



Japan External Trade Organization

# **2014 JETRO Global Trade and Investment Report**

## **On making Japan a base for international business circulation**

### **Overview**

**August 7, 2014**

**Overseas Research Department, JETRO**

# Chapter 1

## The world economy, trade and direct investment

# Global economy continues to recover gradually

○The IMF has revised the world's real GDP growth for 2014 downward by 0.3 points to 3.4% from the previous estimate. While growth in emerging and developing economies lack momentum, advanced economies such as the United States, United Kingdom and Germany are expected to experience stronger recovery.

○After 2014, the world economy is confronted by risks including long-term deflation in Europe, fund outflows from emerging and developing economies caused by the United States' exit from monetary easing policy, and geopolitical factors.

**Figure I-1: GDP growth by country and region**

(%)

	2012	2013	2014 (July projections)		2015 (July projections)	
	Percent change	Percent change	Percent change	Difference from April projections	Percent change	Difference from April projections
<b>World</b>	<b>3.5</b>	<b>3.2</b>	<b>3.4</b>	<b>-0.3</b>	<b>4.0</b>	<b>0.0</b>
<b>Advanced economies</b>	<b>1.4</b>	<b>1.3</b>	<b>1.8</b>	<b>-0.4</b>	<b>2.4</b>	<b>0.1</b>
United States	2.8	1.9	1.7	-1.1	3.0	0.1
Euro Area	-0.7	-0.4	1.1	0.0	1.5	0.1
Germany	0.9	0.5	1.9	0.2	1.7	0.1
France	0.3	0.3	0.7	-0.3	1.4	-0.1
Italy	-2.4	-1.9	0.3	-0.3	1.1	0.0
Spain	-1.6	-1.2	1.2	0.3	1.6	0.6
Japan	1.4	1.5	1.6	0.3	1.1	0.1
United Kingdom	0.3	1.7	3.2	0.4	2.7	0.2
<b>Emerging and developing economies</b>	<b>5.1</b>	<b>4.7</b>	<b>4.6</b>	<b>-0.2</b>	<b>5.2</b>	<b>-0.1</b>
Emerging and developing Europe	1.4	2.8	2.8	0.4	2.9	0.0
Russia/Commonwealth of Independent States	3.4	2.2	0.9	-1.0	2.1	-1.1
Russia	3.4	1.3	0.2	-1.1	1.0	-1.3
Emerging and developing Asia	6.7	6.6	6.4	-0.2	6.7	-0.1
China	7.7	7.7	7.4	-0.2	7.1	-0.2
India	4.7	5.0	5.4	0.0	6.4	0.0
ASEAN 5	6.2	5.2	4.6	-0.4	5.6	0.2
Latin America and the Caribbean	2.9	2.6	2.0	-0.5	2.6	-0.3
Brazil	1.0	2.5	1.3	-0.6	2.0	-0.6
Mexico	4.0	1.1	2.4	-0.6	3.5	0.0
Middle East and North Africa	4.9	2.5	3.1	-0.2	4.8	0.2
Sub-Saharan Africa	5.1	5.4	5.4	0.0	5.8	0.2
South Africa	2.5	1.9	1.7	-0.6	2.7	0.0

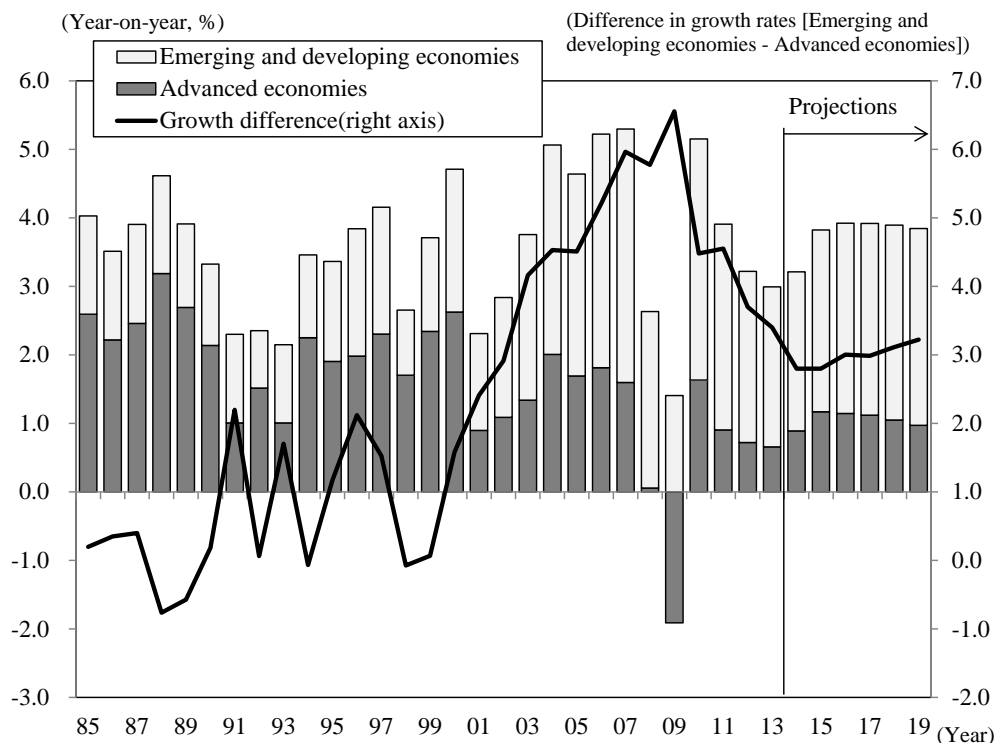
Notes: The definitions of advanced/emerging and developing countries follow the World Economic Outlook. The ASEAN5 refers to Indonesia, Malaysia, the Philippines, Thailand, and Vietnam. Middle East and North Africa includes Afghanistan and Pakistan.

