	General machinery	27.1	2.2	Electric equipment	5.3	5.5	7.8	1,885	212	91	Unconcluded	Joined the Southern African Customs Union (SACU) and the Southern African Development Community (SADC), and concluded the South Africa-EU Trade and Development Cooperation Agreement (TDCA). Concluded the FTA with the European Free Trade Association (EFTA) as the SACU.
Turkey	31	3,066	General machinery	31.4	2.0	Automobiles	25.4	5.6	Steel	9.5	5.5	4.0	524	68	77	Unconcluded	Concluded the customs union and EFTA with the EU and bilateral FTAs with 14 countries, including Israel. An FTA with South Korea under negotiations.
Israel	35	2,175	General machinery	37.3	5.1	Automobiles	32.1	5.0	Precision instruments	6.1	3.7	5.2	16	25	58	Unconcluded	Concluded bilateral FTAs with the U.S., Canada, Turkey and Mexico and also FTAs with the EU, EFTA and MERCOSUR. Has private-sector joint research with South Korea.
Pakistan	42	1,696	Automobiles	42.7	41.9	General machinery	22.2	10.8	Steel	10.7	10.8	15.8	264	72	45	May 2012	Joined the South Asia Free Trade Area (SAFTA) and concluded FTAs with China, Malaysia and Sri Lanka. Concluded the Trade and Investment Framework Agreement with the U.S.
Norway	45	1,402	Automobiles	44.5	0.0	Steel products	32.0	0.0	General machinery	8.6	0.0	7.0	539	49	111	Unconcluded	Joined the EFTA and concluded FTAs with 20 countries as the EFTA. Also signed FTAs with two countries, are negotiating FTAs with six countries, and considering FTAs with two countries.
Egypt	47	1,337	Automobiles	32.5	21.7	General machinery	25.9	5.2	Electric equipment	9.5	7.9	17.4	300	52	44	January 1978	Concluded FTAs with the EU, EFTA and MERCOSUR as well as bilateral FTAs with Turkey and other Middle East countries. Agreed with Russia to start negotiations on an FTA.
Bangladesh	50	1,069	Steel	34.4	11.2	Automobiles	24.0	16.2	General machinery	17.6	6.6	12.9	399	246	9	August 1999	Has not concluded any bilateral FTA. Joined the south Asia Free Trade Area (SAFTA).

Note: Export items for Japan are based on the HS Code two-digit classification

Sources: Trade Statistics/Direct Investment (Ministry of Finance), Tariff Analysis Online (WTO), Annual Report of Statistics on Japanese Nationals Overseas (Ministry of Foreign Affairs), WTO website, METI statistics, J-File (JETRO) and various media

Utilization of FTAs by Japanese firms steadily rising

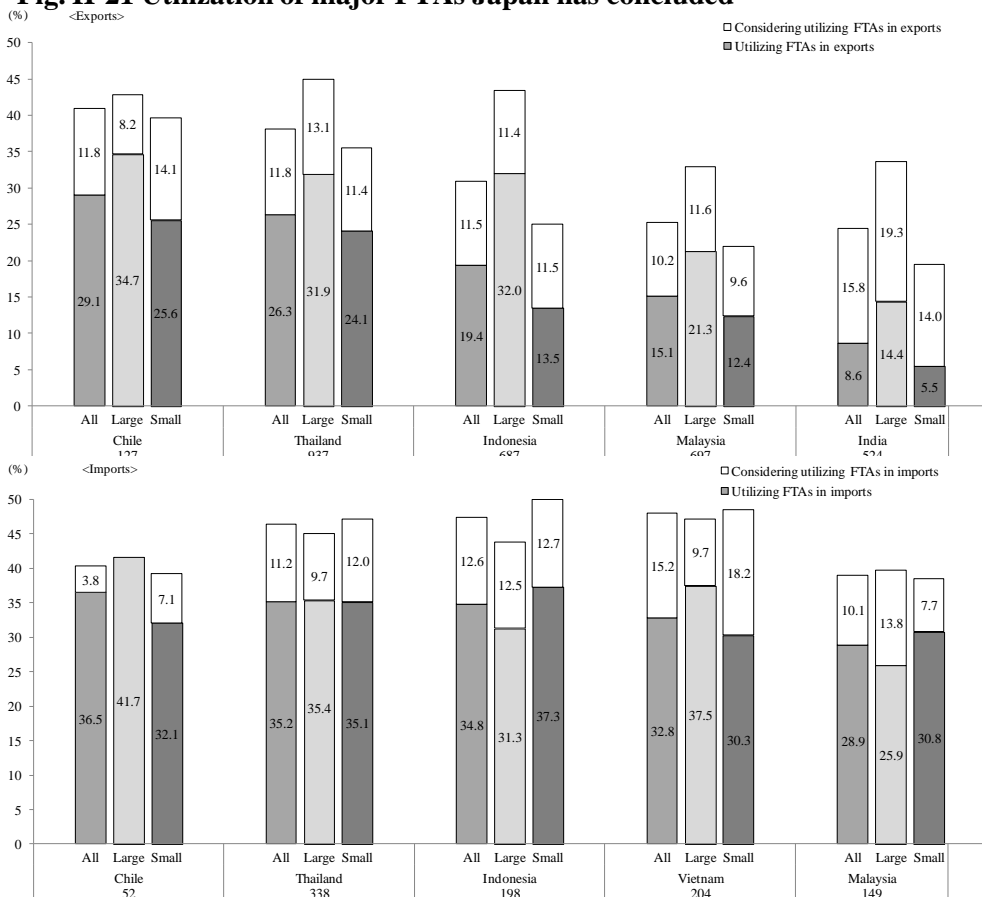
FTA utilization particularly high for imports

Regarding Japan's FTA utilization, among companies engaged in trade with FTA-covered countries, the utilization rate is particularly high for Chile, Thailand and Indonesia.

Japanese firms' utilization of FTAs between third countries expanding each year

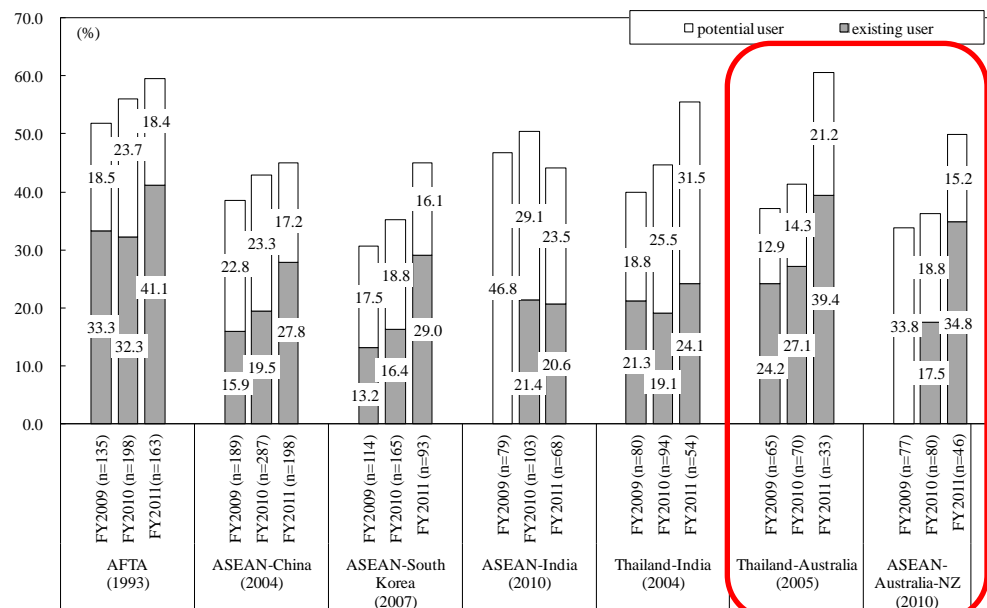
Japanese firms' utilization of FTAs concluded between third countries is expanding. In FY2011, the utilization of FTAs between ASEAN and Oceania showed a notable increase. Even among small and medium-sized firms, the ratio of existing and potential users topped 40% in all the FTAs between third countries. These trends show that Japanese firms are making good use of ASEAN+1 FTAs to engage in transactions with countries with which Japan itself has not concluded FTAs.

Fig. II-21 Utilization of major FTAs Japan has concluded



Note: The number of firms is the number of firms that are exporting from Japan to respective countries or importing into Japan from respective countries. Large means large corporations, while Small means small and medium-sized firms.
Source: FY2011 Survey on the International Operations of Japanese Firms (JETRO).

Fig. II-22 Japanese firms' utilization of ASEAN+1 FTA



Notes: (1) The figures in parentheses indicate the years when they took effect. n indicates the number of firms engaged in trade between countries for which FTAs are in force. (2) There is no figure for "existing user" for FY2009 as FTAs for ASEAN-India and ASEAN-Australia-NZ were not in force at the time. (3) The number of firms that responded to the surveys was 935 for FY2009, 1,002 for FY2010, and 1,034 for FY2011. FY2011 covers only comparable JETRO Members firms.
Source: "Survey on the International Operations of Japanese Firms: FY2009-2011" (JETRO).

Encouraging FTA utilization by small and medium-sized firms

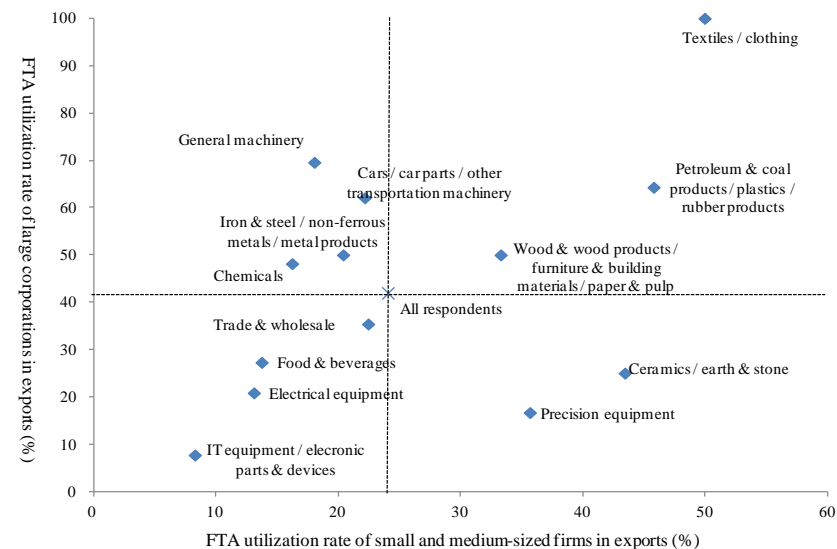
■ Status of FTA utilization by small and medium-sized firms

Looking at the utilization of FTAs by small and medium-sized firms by industry sector, there is a big gap between them and large corporations in the utilization for exports. In imports, there is little difference in the status of FTA utilization between large corporations and small and medium-sized firms in most industries.