Source: "WEO, July 2014" (IMF).

## Emerging and developing economies lead global economy but risks exist

- Emerging and developing economies are predicted to continue driving the growth of the global economy.
- However, it must be noted that each emerging country is confronted by risks such as current account deficit, excessive dependence on investment, high inflation, the unemployment situation, and political risks.

**Figure I-2: Emerging and developing economies' contribution to global economic growth and disparity with advanced economies**



Note for figure I-2: Contribution is calculated using the weighted PPP (Purchasing Power Parity) for 2013. Source: "WEO, April/July 2014" (IMF).

Notes for figure I-3: (1) Countries with large nominal GDP have been selected from among BRICS and middle-income countries defined by the World Bank. (2) The shaded cells refer to the "Fragile 5" (according to Morgan Stanley). (3) Iraq's Investments/GDP and Nigeria's unemployment rate are as of 2012. Other figures are as of 2013. (4) Political risk is higher the smaller the index. Sources: World Bank, "WEO, April 2014" (IMF), and "Global Political Risk Index" (Eurasia Group).

**Figure I-3: Risks for emerging and developing economies based on economic indicators** (% , index applies only to "Political risk")

	Current account/ GDP	Investments/ GDP	Inflation rate	Unemploy- ment rate	Political risk
<b>BRICS</b>					
China	2.1	47.9	2.6	4.1	67.0
Brazil	-3.6	18.3	6.2	5.4	65.0
India	-2.0	34.7	9.5	n.a.	47.0
Russia	1.6	23.8	6.8	5.5	62.0
South Africa	-5.8	19.4	5.8	24.7	50.0
<b>Other middle-income countries</b>					
Mexico	-1.8	22.2	3.8	4.9	67.0
Indonesia	-3.3	33.6	6.4	6.3	51.0
Turkey	-7.9	21.6	7.5	9.7	59.0
Argentina	-0.9	24.2	10.6	7.1	59.0
Thailand	-0.7	29.3	2.2	0.7	47.0
Colombia	-3.3	24.2	2.0	9.7	63.0
Malaysia	3.8	26.3	2.1	3.1	75.0
Nigeria	4.7	24.6	8.5	23.9	39.0
Philippines	3.5	19.4	2.9	7.1	62.0
Pakistan	-1.0	14.2	7.4	6.7	33.0
Iraq	6.7	20.3	1.9	n.a.	n.a.
Kazakhstan	0.1	25.6	5.8	5.2	n.a.
Peru	-4.9	27.6	2.8	7.5	63.0
Algeria	0.4	32.9	3.3	9.8	49.0
Romania	-1.1	23.2	4.0	7.3	n.a.
Ukraine	-9.2	15.1	-0.3	7.4	55.0
Vietnam	6.6	26.6	6.6	4.4	n.a.
<b>(Reference)</b>					
United States	-2.3	19.5	1.5	7.4	n.a.
Japan	0.7	21.0	0.4	4.0	n.a.

# Sustained weak recovery for world trade in 2013

- World trade in 2013 (JETRO estimates based on merchandise trade and nominal exports) rose by 1.6% to US\$18.2826 trillion year-on-year.
- Export prices fell by 0.3% year-on-year and consequently reduced exports. In particular, there was a prominent drop in prices for beverages, metals, and energy.
- According to forecasts by WTO, world trade for 2014 is expected to increase by 4.7% (in real terms) and push ahead with recovery, against the background of recovery amongst advanced economies.

**Figure I-4: World trade indices**

(US\$ billion, %)					
	2009	2010	2011	2012	2013
World merchandise trade (export basis)	12,402	15,130	18,072	17,991	18,283
Nominal percent change	-22.6	22.0	19.4	-0.5	1.6
Real percent change	-11.7	16.7	9.2	1.8	1.9
Price percent change	-10.9	5.3	10.2	-2.3	-0.3
World merchandise trade (import basis)	12,556	15,252	18,206	18,577	18,924
Nominal percent change	-23.1	21.5	19.4	2.0	1.9
Real percent change	-10.3	15.5	6.9	3.3	3.3
Price percent change	-12.8	6.0	12.5	-1.3	-1.5
World service trade (export basis)	3,548	3,892	4,364	4,459	4,701
Percent change	-9.3	9.7	12.1	2.2	5.4
World service trade (import basis)	3,421	3,741	4,178	4,280	4,455
Percent change	-8.8	9.4	11.7	2.4	4.1
World real GDP growth	-0.4	5.2	3.9	3.5	3.2
Industrial production index growth (advanced economies)	-13.1	7.4	1.8	0.6	0.5
Crude oil					
Average price (\$/barrel)	61.8	79.0	104.0	105.0	104.1
Quantity of demand (million bbl/day)	85.1	87.8	88.9	89.9	91.3

Notes: (1) 2012 and 2013 trade values, and 2013 nominal growth rates, are JETRO estimates.

(2) Real percent change = Nominal percent change - Export price percent change

(3) Real GDP growth based on purchasing power parity. Figures for 2009–2011 are those released in April, and figures for 2012–2013 are those revised in July.

(4) Definition of advanced economies follows IFS classification.

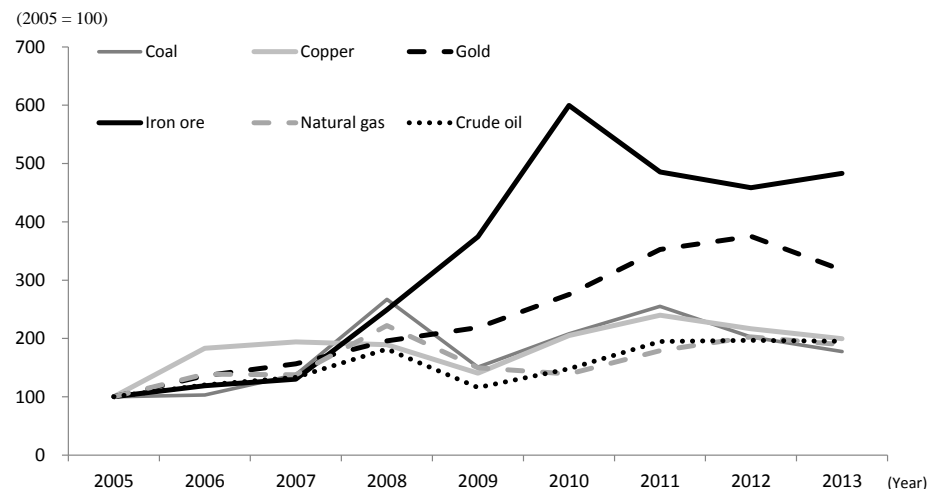
Sources: "IFS, May 2014" (IMF), "WEO, April 2014" (IMF), "WEO, July 2014" (IMF), WTO, BP plc., and statistics from individual countries/regions.

**Figure I-5: Changes in the growth rate of world merchandise price indices (year-on-year)**

	2009					2010					2011					2012					2013									
	2009					2010					2011					2012					2013									
All Primary Commodities	-30.0	26.2	26.3	-3.2	-1.6	-15.8	26.5	17.9	-10.0	-1.2	-14.8	11.9	19.9	-2.4	1.1	-17.1	33.2	22.7	-12.7	1.6	-19.2	48.2	13.5	-16.8	-4.3	-36.8	25.9	31.8	0.7	-1.8
Non-Fuel Primary Commodities	-15.8	26.5	17.9	-10.0	-1.2	-14.8	11.9	19.9	-2.4	1.1	-17.1	33.2	22.7	-12.7	1.6	-19.2	48.2	13.5	-16.8	-4.3	-36.8	25.9	31.8	0.7	-1.8					
Food	-14.8	11.9	19.9	-2.4	1.1	-17.1	33.2	22.7	-12.7	1.6	-19.2	48.2	13.5	-16.8	-4.3	-36.8	25.9	31.8	0.7	-1.8										
Beverages	1.6	14.1	16.6	-18.6	-11.9																									
Agricultural raw materials	-17.1	33.2	22.7	-12.7	1.6																									
Metals	-19.2	48.2	13.5	-16.8	-4.3																									
Energy	-36.8	25.9	31.8	0.7	-1.8																									

Source: "IFS, May 2014" (IMF)

**Figure I-6: Long-term trends in metals and energy prices**



Source: "IFS, May 2014" (IMF)

# Trends in world trade by countries, regions, and products

○Export value for EU28 (including exports within the region) rose 0.5% year-on-year. However, import value from outside the region declined by 3.2%, continuing to move at its previous sluggish pace.