As reasons for low utilization of FTAs in exports, the highest percentage of small and medium-sized firms says that they “do not know systems or procedures.” Among such industry sectors as general machinery, automobiles, chemicals and steel/metal products where a significant gap was observed in FTA utilization between large corporations and small and medium-sized firms, the ratio of firms saying they “do not know systems or procedures” substantially exceeded 30%.

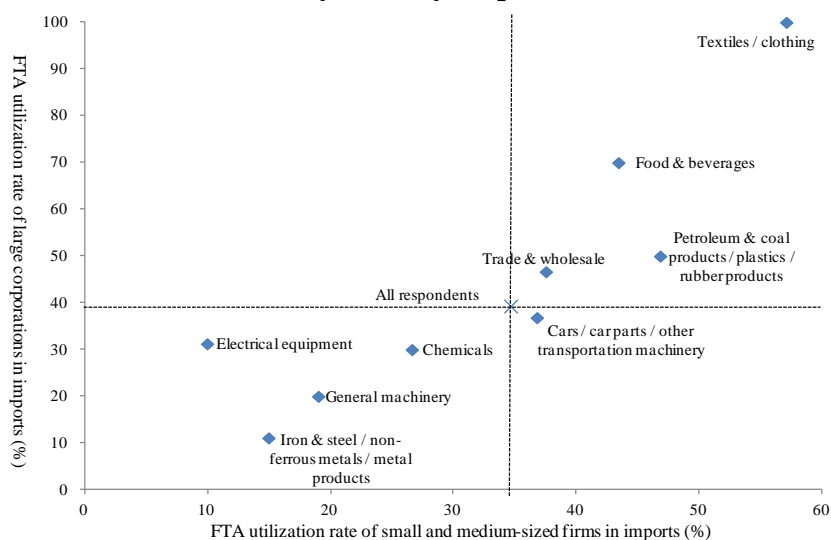
As even small and medium-sized firms are not shielded from international competition now, even exporting countries that do not directly get involved in tariff payments should consider indirectly obtaining appropriate cost merits by utilizing FTAs.

Fig. II-23 FTA utilization rate by industry (exports)



Note: The FTA utilization rate for large corporations and small and medium-sized firms, with the parameter being the number of firms exporting from Japan to one or more countries covered. Only industry sectors with the number of firms of 25 or more are shown. “Other manufacturing” and “Other non-manufacturing” are excluded.
Source: FY2011 Survey on the International Operations of Japanese Firms (JETRO).

Fig. II-24 FTA utilization rate by industry (imports)



Note: The FTA utilization rate for large corporations and small and medium-sized firms, with the parameter being the number of firms importing from Japan to one or more countries covered. Only industry sectors with the number of firms of 25 or more are shown. “Other manufacturing” and “Other non-manufacturing” are excluded.
Source: FY2011 Survey on the International Operations of Japanese Firms (JETRO).

Fig. II-25 Reasons small and medium-sized firms are not utilizing preferential FTA tariff rates in exports

Item		%
Not aware of FTA/EPA systems or procedures		29.9
No need to utilize FTAs as the applied tariff rates are zero in export destination countries		17.7
See little merit in utilizing FTAs as the difference between base tariff rates and FTA preferential tariff rates is minimal in export destination countries		16.3
No need to utilize FTAs as import duties are already exempt in export destination countries through schemes other than FTAs such as export processing zones and various bonding systems		10.8
Could not satisfy the requirements for the Rules of Origin		8.2
Other (Free description)	Exports are direct exports via third parties such as trading firms	3.4
	No requests from importers, outside own business operations	3.2
	19.1% Export volumes or export amounts are small	3.0
	Procedures are cumbersome, costs are high	2.2
	Export items are outside the scope of preferential tariff rates	1.6
	Exports take the form of tripartite trade via third countries	1.0
	Others (See no merit, Do not know, etc.)	1.6

Note: The tallying was limited to small and medium-sized firms (Parameter: 498 firms).

39 Source: FY2011 Survey on the International Operations of Japanese Firms (JETRO).

Expanding free trade areas in Asia

■ Use of ASEAN+1FTA expanding, strategic FTA utilization necessary

Statistics below show the expanding utilization of ASEAN+1 FTAs. Since different tariff rates under individual FTAs may prompt the shift in suppliers, it is important to make use of FTAs strategically by taking tariff rates into account.

■ Intra-regional trade ratio rising for ASEAN+6

Completion of ASEAN+1FTA resulted in the increased closeness of countries/regions within the Asia-Pacific region. The value of intra-regional trade for ASEAN+6 soared 4.1 times the 2000 level, and the ratio of intra-regional trade has now run ahead of NAFTA.

Fig. II-26 FTA utilization in Thailand, Malaysia and Vietnam

Country	Partner country / region	FTA	Export value using FTAs (US\$ million)			Share in total exports (%)			
			2009	2010	2011	2009	2010	2011	
Thailand	ASEAN	AFTA	9,671	14,015	15,182	29.9	31.6	28.2	
	China	ASEAN-China	3,990	7,387	9,372	24.8	34.4	34.5	
	South Korea	ASEAN-South Korea	-	881	2,216	-	24.4	48.9	
	India			352	1,466	1,972	11.0	33.4	38.4
		ASEAN-India		-	900	1,224	-	20.5	23.8
		Thailand-India (82 items for Early Harvest Scheme)		352	566	748	69.0	74.1	80.0
	Oceania	Thailand-Australia, ASEAN-Australia, NZ		4,316	5,640	5,131	50.5	55.5	58.5
Japan	Japan-Thailand, ASEAN-Japan		4,281	4,831	6,148	27.3	23.7	25.4	
Malaysia	ASEAN	AFTA	5,186	8,833	11,208	12.8	17.5	20.0	
	China	ASEAN-China	2,381	4,426	7,131	12.4	17.8	23.9	
	South Korea	ASEAN-South Korea	4,195	4,941	4,294	72.5	65.4	50.8	
	India	ASEAN-India	-	703	1,442	-	10.8	15.6	
	Oceania	ASEAN-Australia, NZ	-	861	1,275	-	10.3	13.9	
	Japan	Japan-Malaysia, ASEAN-Japan		2,344	3,038	4,448	15.4	14.6	17.0
Vietnam	ASEAN	AFTA	902	1,453	2,712	10.5	14.0	23.6	
	China	ASEAN-China	1,065	1,832	2,441	21.7	25.1	24.2	
	South Korea	ASEAN-South Korea	1,651	2,012	4,311	80.0	65.1	93.3	
	India	ASEAN-India	-	24	120	-	2.4	9.8	
	Oceania	ASEAN-Australia, NZ	-	250	445	-	8.8	14.3	
	Japan	Japan-Vietnam, ASEAN-Japan		1,750	2,343	3,272	27.8	30.3	31.1
	Total	AFTA		15,758	24,301	29,102	19.4	23.1	24.0
ASEAN-China			7,436	13,645	18,943	18.5	25.4	28.2	
with India			-	2,193	3,534	-	18.4	22.7	
with Japan			8,374	10,212	13,867	22.5	20.9	22.8	

Notes: (1) The category of "Oceania" includes only Australia for 2009. For 2010 onward, the category includes Australia and New Zealand. (2) Multilateral FTAs with countries outside ASEAN may be used between ASEAN countries for the purpose of accumulating the ratios of origin.

Sources: Ministry of Commerce of Thailand, Ministry of International Trade and Industry of Malaysia, Ministry of Commerce and Industry of Vietnam, trade statistics of each country and "DOT, June 2012" (IMF).

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Fig. II-27 Thailand's imports of flat-rolled products (HS722530) by countries

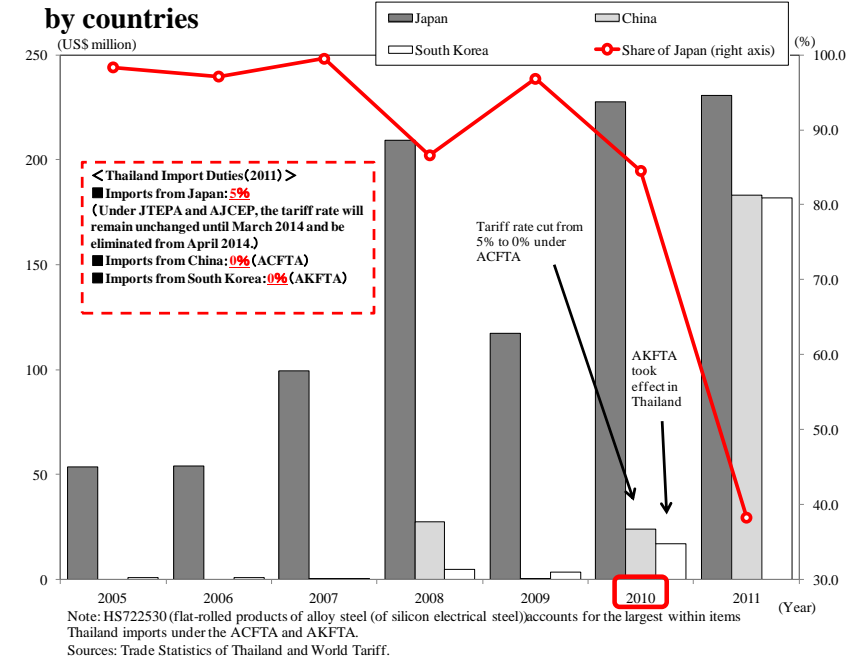


Fig. II-28 Intra-regional trade ratios in the world's major regions

		1980	1990	1995	2000	2005	2010	2011
Asia	ASEAN+6	33.2	33.0	40.3	40.6	43.0	44.1	44.2
	ASEAN+3	28.9	28.6	36.9	37.4	39.1	38.7	38.7
	ASEAN	15.9	17.0	21.0	22.7	24.9	24.6	24.7
	ASEAN+China	14.9	15.8	19.1	20.1	20.7	20.7	21.5
	ASEAN+South Korea	15.1	16.1	20.9	22.4	23.2	23.9	24.3
	ASEAN+India	15.1	16.5	20.7	22.3	23.8	23.4	23.6
	ASEAN+Japan	23.4	21.7	27.4	26.4	26.0	26.7	26.9
	Japan+China+South Korea	10.3	12.3	18.6	20.3	23.7	22.1	21.3
Americas	NAFTA	33.2	37.2	42.0	46.8	43.0	40.0	40.3
Europe	EU27	57.5	65.4	65.4	65.1	65.2	65.2	64.8
APEC		57.5	67.5	71.6	72.3	69.3	67.0	65.7
TPP		36.0	40.0	44.3	48.1	43.5	39.0	39.0

Notes: (1) ASEAN+6 are ASEAN, Japan, China, South Korea, Australia, New Zealand and India. (2) ASEAN+3 are ASEAN, Japan, China and South Korea. (3) The ration of intra-regional trade is calculated as follows: (intra-regional exports + intra-regional imports) / (exports to the world + imports from the world) x 100. (3) TPP includes the current nine negotiating countries plus Canada and Mexico.