○China's combined trade in merchandise, which includes both export and import value, exceeded US\$4 trillion for the first time in 2013.

○Looking at world trade by product, exports of resources fell year-on-year across the board, while electrical equipment rose significantly with the growth in the exports of IT equipment and integrated circuits to China.

**Figure I-7: World trade value by country and region (2013)**

(US\$ million, %)

	Exports				Imports			
	Value	Growth rate	Share	Contribution	Value	Growth rate	Share	Contribution
NAFTA	2,417,984	1.9	13.2	0.3	3,111,268	0.1	16.4	0.0
United States	1,579,593	2.2	8.6	0.2	2,268,321	-0.4	12.0	0.0
Canada	458,295	0.7	2.5	0.0	461,737	-0.1	2.4	0.0
Mexico	380,096	2.5	2.1	0.1	381,210	2.8	2.0	0.1
EU28	6,079,540	4.3	33.3	1.4	5,943,717	0.5	31.4	0.1
Germany	1,452,984	3.3	7.9	0.3	1,189,108	2.1	6.3	0.1
The Netherlands	672,061	2.6	3.7	0.1	589,991	-0.2	3.1	0.0
France	579,738	1.8	3.2	0.1	681,159	0.9	3.6	0.0
United Kingdom	547,371	12.9	3.0	0.3	653,678	-5.7	3.5	-0.2
Italy	517,740	3.2	2.8	0.1	477,426	-2.4	2.5	-0.1
Belgium	469,431	5.1	2.6	0.1	450,690	2.5	2.4	0.1
Spain	316,457	7.0	1.7	0.1	339,035	0.3	1.8	0.0
Austria	174,694	4.7	1.0	0.0	182,237	2.0	1.0	0.0
Japan	719,205	-10.3	3.9	-0.5	838,889	-5.6	4.4	-0.3
East Asia	4,825,711	5.0	26.4	1.3	4,564,533	4.8	24.1	1.1
China	2,210,662	7.8	12.1	0.9	1,949,300	7.3	10.3	0.7
South Korea	559,632	2.1	3.1	0.1	515,586	-0.8	2.7	0.0
Hong Kong	535,548	8.5	2.9	0.2	622,276	12.3	3.3	0.4
Taiwan	287,259	1.0	1.6	0.0	269,306	-0.5	1.4	0.0
ASEAN6	1,232,610	0.9	6.7	0.1	1,208,064	1.1	6.4	0.1
Singapore	410,368	0.4	2.2	0.0	373,122	-1.8	2.0	0.0
Thailand	225,182	-1.3	1.2	0.0	248,238	-1.4	1.3	0.0
Malaysia	228,395	0.3	1.2	0.0	206,119	4.8	1.1	0.1
Indonesia	182,552	-3.9	1.0	0.0	186,629	-2.6	1.0	0.0
Vietnam	132,135	15.4	0.7	0.1	132,125	16.1	0.7	0.1
Philippines	53,978	3.8	0.3	0.0	61,831	0.2	0.3	0.0
Russia	290,126	-17.7	1.6	-0.3	287,004	-1.2	1.5	0.0
India	313,521	5.5	1.7	0.1	465,777	-5.0	2.5	-0.1
Australia	252,678	-1.5	1.4	0.0	232,728	-7.2	1.2	-0.1
Brazil	242,179	-0.2	1.3	0.0	239,621	7.4	1.3	0.1
Turkey	152,131	-0.2	0.8	0.0	251,945	6.5	1.3	0.1
South Africa	83,437	-4.4	0.5	0.0	100,398	-1.1	0.5	0.0
World trade (estimate)	18,282,590	1.6	100.0	1.6	18,923,814	1.9	100.0	1.9
Advanced economies	10,908,514	2.1	59.7	1.3	11,428,523	-0.1	60.4	-0.1
Emerging and developing economies	7,374,075	0.9	40.3	0.4	7,495,291	5.0	39.6	1.9

Notes: (1) Data for the world, EU28, advanced economies, and emerging and developing economies follow JETRO estimates.

(2) EU28 includes internal trade.

(3) ASEAN6 in this chart stands for the following six countries: Singapore, Thailand, Malaysia, Indonesia, 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 for advanced economies and emerging and developing economies follow the World Economic Outlook (IMF).