Sources: "DOT, June 2012" (IMF) and Trade Statistics of Taiwan.

Chapter 3

Overseas business development of Japanese SMEs and their securing and fostering of global human resources

SMEs accelerating entries into overseas markets

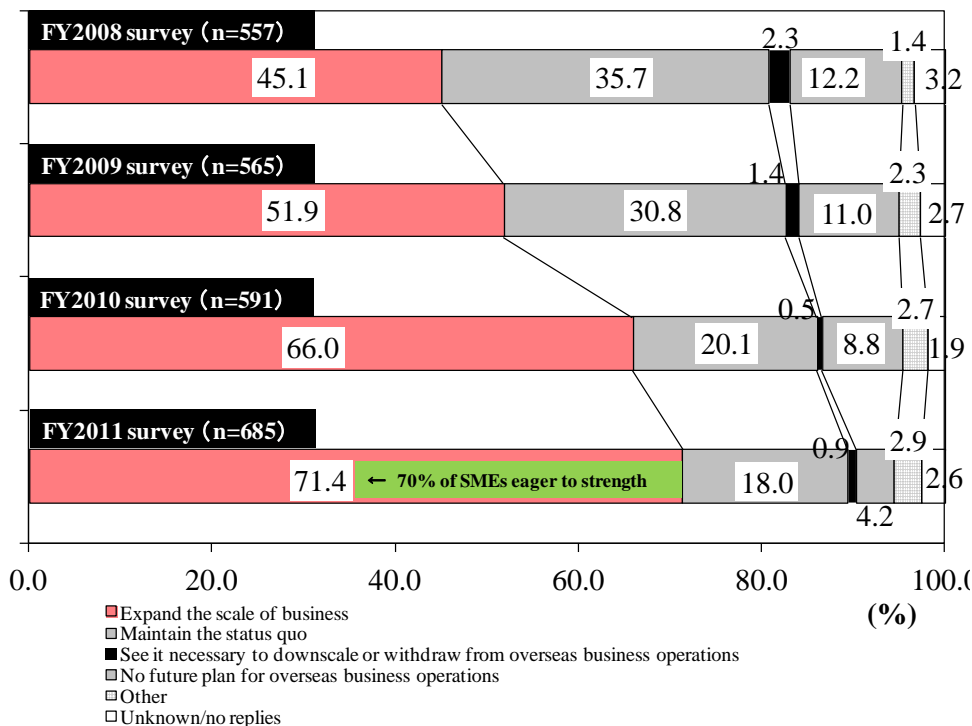
Eagerness to develop overseas business operations rising year by year

The eagerness of small and medium-sized firms (SMEs) to develop overseas markets by moving into other countries (direct investment) has been rising year by year. The JETRO survey asked SMEs interested in overseas business about their future plans (for the coming three years or so) for overseas business operations, and 71.4% of SMEs replied that they will “expand the scale of business.”

Proactive absorption of overseas demand is the biggest reason behind their eagerness to move into overseas markets

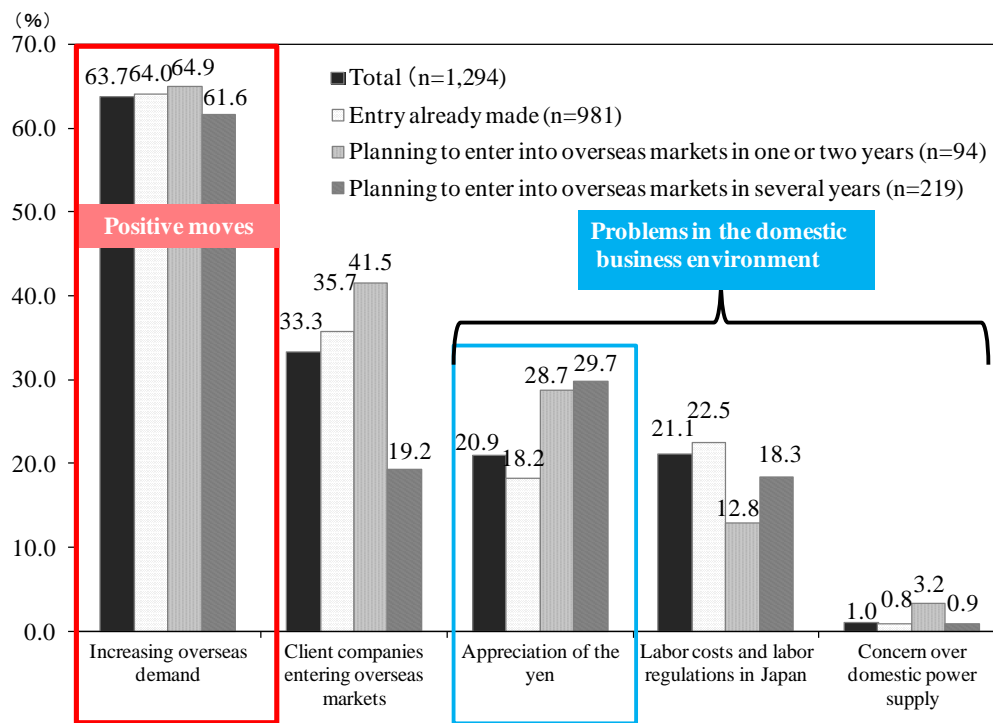
Many SMEs are seeking to advance into overseas markets not necessarily because domestic business operations are getting difficult due to the yen’s appreciation or the earthquake-caused shortage of power supply. The more positive “increasing overseas demand” is the biggest reason. “Increasing overseas demand” was the biggest reason cited by over 60% of firms already operating in overseas markets as well as firms planning to advance into or considering advancing into overseas markets.

Fig. III-1 Plans of SMEs for overseas business operations in the future (the coming three years or so)



Note: Samples were limited to JETRO Members firms for which time-series comparison is possible.
Source: "FY2011 Survey on the International Operations of Japanese Firms (JETRO Overseas Business Survey)" (JETRO).

Fig. III-2 Reasons cited by SMEs for advances into overseas markets



Notes: (1) The parameter (n) excludes firms that gave no reasons for their moves into overseas markets from firms that already advanced into or are planning to advance into and considering advancing into, overseas markets.

(2) Multiple answers were allowed for each item.

Source: "FY2011 Survey on the International Operations of Japanese Firms (JETRO Overseas Business Survey)" (JETRO).

SME parts suppliers entering overseas markets at their own discretion

■ There are also moves for joint entries to avoid risks

In many recent cases, SME parts suppliers are advancing into overseas markets on their own business judgment and at their own risk, rather than following client firms at their requests. SME, while eager to move into overseas markets, face difficulties such as the inability to secure sufficient lots by transactions with existing client firms alone. To deal with such problems, some of them are attempting joint advances into overseas markets. In addition to independent moves in the private sector, local governments are supporting such joint moves. The Toyama prefectural government plans to establish a cluster of factories to rent, “Toyama Monozukuri Park,” in Asia going forward. Entries into overseas markets provide SME suppliers with an opportunity for further growth but also have them face cost competition with Asian companies in overseas markets.

Fig. III-3 Three characteristics and measures for entry into overseas markets by SME parts suppliers

Entries on their own business judgment

SME parts suppliers are advancing into overseas markets on their own business judgment and at their own risk, rather than following client firms at their requests. SME suppliers themselves need to strengthen the development of sales channels and selection of suppliers and establish distribution and services networks and such operations as human resources development, general affairs and accounting.

Competition with Asian companies

In Asian countries, the presence of local firms and other non-Japanese firms, including Taiwanese, South Korean and Chinese firms, is increasing. SME suppliers are commonly aware of “intense competition with local firms” and “demands (from client companies) for costs at the same levels as local firms.” On the other hand, there are widening possibilities that they will become commissioned processors and joint venture partners.

Source: “Business Conditions of Japan’s Small and Medium-sized Parts Suppliers and Their Status and Challenges for Asian Expansion” (JETRO).

Joint entries

Among major impediments to advances into overseas markets by SME parts suppliers are (1) it is not possible to secure sufficient lots by transactions with existing client companies alone; (2) it is becoming difficult to get orders for a single process as orders placed in overseas markets often involve multiple processes; and (3) They face large risks due to limitations on funds and human resources. To cope with these problems, some of them are attempting at joint entries into overseas markets.

Forms of the joint entries

Cooperation among multiple firms	Parent-subsidiary tie-ups	SME complex
<p>【Example: Sheet-metal processing】</p> <ul style="list-style-type: none"> • Enter an overseas market with multiple firms setting up a single local subsidiary. It is premised on them having the same manufacturing vector. • Form of entry into an overseas market through cooperation among multiple firms, with the concomitant trading firm function. 	<p>【Example: Spring manufacturing】</p> <ul style="list-style-type: none"> • Enter an overseas market together with a domestic client company (customer) (A customer may put up part of capital needed). • A subsidiary supplements the self-manufacturing process of a parent company. 	<p>【Example: Molds, Toyama Prefecture】</p> <ul style="list-style-type: none"> • Multiple SME and micro parts suppliers move into industrial parks to rent. • Trading firms or local governments, etc. help with the securing of employees, management and coordination of business-to-business transactions.

China shifting from an exporting base to a market for sales

■ The ratio of sales within China rising

A change can be observed in the strategies of Japanese firms operating in China as an exporting base. While the ratio of exports to total sales in China of Japanese firms has been declining year by year due to rising export costs, such as the yuan's appreciation and rising labor costs, the ratio of sales within China has been on the increase in tandem with the rising purchasing power of Chinese consumers.

■ Overseas markets focused on are Asia, Europe and the U.S.

Many SMEs hope to enhance their sales operations in China. In addition to Asian countries, such as Thailand and Taiwan, they seem to find developed countries, including the U.S. and Western Europe, attractive as markets, as seen in the figures below.

Fig. III-4 Ratios of exports from and sales in China by Japanese firms

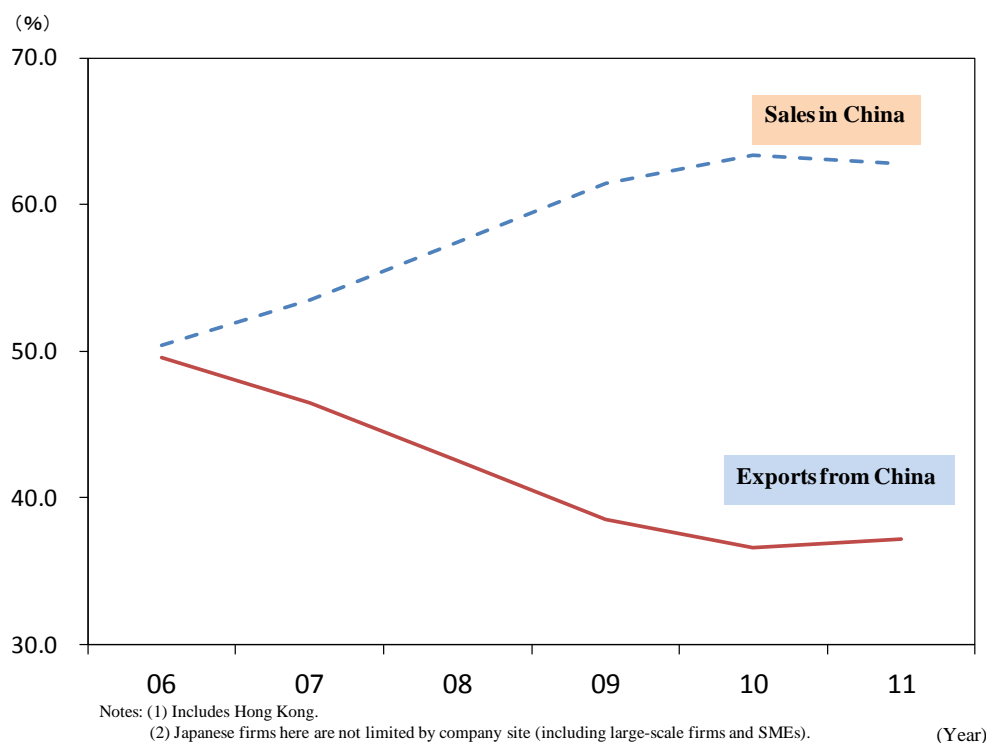
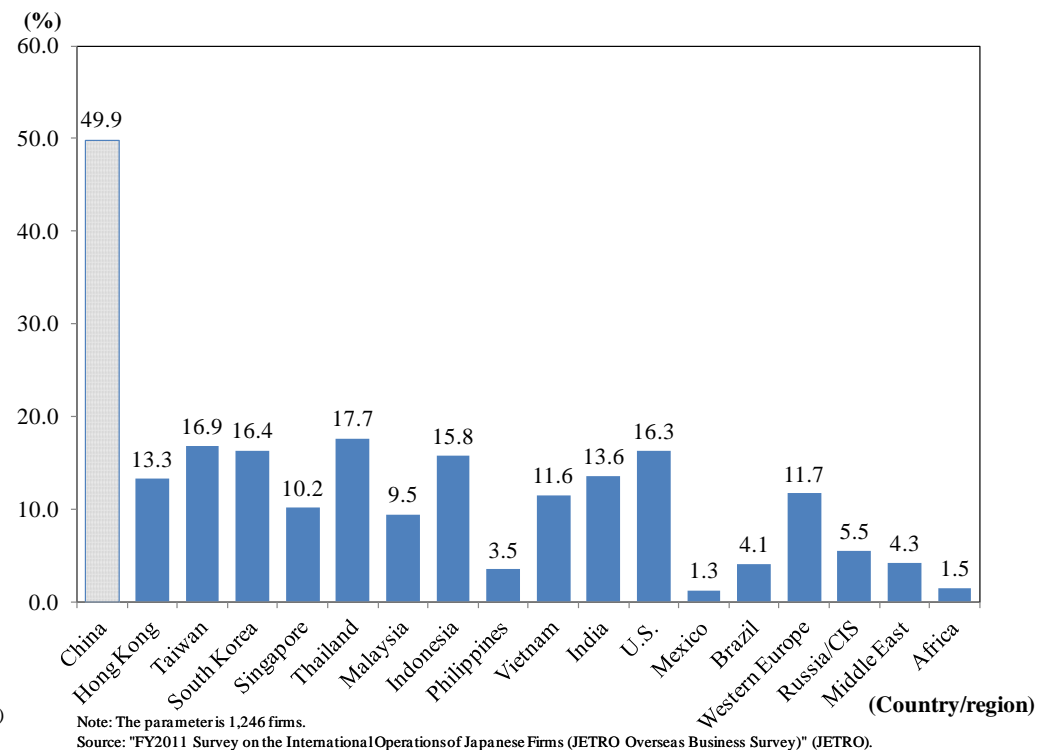


Fig. III-5 Countries/regions they are planning to strengthen sales operations in (over the coming three years or so)



Strengthening domestic business at the same time

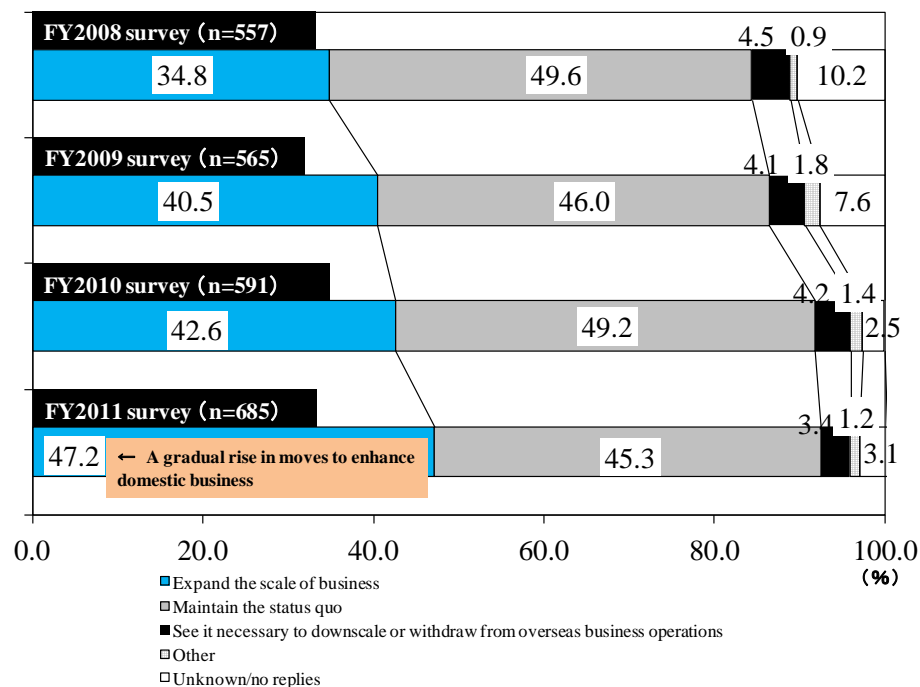
■ Firms strengthening domestic business increasing year by year

While the interest in overseas business operations is growing higher than ever, SMEs are building up two-pronged strategies to expand domestic operations at the same time. They seem to be focusing on domestic business more and more each year. The JETRO survey found that the ratio of SMEs replying that they will “expand the scale of business” in Japan increased from 34.8% in FY2008 to 47.2% in FY2011. Firms regard such operations as domestic production and R&D as the foundation of the production and supply systems for growth overseas as well as the source of Japan’s “monozukuri” manufacturing technologies.

■ Priority given to Japan for high value-added products and new product development

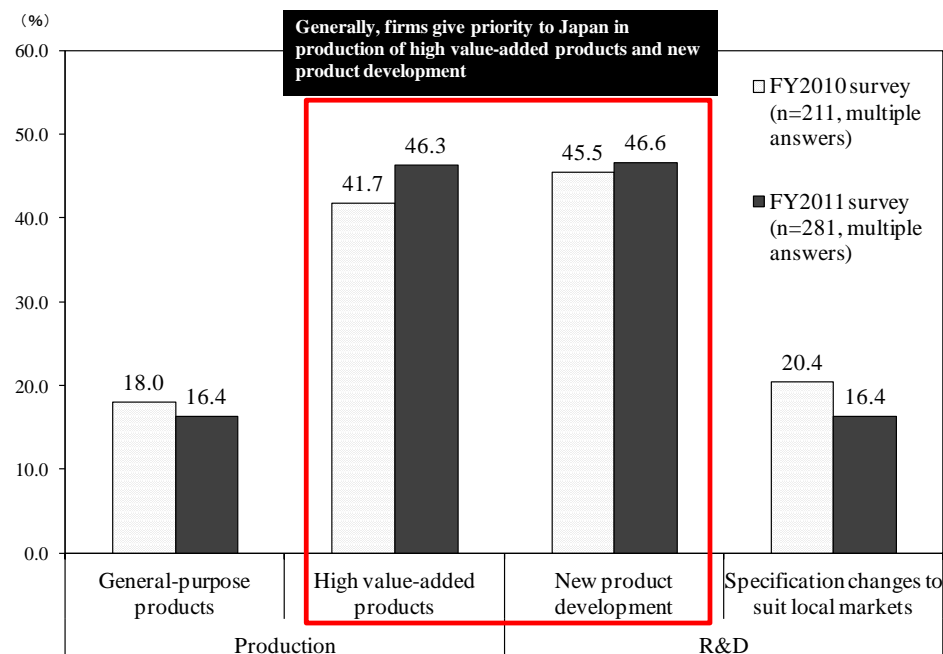
Firms are showing less appetite for an expansion of production of general-purpose products and are planning to expand production operations for high value-added products. This trend is particularly obvious in the precision equipment sector. In R&D, firms are following clear differentiation approaches: while firms leave the function of new product development, the source of competitiveness within Japan, for products that require customization to meet consumer needs in emerging and developing countries, they are reluctant to develop in Japan.

Fig. III-6 SME plans for future domestic business (the coming three years or so)



Note: Samples were limited to JETRO Members firms for which time-series comparison is possible.
Source: "FY2011 Survey on the International Operations of Japanese Firms (JETRO Overseas Business Survey)" (JETRO).

Fig. III-7 Operations SMEs are expanding in Japan



Note: n excludes firms that gave no answers about operations they are going to expand from firms that answered that they would expand domestic business.

Source: "FY2011 Survey on the International Operations of Japanese Firms (JETRO Overseas Business Survey)" (JETRO).