Sources: Statistics from individual countries/regions

**Figure I-8: World trade by product: exports (2013)**

(US\$ million, %)

	Value	Growth rate	Share	Contribution
Total	18,282,590	1.6	100.0	1.6
Machinery and equipment	6,800,850	3.0	37.2	1.1
General equipment	2,068,970	0.4	11.3	0.0
Electrical equipment	2,295,142	6.3	12.6	0.8
IT equipment	487,403	11.7	2.7	0.3
Electronic parts such as semiconductors	610,438	11.3	3.3	0.3
Integrated circuits	504,411	14.8	2.8	0.4
Transport equipment	1,823,522	2.6	10.0	0.3
Automobiles	812,217	2.7	4.4	0.1
Passenger vehicles	664,928	3.5	3.6	0.1
Two-wheeled vehicles	20,291	3.1	0.1	0.0
Automobile parts	405,012	4.3	2.2	0.1
Precision equipment	613,216	1.5	3.4	0.0
Chemicals	2,366,727	1.7	12.9	0.2
Chemical industrial products	1,584,308	1.3	8.7	0.1
Pharmaceuticals and medical supplies	485,301	3.0	2.7	0.1
Plastics and rubber	782,418	2.5	4.3	0.1
Food	1,233,184	5.4	6.7	0.3
Oils and fats, and other animal and plant products	202,426	-2.5	1.1	0.0
Miscellaneous manufactured products	554,363	6.8	3.0	0.2
Iron ore	141,680	13.4	0.8	0.1
Mineral fuels, etc.	2,958,986	-5.2	16.2	-0.9
Mineral fuels	2,780,363	-5.3	15.2	-0.9
Coal	115,400	-11.5	0.6	-0.1
LNG	150,155	1.8	0.8	0.0
Petroleum and petroleum products	2,274,797	-6.1	12.4	-0.8
Crude oil	1,294,053	-11.3	7.1	-0.9
Textiles and textile products	782,153	6.7	4.3	0.3
Synthetic fibers and textiles	87,841	2.1	0.5	0.0
Clothing	438,748	8.8	2.4	0.2
Base metals and base metal products	1,205,367	-2.8	6.6	-0.2
Steel	684,955	-4.4	3.7	-0.2
Steel ingots	65,177	-5.6	0.4	0.0
Nickel ingots	14,629	-2.6	0.1	0.0
Aluminum ingots	49,787	-2.0	0.3	0.0

Notes: Total value for 2013 and total growth rate follow JETRO estimates.

Sources: Statistics from individual countries/regions.

# Japan incurs trade deficit for third consecutive year

- For Japan's trade in 2013 (on customs clearance basis), exports fell by 10.3% from the previous year to US\$719.2 billion, while imports fell by 5.6% to US\$838.9 billion. Japan incurred a trade deficit for the third consecutive year, with a trade balance in the red by US\$119.7 billion.
- The deficit in trade in services decreased in 2013. The trade deficits in transportation and travel decreased. Receipts for maritime cargo services from ASEAN increased, while receipts for travel from Taiwan, Hong Kong, and the ASEAN region also increased, contributing to reducing the deficit in these sectors. It continued to enjoy increases in the surplus for royalties and license fees (including royalty deals between parent companies and their subsidiaries).

**Figure I-9: Japan's trade (2012 – 2013)**

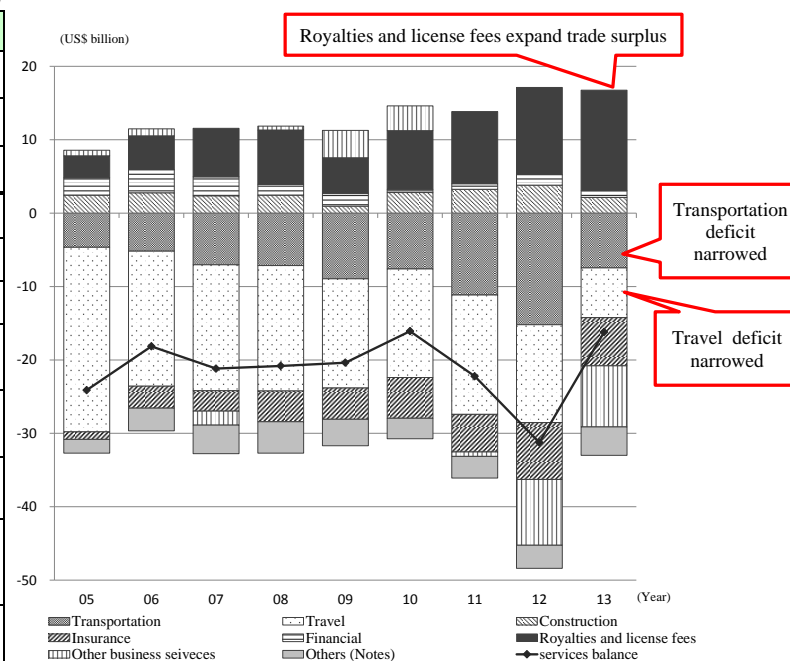
(Top row: Value, US\$ million. Bottom row: Percent change, %)