Exports of agricultural, forestry and fishery products and food fell about 10% in 2011

Exports to Asia fall steeply

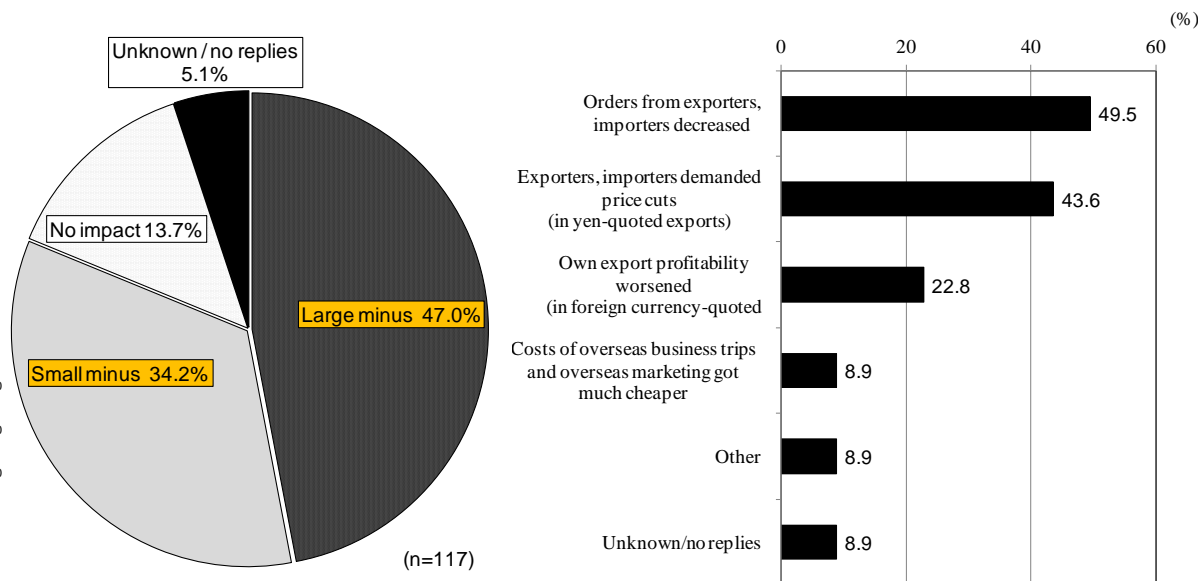
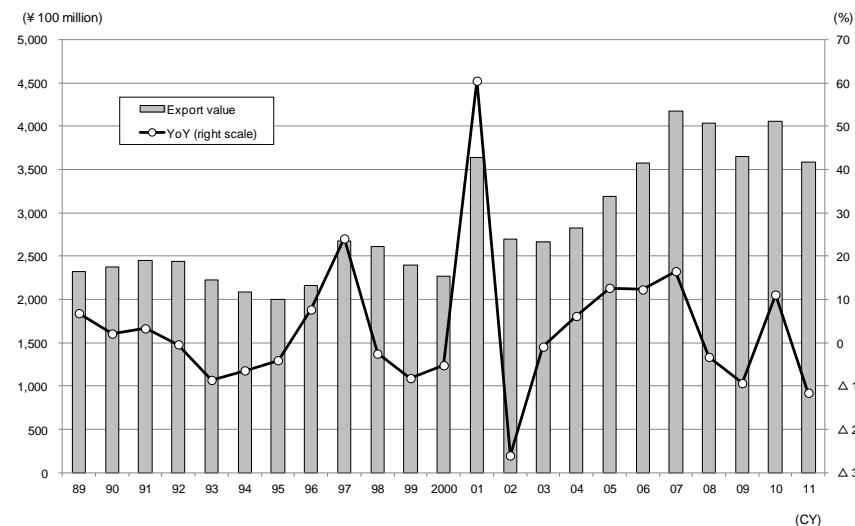
Exports of agricultural, forestry and fishery products and food fell steeply, especially in Asia, which accounts for 70% of overall exports, dropping 11.6% from the previous year to 359,055.86 million yen, due to such factors as tougher import restrictions by importing countries following the nuclear power plant accident and the historic appreciation of the yen. On the other hand, however, exports of refined sake (worth 8,780 million yen) and green tea (worth 4,720 million yen) remained steady. Exports of refined sake marked all-time highs both in terms of quantity (14,022KL) and value.

Japanese firms strongly export-oriented even in the face of headwind

In a questionnaire survey conducted by JETRO in October-November 2011 on a total of 227 firms engaged (or interested) in exports of agricultural, forestry and fisheries products and food, a little less than 90% of them answered “they felt the negative impact of the nuclear power plant accident” and over 80% said “the yen’s appreciation brought a negative impact on exports.” On future export plans, meanwhile, over 90% of the surveyed firms replied that they will “continue with exports going forward,” showing their strong appetite for the development of overseas markets even under the severe environment.

Fig. III-8 Japan’s exports of agricultural and fishery products and food (yen-based)

Fig. III-9 The stronger yen’s impact on exports and factors for the negative impact



Note: Agricultural, forestry and fisheries products/food: The sum of items "Foodstuffs and Animals" and "Beverages and Tobacco"
Source: Ministry of Finance, "Trade Statistics"

Source: "FY2011 Questionnaire Survey on Exports of Agricultural, Forestry and Fisheries Products and Food" (JETRO)

(multiple responses, n=101)

JETRO initiatives and policy recommendations concerning exports of agricultural, forestry and fishery products and food

JETRO established a task force headquarters to promote Japan's exports of agricultural, forestry and fishery products and food on January 20, 2012, and is making efforts to promote exports in this sector across its organization at home and abroad while cooperating with relevant government ministries and agencies. In June 2012, JETRO submitted policy recommendations on important matters identified on site in our activities to the Ministry of Agriculture, Forestry and Fisheries and the Ministry of Health, Labour and Welfare.

■ Major initiatives of JETRO headquarters to promote exports of agricultural, forestry and fishery products and food

1. Reception of inquiries from and provision of information to agricultural, forestry and fishery business operators interested in exports

JETRO opened “inquiry counters for exports of agricultural, forestry and fishery products and food” where even beginners in the export business can readily seek advice at the Tokyo and Osaka Headquarters as well as at 36 trade information centers. By the end of May 2012, we received 1,379 inquiries. We sponsored a total of 27 “export introduction seminars” across Japan, with the participation of some 1,000 people from the agricultural, forestry and fishery sectors.

2. Major expansion/enhancement of operations to provide opportunities for business talks

Double the participation in international trade fairs, where efficient business talks can be expected (six in FY2011 to 12 planned in FY2012).

Increase considerably the number of meetings for business talks held by inviting influential overseas buyers and the number of buyers invited (25 meetings with 134 buyers in FY2011 to 39 meetings planned with over 200 buyers in FY2012).

3. Increase the number of experts who provide support for exports and their proactive utilization

Increase overseas coordinators who provide local information and support for business talks (18 in FY2011 to 24 planned in FY2012)

Hold large-scale seminars on overseas market conditions in Japan (one seminar each on China, Europe and the U.S., Southeast Asia and Taiwan)

Increase substantially the number of experts who provide coherent support for efforts to find promising candidates for exports from the discovery of individual export items to the realization of exports (four in FY2011 to 14 in FY2012), and create examples of export success.

4. Focus on six priority items

JETRO selected “sake (rice wine)/shochu (distilled spirits),” “Japanese green tea,” “fisheries products/processed fisheries products,” “livestock products (meat/dairy products),” “rice” and “fruits/vegetables” as the six priority product categories for export promotion.

JETRO held meetings for business talks with invited buyers and sent missions for business talks overseas for the first three categories. For all the six categories, JETRO will gather basic information (systems, distribution and market information, etc.) and determine the direction of dealing with potential problems by the end of the year.

5. Large-scale consumption trend surveys in overseas markets, including emerging economies

JETRO will conduct surveys on emerging countries in the Asia-Pacific and Central and South America in order to explore broader export possibilities. It will provide information to a broad range of business operators making export efforts, which should lead to even deeper surveys.

■ Policy proposals to relevant government ministries on exports of agricultural, forestry and fishery products and food

Proposal 1: Continuous efforts to urge other countries/regions towards the early removal of import restrictions related to the nuclear power plant accident

Proposal 2: Measures to deal with food safety restrictions by individual countries

Proposal 3: Promotion of talks on the quarantine of animals and plants

Proposal 4: Development of a system for intellectual property protection

Proposal 5: Strategic responses to logistics

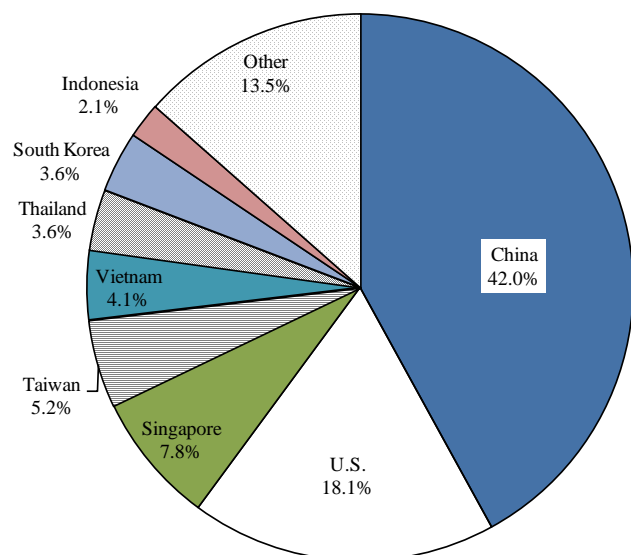
The services sector expanding overseas business, centering on China and Southeast Asia

Markets becoming diversified in Asia on hopes of emerging countries' growth potential

SMEs are increasingly entering overseas markets in the services industry (B to C), such as retailers and food-service providers. According to a JETRO survey, the largest percentage of these firms moved into China, followed by the U.S. in second place, and then other Asian locations such as Singapore and Taiwan. About half of the firms that set up operations in China have located their business bases in Shanghai.

Shanghai, Singapore and Bangkok, where many firms have already moved in, rank high among candidate locations of services firms that are now considering advancing into overseas markets. But many firms are also considering Ho Chi Minh City, Beijing, Dalian and Taipei as candidates. As Vietnam and Indonesia continues their economic growth, potential candidate locations are becoming diversified.

Fig. III-10 Locations of subsidiaries of services firms that have already moved into overseas markets



Note: Services firms that have already moved into overseas markets are firms out of those responding to the JETRO survey that have established one or more subsidiaries overseas and are still operating there (n=160 firms).

Source: "Questionnaire Survey on Needs for Support for Entries into Overseas Markets by Firms in the Services Industry", JETRO (FY2011).

Fig. III-11 Cities being considered as candidate entry locations by services firms (B to C) (Multiple answers)

	Retail	Food service	Hairdressing/aesthetics	Cram schools
1st	Shanghai (76)	Singapore (31)	Shanghai (17)	Shanghai (7)
2nd	Beijing (43)	Shanghai (30)	Singapore (14)	Beijing (6)
3rd	Bangkok (42)	Bangkok (27)	Ho Chi Minh City (11)	Bangkok (5)
4th	Dalian (41)	Ho Chi Minh City (22)	Dalian (9)	Dalian (4)
5th	Singapore (40)	Taipei (19)	Kuala Lumpur (8)	Taipei, Jakarta, Hanoi, Ho Chi Minh City (4)
6th	Taipei (34)	Beijing, Hong Kong, Los Angeles (15)	Taipei, Bangkok, Hanoi (7)	Guangzhou, Hong Kong (3)

Note: Cities under consideration as entry points by firms planning to establish local subsidiaries independently or in joint ventures for local business operations. Figures in parentheses indicate the number of firms.

Source: "Questionnaire Survey on Needs for Support for Entries into Overseas Markets by Firms in the Services Industry" JETRO (FY2011)

■ Medium-sized firms and SMEs in the service industry making challenging entries into overseas markets from all over Japan

Examples of entry into overseas markets by services firms, especially food service providers and retailers, are on the increase. According to JETRO's tallying based on surveys and newspaper reports, etc., firms in the service industry undertaking overseas business operations are estimated to number some 800 as of April 2012. They include many middle-sized firms and SMEs, indicating that firms of various industry sectors are making challenging entries into overseas markets from across Japan.