		2012	2013	Characteristics for 2013
World	Exports	801,335 -2.4	719,205 -10.3	Export volume fell by 1.5%. Year-on-year decline for the third consecutive year.
	Imports	888,584 4.2	838,889 -5.6	Import volume increased 0.3%. Growth for fourth consecutive year.
	Trade balance	-87,250 -54,973	-119,684 -32,435	Trade deficit for third consecutive year.
China	Exports	144,686 -10.4	129,851 -10.3	In general machinery (15.8% fall), machine tools decreased by half. In electric equipment (16.7% fall), poor performance for semiconductors, and visual equipment.
	Imports	189,019 3.0	182,192 -3.6	Shrunk for first time in four years since 2009. Year-on-year decline for chemicals, food, clothing, and steel, etc. Steady performance by mobile phones in electric equipment (2.4% increase) as well as semiconductors.
ASEAN	Exports	129,788 5.8	111,671 -14.0	Reconstruction demand after the floods have stabilized in Thailand (17.4% fall). Significant decline in mining and construction machines, and passenger vehicles, for Indonesia (15.7% fall).
	Imports	129,603 4.0	118,644 -8.5	Minor decline for Malaysia (9.0% fall) due to fall in LNG prices, as well as decline for petroleum and petroleum products. Decline in LNG and crude oil for Indonesia (10.2% fall).
United States	Exports	140,624 11.9	133,199 -5.3	Returned to position as top export partner, overtaking China. Despite the sustained positive growth for automobiles (0.7% increase), electric equipment (10.7% fall) and general machinery (10.1% fall) faced difficulties in achieving growth.
	Imports	76,460 3.0	70,322 -8.0	Overall decline for electric equipment, transportation equipment, chemicals, and food. Due to the impact of the 2012 drought, the United States' share in the import volume of corn dropped significantly from 90.1% in 2011 to 44.8% in 2013.
EU	Exports	81,742 -14.3	72,173 -11.7	In Germany (8.7% fall), there was overall sluggishness in the machinery and equipment sector such as mining and construction machines, automobiles, etc. The Netherlands (13.7% fall) struggled with growth for visual equipment, while the United Kingdom (16.5% fall) faced difficulties in expanding the automobiles and automobile parts sector.
	Imports	83,520 4.0	78,995 -5.5	While Germany (3.4% fall) saw a year-on-year decline in pharmaceutical products, there was strong performance in the passenger vehicle sector. France (8.7% fall) also experienced poor performance for pharmaceutical products, but saw a growth in transportation equipment with the import of large-scale aircraft.

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) The bottom row of trade balance indicates increase or decrease from the previous year.  
(3) EU consisted of 27 countries in 2012, and 28 in 2013. The YoY changes for 2013 was based on the trade value of 29 countries.

Sources: "Trade Statistics" (Ministry of Finance)

**Figure I-10: Japan's service trade balance**



Notes: "Others" includes the communications, computer and information, personal, cultural and recreational, and government services, n.i.e.  
Sources: "Balance of Payments and International Investments Position" (Bank of Japan, Ministry of Finance), "Foreign Exchange Rates" (Bank of Japan)

## Changes in trade structure make it difficult to generate surpluses

- Comparing trade balance for 2008 and 2013, we see that Japan maintained its surplus for 2008, but incurred a deficit in 2013. Trade balance by product shows that there were difficulties in generating surpluses for machinery and equipment such as transport equipment and electric equipment, while trade deficit was mostly generated by mineral fuels, etc.
- Changes in the trade structure for machinery and equipment have made it difficult to generate surpluses. These changes include the shift from export toward overseas production for transport equipment, as well as the decline in price competitiveness and rapid expansion in the import of mobile phones (such as smartphones) for general and electric equipment.