Among food service providers, there are some examples of entries with original Japanese ramen and Japanese confectioneries as well as bakeries and other sweets. Some firms are moving into overseas markets without first tapping the Tokyo Metropolitan area or the Kansai region. There also are firms moving into regional cities in China or select locations other than Shanghai in entering the mainland Chinese market for the first time. While motivations for advances into overseas markets and local business strategies are varied, in many cases, the finding of reliable business partners, attentive Japanese-style services and marketing that caters to local tastes prove to be the keys to success.

Fig. III-12 Examples of entries into overseas markets by middle-standing and SME services firms (BtoC)

Industry	Company name (Head Office)	Destination	Key points for local business operations, etc.
Food service (bakery)	A-1 Bakery Co., Ltd. (Osaka, Osaka Pref.)	Hong Kong, China (Shenzhen)	A-1 Bakery opened the first shop on mainland China in Shenzhen, leveraging the business experience in Hong Kong. Shenzhen was chosen because Hong Kong staff experienced in bread making can commute there and also because Shenzhen and Hong Kong have much in common culturally.
Food service (bakery)	Okayama Kobo (Okayama, Okayama Pref.)	Indonesia	Okayama Kobo decided to move into Indonesia as it found many things in common with Japan 30 years ago during a visit to Jakarta and thought it can apply its experiences in the making and sales of bread gained in Japan. It opened up a shop in Jakarta with the cooperation of a Japanese who has long years of experiences with business in Indonesia. While maintaining the quality of its products, Okayama Kobo is flexibly dealing with tastes and shop development in consideration of preferences of local consumers.
Food service (Japanese confectionery)	Minamoto Kitchoan Co., Ltd. (Chuo-ku, Tokyo)	Singapore, Taiwan, U.S. (New York), UK (London), Hong Kong	Minamoto Kitchoan analyzes preferences of U.S. customers and purchasing age groups by product through face-to-face selling and uses the findings in product development. Not attached too much to brisk sellers in Japan or a sense of the season in Japan in its marketing, it sells white peach jellies, reserved for summer in Japan, during winter.
Food service (Western confectionery)	Mugiono Co., Ltd. (Osaka, Osaka Pref.)	17 countries, including South Korea, U.S., Thailand and Indonesia	Mugiono operates a total of 219 shops in 17 foreign countries, centering of Beard Papa cream puff shops (as of December 2011). While maintaining the originality of face-to-face selling of cream puffs fresh from oven, it is also developing products suiting the tastes of local consumers, including caramel-flavor cream puffs sold in New York, which it does not offer on the Japanese market.
Food service (ramen)	Sanpachi (Sapporo, Hokkaido)	China (Shenyang, Changchun, Wuhan), Hong Kong, Taiwan, South Korea, Canada	The selection of a business partner is quite important in making inroads into the Chinese market. Try not to be preoccupied with armchair plans for overseas business operations, but go and visit candidate locations first. Only on-site inspections give you an exact idea about funds you would need.
Food service (ramen)	YS Food ("Yamagoya Ramen") (Tagawa-gun, Fukuoka Pref.)	Thailand, China (Shenzhen), Taiwan	It was in Shenzhen that the owner met the business partner who took strong interest in the business of "Yamagoya" ramen. In Shenzhen adjoining Hong Kong, you can draw customers from Hong Kong who know the Japanese taste.
Retail (young casual women's apparel)	Honeys Co., Ltd. (Iwaki, Fukushima Pref.)	China (12 cities, including Beijing, Shanghai, Guangzhou and Chengdu)	Honeys operates more than 250 stores across China. When the company moved into the Chinese market for the first time, it set forth the target of "opening up 100 stores in three years," and this contributed to keeping employees highly motivated.
Retail (eyewear)	Kaneko Optical Co., Ltd. (Sabae, Fukui Pref.)	U.S. (New York)	Through its advance into the U.S. market, Kaneko Optical was able to develop new products that combine Japan's eyeglass-making techniques with fashion and art of New York. It acquired customers at the New York shop through meticulous services.
Retail (supermarket)	Maxpower Co., Ltd. (Matsue, Shimane Pref.)	China (Shanghai)	Maxpower operates 55 supermarkets, including "Shinsenkan" and "Sakanaya Shinsenkan" (as of March 2011). In moving into China, the company paid particular attention to the three factors of labor relations, legal systems and real estate. It had trouble securing the locations with favorable conditions while avoiding prime sites requiring expensive rents.
Aesthetic service (nail salon)	Alaise Le Repit (Kumamoto, Kumamoto Pref.)	U.S. (New York), China (Shanghai)	Alaise is bent on providing high-quality services to customers and nurturing its employees. In the nurturing of employees, the company is making its staff take monthly examinations of their nail art techniques and services. On days when shops are closed, it provides technical and service training to its staff.

Source: Prepared by JETRO based on hearings with companies and their websites, etc.

SME responses to business risks

■ Diverse business risks

In undertaking overseas business, Japanese firms could face many risks that are unexpected in Japan, including country risks such as political instability of countries where they set up operations, natural disasters, security risks such as terrorism, and operational risks such as exchange rates and intellectual property.

■ Many firms developing business continuity plans (BCPs) after the earthquake

An increasing number of firms are developing BCPs as a means of risk management following the Great East Japan Earthquake and major flooding in Thailand, expanding alternative production networks and enhancing risk communication

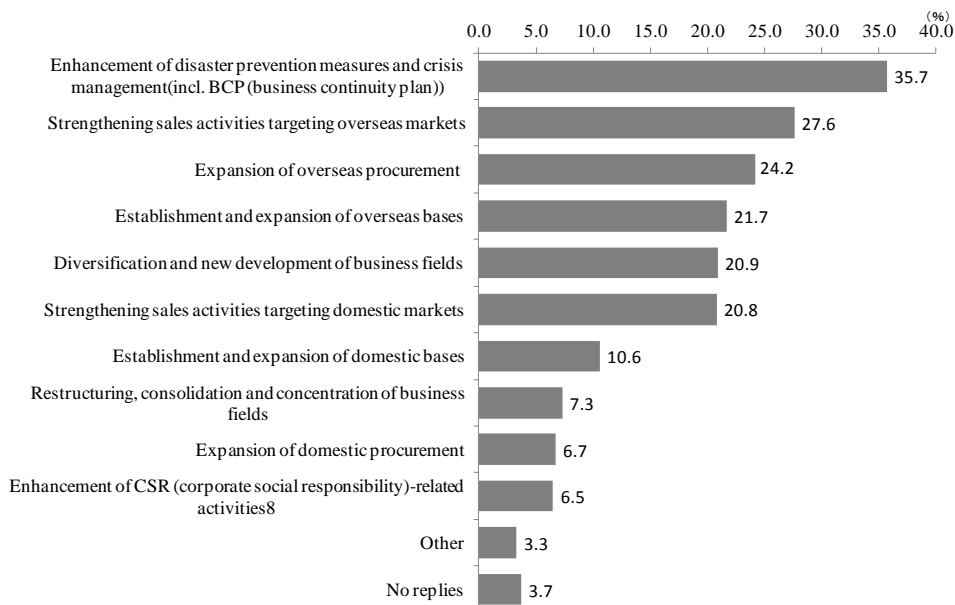
■ Some firms changing settlement currencies to cope with the strong yen

While many firms step up cost-cutting efforts or take no particular measures to cope with the yen's appreciation, not a few firms have changed settlement currencies to avoid exchange losses.

■ Infringement on intellectual property rights in China still the issue

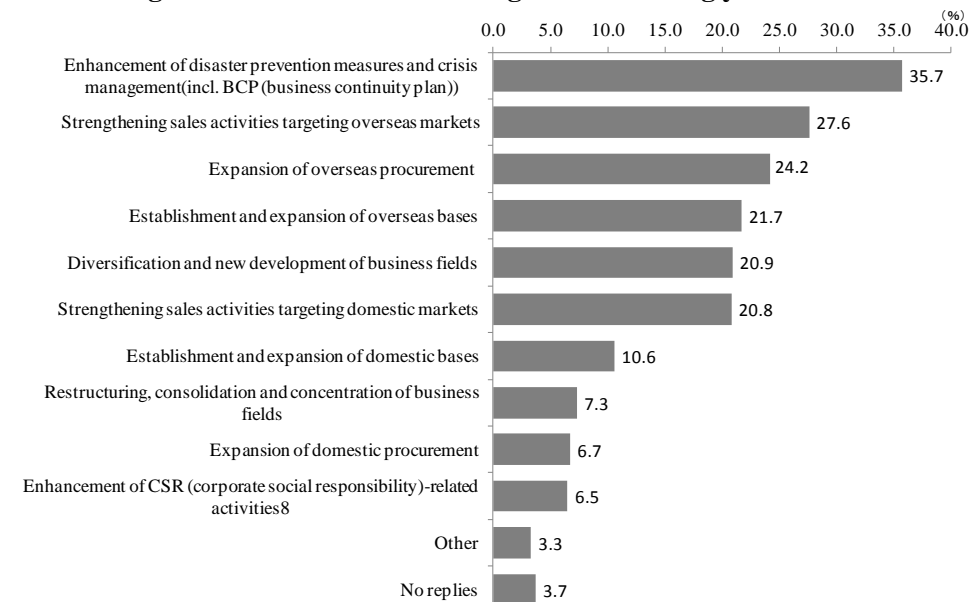
Many firms still cite infringement on intellectual property rights as a major impediment to exports, and many cite China as the problem country.