**Figure I-11: Japan's trade balance by product (2008 and 2013)**

(US\$ billion)

		2008	2013	change	Changes from 2008→2013 (Figures in the brackets indicate change)
Total	Exports	775.9	719.2	-56.7	
	Imports	756.1	838.9	82.8	
	Trade balance	19.8	-119.7	-139.5	
Transportation equipment	Exports	195.9	169.2	-26.7	Export volume for automobiles 8.29 million units → 5.82 million units (-2.48 million units)
	(Automobiles)	131.2	105.2	-26.1	
	Imports	22.6	28.9	6.3	(Reference) Volume of Japanese automobiles produced overseas: 11.65 million units → 16.76 million units (+5.1 million units)
	Trade balance	173.3	140.2	-33.1	
General Machinery	Exports	151.4	135.2	-16.3	Export volume for printing machines (HS. 8443, excluding machine parts) 1.91 million units → 0.92 million units (-0.99 million units)
	(Printing machines)	17.8	12.5	-5.3	
	(Mining and construction machines)	13.1	9.3	-3.8	Export volume for construction machines (HS. 8429) 0.21 million units → 0.15 million units (-0.06 million units)
	(Machining center)	3.0	3.2	0.2	
	Imports	59.1	62.3	3.2	Export volume for machining center (HS.8457) 12,000 units → 20,000 units (+8,000 units)
	Trade balance	92.3	72.9	-19.5	
Electric equipment	Exports	138.6	108.2	-30.5	Export volume for video/digital cameras (HS. 8525.80) 42.82 million units → 12.84 million units (-29.98 million units)
	(Visual equipment)	16.2	7.5	-8.7	
	Imports	77.8	96.7	18.9	Import volume for mobile phones (HS. 8517.12) 7.95 million units → 34.58 million units (+26.62 million units)
	(Communication equipment)	10.8	27.4	16.6	
	Trade balance	60.8	11.5	-49.3	
Mineral fuels	Exports	18.6	16.6	-2.1	Import volume for crude oil 240 million KL → 210 million KL (-30 million KL)
	Imports	266.7	281.9	15.2	Import unit price US\$101.9/barrel → US\$110.5/barrel
	(Crude oil)	154.5	145.8	-8.7	Import volume for LNG: 69.26 million tons → 87.49 million tons (+18.23 million tons)
	(LNG)	45.2	72.5	27.3	Import unit price US\$652/ton → US\$828/ton
	Trade balance	-248.0	-265.3	-17.3	

Notes: There are cases where the lowest digit may not match because of rounding error. Sources: "Trade Statistics" (Ministry of Finance), Japan Automobile Manufacturers Association.



# World FDI shows signs of recovery

○ In 2013, global inward FDI increased by 9.1% year-on-year to US\$1.452 trillion against the backdrop of economic recovery in advanced economies. Despite the shift toward an increase in FDI, it nevertheless remained at approximately 70% of FDI levels of 2007 prior to Lehman Shock.

**Figure I-12: FDI for major countries/regions (balance of payments basis, net flows)**

	(US\$ million, %)					
	Inward FDI			Outward FDI		
	Value	Percent change	Share	Value	Percent change	Share
United States	187,528	16.8	12.9	338,302	-7.8	24.0
Canada	62,325	44.9	4.3	42,636	-23.1	3.0
EU28	246,207	14.0	17.0	250,460	5.3	17.8
Spain	39,167	52.4	2.7	26,035	-	1.8
United Kingdom	37,101	-19.0	2.6	19,440	-44.4	1.4
Ireland	35,520	-7.3	2.4	22,852	23.4	1.6
Luxembourg	30,075	215.7	2.1	21,626	606.0	1.5
Germany	26,721	102.4	1.8	57,550	-27.7	4.1
The Netherlands	24,389	151.3	1.7	37,432	13906.1	2.7
Switzerland	-5,252	-	-	59,961	33.1	4.3
Australia	49,826	-10.3	3.4	6,364	2.4	0.5
Japan	2,304	33.0	0.2	135,749	10.8	9.6
East Asia	341,888	4.8	23.5	292,408	6.9	20.7
China	123,911	2.3	8.5	101,000	15.0	7.2
Hong Kong	76,633	2.3	5.3	91,530	3.9	6.5
South Korea	12,221	28.7	0.8	29,172	-4.8	2.1
Taiwan	3,688	15.0	0.3	14,344	9.2	1.0
ASEAN	125,435	6.7	8.6	56,361	4.7	4.0
Singapore	63,772	4.3	4.4	26,967	100.3	1.9
Indonesia	18,444	-3.6	1.3	3,676	-32.2	0.3
India	28,199	16.5	1.9	1,679	-80.2	0.1
Central and South America	182,389	8.1	12.6	32,258	-28.5	2.3
Brazil	64,045	-1.9	4.4	-3,496	-	-
Mexico	38,286	117.2	2.6	12,938	-42.4	0.9
CIS	103,241	28.0	7.1	98,982	85.5	7.0
Russia	79,262	56.7	5.5	94,907	94.4	6.7
Middle East	44,282	-8.6	3.0	31,104	63.9	2.2
Turkey	12,866	-2.7	0.9	3,114	-23.6	0.2
Africa	57,239	3.7	3.9	12,418	3.5	0.9
Republic of South Africa	8,188	79.6	0.6	5,620	88.1	0.4
Advanced economies (39 countries/regions)	565,626	9.5	39.0	857,454	0.6	60.8
Emerging and developing economies	886,339	8.9	61.0	553,242	12.0	39.2
<b>World</b>	<b>1,451,965</b>	<b>9.1</b>	<b>100.0</b>	<b>1,410,696</b>	<b>4.8</b>	<b>100.0</b>

Notes: (1) The definition of advanced economies follows UNCTAD, and is the total for 39 countries/regions.