Fig. III-13 Business strategy review after the Great East Japan Earthquake



Source: FY2011 Survey on the International Operations of Japanese Firms (JETRO Overseas Business Survey), March 2012

Fig. III-14 Countermeasures against the strong yen



Source: FY2011 Survey on the International Operations of Japanese Firms (JETRO Overseas Business Survey), March 2012

Fig. III-15 Economies cited as having obstacles to export business and their details

Major obstacles to export business	Total		China		India		South Korea		Russia/CIS		Brazil		Indonesia	
	No. of responses	% of the total	No. of responses	% of the total	No. of responses	% of the total	No. of responses	% of the total	No. of responses	% of the total	No. of responses	% of the total	No. of responses	% of the total
Number of times cited and % of total respondent firms	2,121	100.0	747	35.2	136	6.4	105	5.0	79	3.7	75	3.5	69	3.3
High tariffs	409	19.3	225	30.1	59	43.4	46	43.8	18	22.8	51	68.0	16	23.2
Customs clearance procedures	409	19.3	285	38.2	39	28.7	7	6.7	34	43.0	18	24.0	25	36.2
Other import regulations (rigorous, different from Japanese regulations, etc.)	345	16.3	213	28.5	28	20.6	14	13.3	33	41.8	20	26.7	23	33.3
Responses from importers (collection of proceeds, etc.)	268	12.6	185	24.8	28	20.6	17	16.2	16	20.3	4	5.3	12	17.4
Infringement on intellectual property rights	219	10.3	202	27.0	6	4.4	14	13.3	0	0.0	0	0.0	3	4.3
Import regulations (on radioactive materials)	163	7.7	103	13.8	1	0.7	28	26.7	13	16.5	3	4.0	4	5.8
Distribution in importing countries (infrastructure development, etc.)	161	7.6	55	7.4	55	40.4	2	1.9	11	13.9	8	10.7	15	21.7

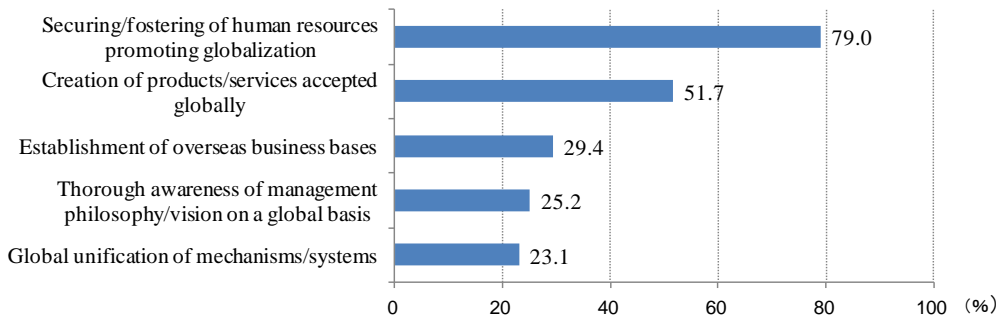
Source: FY2011 Survey on the International Operations of Japanese Firms (JETRO Overseas Business Survey), March 2012.

The challenge in promotion of globalization is “human resources”

■ The keywords are the ability to take action, convey oneself and achieve in a multicultural environment

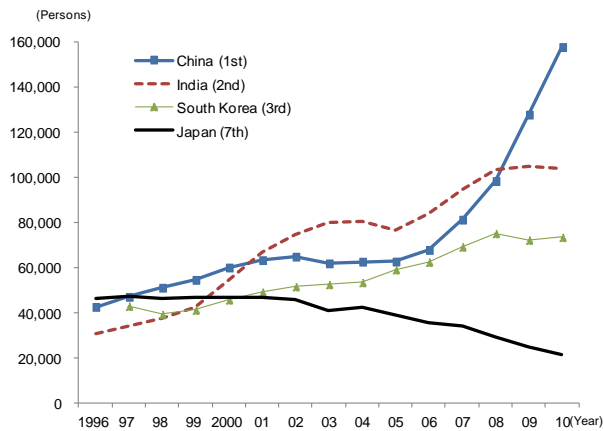
The securing and fostering of “global human resources” is the greatest challenge in undertaking overseas business operations. According to a survey by the Japan Association of Corporate Executives (Keizai Doyukai), firms that cited “securing and fostering of human resources” as a key problem in globalization outnumbered those that cited “creation of products/services accepted globally.” As a result of the acceleration of overseas market entries and increased opportunities for direct contact with local consumers, client companies and suppliers, abilities required for overseas business operations have become sophisticated and diversified. In addition to communication abilities in foreign languages, the “ability to take action,” “ability to convey oneself” and “ability to achieve in a multicultural environment” may be cited as the essential requirements for “global human resources.” In the shortage/absence of human resources with these abilities, firms need to train their employees or secure such human resources from outside. Middle-level managers as well as business managers and executives need to have overseas business experiences and business expertise as well as the global perspectives and human connections as leaders.

Fig. III-16 Challenges to promote globalization (multiple answers allowed)



Note: The ratio of the number of responses for each item to the number of respondent firms (n=381).
Source: Keizai Doyukai, "Survey on Business Management" (February-March 2012)

Fig. III-17 Number of students from Japan, China, South Korea and India studying in the U.S.



Note: The figure after the country name indicates the ranking in the number of students by home country in 2010. Canada came in fourth, followed by Taiwan and Saudi Arabia in that order.
Source: U.S. Institute of International Education, Open Doors 2011.

Fig. III-18 Abilities required of global human resources

Three requirements

(1) Ability to take action:

Among basic qualifications, overseas business operations particularly require the ability to take action to proactively take on challenging jobs in uncharted territory.

(2) Ability to convey oneself:

Since the formation of consensus is often sought through discussions in overseas business scenes assuming that everyone has different opinions, the power to convey your positions and opinions is of great importance.

(3) Ability to achieve in a multicultural environment:

One should recognize values and communication methods that are different from those in Japan. One should not regard these differences in the context of which is right and wrong or superior and inferior, but execute work in cooperation with other people who have different sets of values. In addition, one should create new ideas and value by recognizing the strengths of people with different cultural backgrounds and making use of their strengths.

Additional requirements

- + Experiences in overseas business operations (experience of being stationed overseas), expertise required for assigned jobs, leadership/management capabilities (including non-Japanese staff)
- + Global perspectives and personal connections

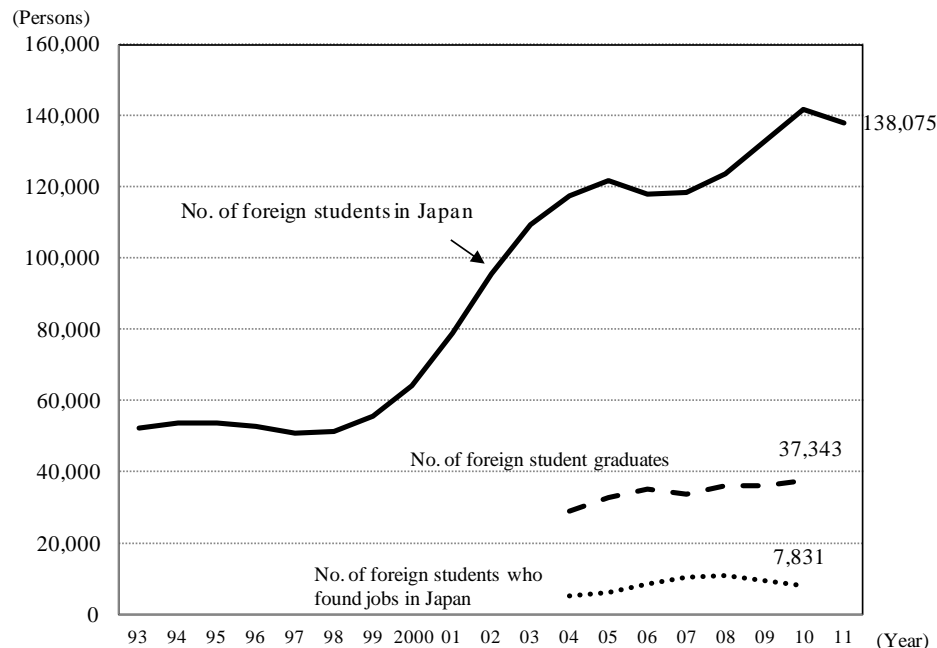
Sources: METI, “Report by the Global Human Resource Development Committee of the Industry-Academia Partnership for Human Resource Development” (April 2010), data from the Japan Business Federation (Keidanren) and hearings with individual companies.

Challenges in acceptance of foreign students and highly skilled professionals

Utilization of foreign students for business presents a challenge

The acceptance of human resources (foreign students, highly skilled human resources) is one of the important challenges for Japanese firms wishing to develop overseas business operations. While the number of foreign students studying in Japan is increasing, especially from China, there still is much to be desired in terms of the increase in the employment rate in Japan and the increase in the acceptance of students from emerging countries in Asia, in addition to China. The acceptance of highly skilled foreign professionals has grown only at a sluggish pace, but it is hoped that the acceptance of human resources matching the needs of Japanese firms will move ahead smoothly with, for instance, the introduction of the “System for Preferential Treatment of Highly Skilled Human Resources (a points-based system)” introduced in May 2012.

Fig. III-19 Numbers of foreign students in Japan, foreign student graduates and foreign students who found jobs in Japan



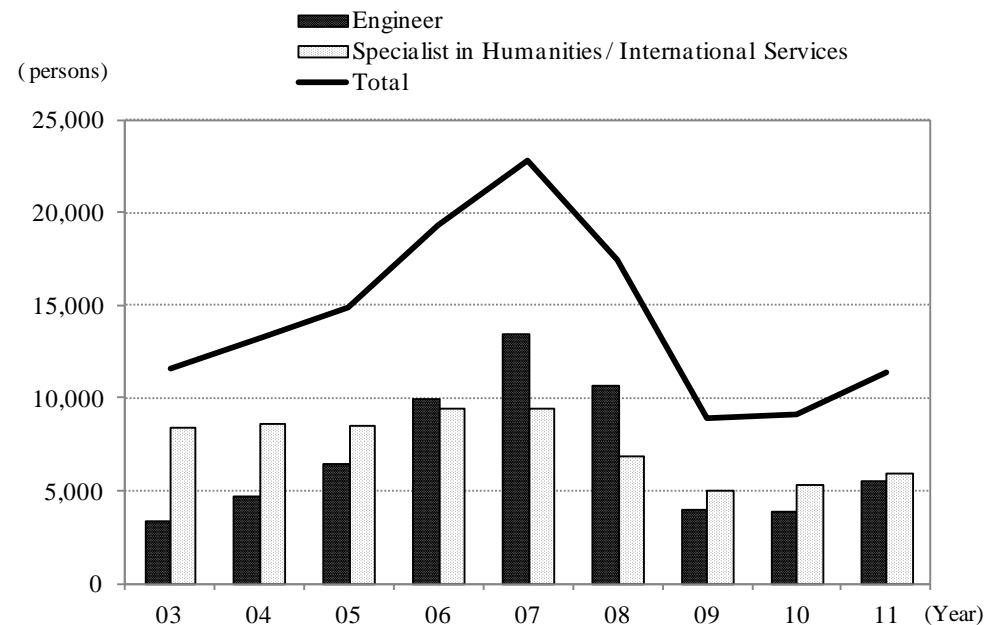
Notes: (1) The number of foreign students is the number of students enrolled at universities, junior colleges and technical colleges as of May 1 of each year.

(2) The number of foreign students who found jobs in Japan is the number of cases where changes in the status of residence were allowed for the purpose of taking jobs at Japanese firms.

(3) The number of foreign student graduates is the total for a fiscal year, while the number of foreign students who found jobs in Japan is the total for a calendar year.

Note: Prepared by JETRO based on data from the Ministry of Justice and the Japan Student Services Organization (JASSO).

Fig. III-20 Number of status of residence granted to highly skilled foreign human resources



Source: Immigration Bureau, Ministry of Justice, “Concerning Granting of the Certificates of Eligibility of the Status of Residence Regarding “Engineer” or “Specialist in Humanities/International Services” for the Purpose of Taking Jobs at Japanese Companies, etc. in FY2010 (July 2011).”

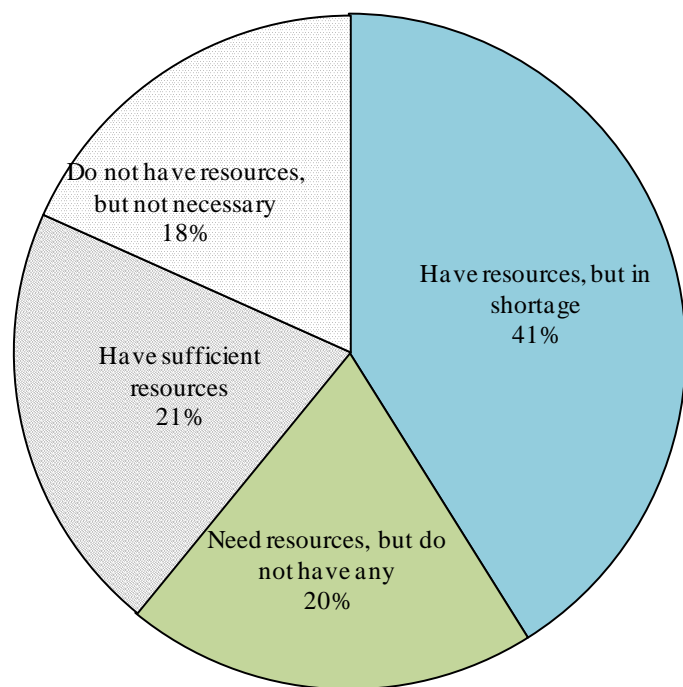
Shortage/absence of global human resources the main problem for SMEs

■ Shortage/absence of human resources constraining overseas business, but in-house securing/fostering of human resources difficult

In a survey by the Small and Medium Enterprise Agency, about 60% of SMEs engaged in overseas business (exports or direct investment) replied that they “have global human sources but they are in short supply” or they “need global human resources but do not have any.” The shortage/absence of global human resources is having an impact on overseas business operations of SMEs, as “they cannot achieve sales and profits expected from overseas markets” and “they cannot set up or increase overseas business bases.”

According to interviews conducted by JETRO, many SMEs have cited the following three problems in terms of human resources for overseas business: (1) difficulty in fostering human resources in-house; (2) difficulty in recruiting human resources; and (3) possessing few candidates for representatives stationed overseas.

Fig. III-21 Status of global human resources secured by SMEs



Source: “Survey on the Enhancement of SMEs’ Competitiveness through Overseas Business Expansion” (March 2012, Mitsubishi UFJ Research and Consulting Co.) commissioned by the Small and Medium Enterprise Agency.

Fig. III-22 Human resources problems confronting SMEs seeking overseas business

Problem	Remarks
Problem (1): Difficult to foster human resources in-house	【Auto parts manufacturer】Falling behind in the fostering of employees well-versed in international business, forcing the company president to personally deal with client companies that are increasingly shifting their production operations overseas while taking care of domestic sales at the same time. Wants to foster human resources on its own but lacks time and funds to do that.
	【Engineering trading company】Overseas business operations by SMEs require short-term results. Does not have much time to spare for human resources development.
	【Metal processor】Does not have human resources proficient in foreign languages or experienced in international business. Does not have opportunities in-house to develop such talent.
Problem (2): Difficult to recruit human resources	【Machinery manufacturer】Having long been in the domestic business, the company has few in-house human resources full of drive to take on sales jobs in overseas markets. Does not know how to recruit necessary human resources, and cannot expect to find anyone willing to move to the relatively inconvenient region to live in to work for the company.
	【Distributor】Difficult to draw university students qualified for undertaking overseas business operations in recruitment operations. There are people who claim to have learned foreign languages, but knowledge learned from textbooks alone is not sufficient.
Problem (3): Have few candidates for representatives stationed overseas	【Automobile sales/maintenance】Considering an entry into overseas markets, but does not have human resources who can manage a local subsidiary. Since it is difficult to foster such human resources in-house, the company considering recruiting outside talent or local talent. But the company is at a loss as to how it should identify a qualified person to represent the company in a foreign country it is considering moving into.
	【Manufacturer】Does not have human resources who can handle living overseas. Considering hiring locals but cannot find qualified people.
	【Fisheries products manufacturer】No one wants to be stationed overseas. Has young employees, but they are reluctant to come forward to take up overseas assignments.

Sources: Prepared based on hearings with the companies.

Medium sized firms and SMEs taking independent initiatives

■ Large corporations securing and fostering human resources with new methods

With the rising importance of overseas markets, there is an increase in business scenes where business development and business judgment based on local market conditions are required. Particularly at large corporations, the role of “global human resources” is gaining in importance as management operations at overseas business bases are increasing. Under these circumstances, large corporations are stepping up efforts toward the securing and fostering of global human resources through such measures as (1) sending young employees to overseas positions in their early years of service; (2) intensive overseas training through cooperation with prestigious higher education institutions; and (3) proactive recruitment of non-Japanese human resources, such as students who studied in Japan.

■ Utilization of “bridging human resources”

Main patterns of securing global human resources by SMEs include (1) hiring of foreign students and other foreigners who have resided in Japan for long years; (2) acceptance of foreign technical trainees and their appointment as managers or key staff of overseas business bases in the future; and (3) hiring of Japanese with extensive experiences in overseas business operations. While business operations taken up by these human resources may vary, they serve as “bridges” to connect different values and cultures and contribute to the facilitation of overseas business operations of Japanese firms.

■ Firms trying to foster human resources in-house actively utilizing outside networks

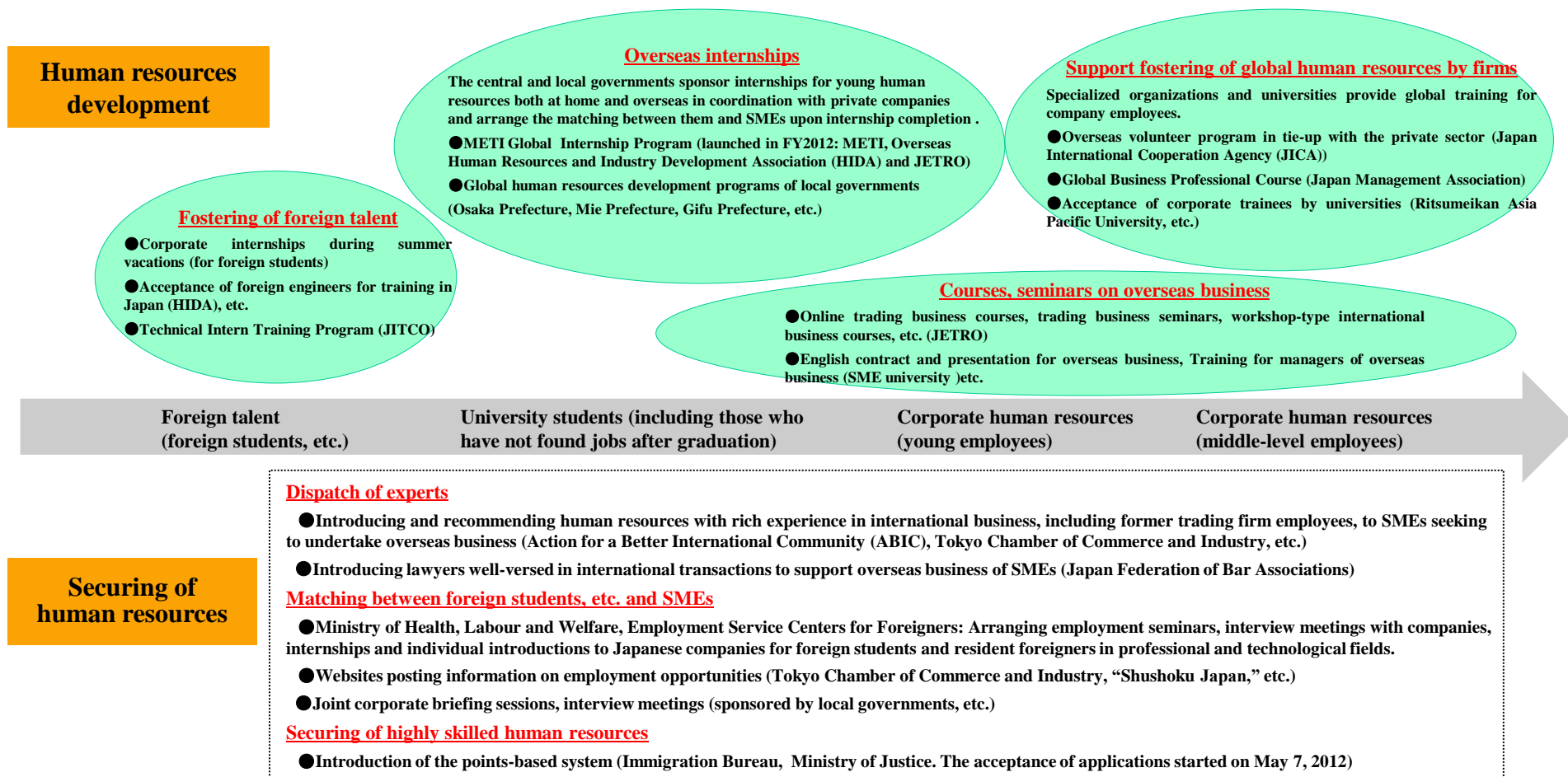
Examples of efforts to foster global human resources in-house include (1) finding employees qualified for assignments overseas through English training received by all employees; (2) dispatching employees to client companies to have them acquire practical experiences in overseas business operations; and (3) accumulation of knowledge and knowhow about overseas business operations by utilizing services provided by public institutions (including support for the presentation of products at overseas exhibitions and dispatching of experts, etc.). Finding it difficult to provide adequate training by themselves, they are utilizing outside opportunities to foster human resources efficiently.

Japan on the move

■ New initiatives get under way, including overseas internships to foster young human resources

In Japan, support measures for the securing and fostering of global human resources are beginning to spread. In addition to corporate recruiting seminars for foreign students studying in Japan and the acceptance of foreign trainees, new initiatives are being launched recently, including overseas internships for young human resources. Many companies are also making use of courses and seminars for acquiring knowledge and knowhow necessary for overseas business operations and “experts” such as former corporate employees with rich experience.

Fig. III-23 Main measures in Japan to support the securing/fostering of global human resources



Note: This figure represents a collection of examples of support measures implemented or planned as of June 2012 by the central/local governments and public organizations, but is not necessarily a comprehensive list of all measures being taken in Japan.

Sources: The Framework for Supporting SMEs in Overseas Business (March 9, 2012), external announcements of organizations, various media reports and hearings with parties concerned.