The figures for emerging and developing economies are obtained by subtracting the figures for advanced economies from the total.

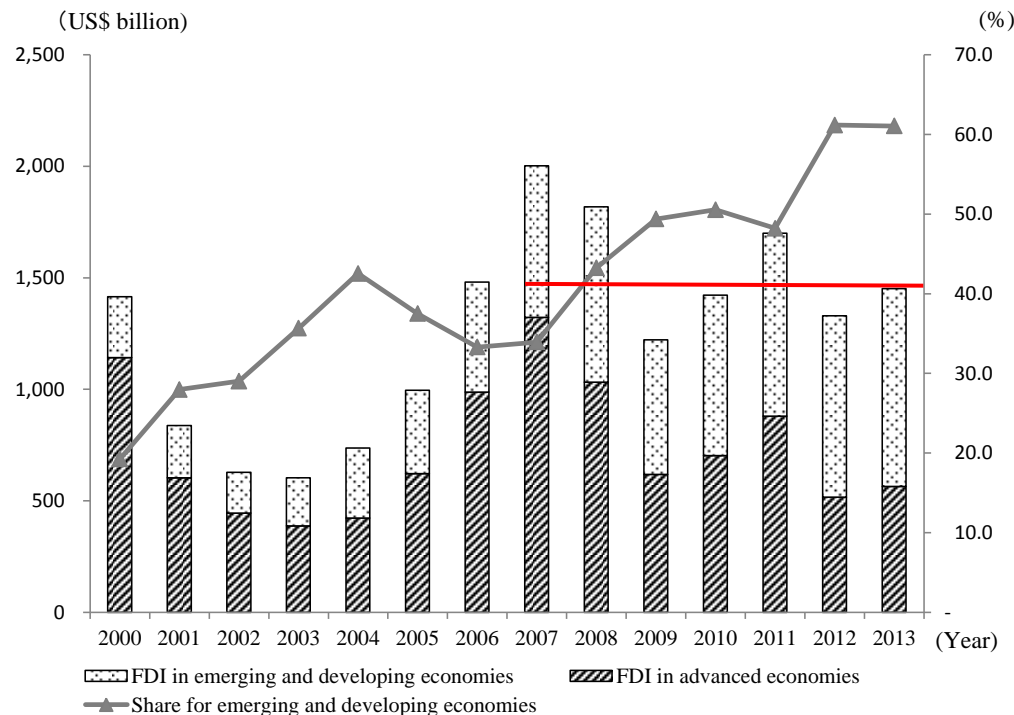
(2) Figures for East Asia are the total for China, South Korea, Taiwan, Hong Kong, and ASEAN.

(3) Figures for Japan are based on UNCTAD and thus do not correspond to the figures in "Japan's FDI".

(4) "-" denotes figures that could not be calculated.

Sources: UNCTAD

**Figure I-13: Changes in global inward FDI**



Notes: FDI is based on inward FDI.

Sources: UNCTAD

## Global cross-border M&A declines for the second consecutive year

○Global cross-border M&A for 2013 (completed M&A deals) dropped by 10.4% year-on-year to US\$633.6 billion. The acquisition of Sprint Nextel Corporation by Softbank was the largest M&A deal in the world during the year.

○With regard to greenfield investments, there was a large number of investment deals in the chemicals industry with the United States as the destination for investment. One of the attributing factors for this was the fall in natural gas prices as a result of shale gas development.

**Figure I-14: Top 10 M&A deals (2013)**

Date of completion	Acquiring company		Acquired company			Value (US\$ million)	Ownership (%) after transaction	
	Country	Industry	Country	Industry	Industry			
Jul-13	SoftBank Corp	Japan	Telecommunications	Sprint Nextel Corp	United States	Telecommunications	21,640	78.0
Jun-13	Anheuser-Busch Mexico Holding	Belgium	Food	Grupo Modelo SAB de CV	Mexico	Food	17,996	94.5
Feb-13	CNOOC Canada Holding Ltd	China	Investment	Nexen Inc	Canada	Oil and natural gas	17,666	100.0
Oct-13	Vodafone Vierte	United Kingdom	Telecommunications	Kabel Deutschland Holding AG	Germany	Radio and television	11,434	76.6
Feb-13	Investor Group	Thailand	Investment	Ping An Insurance(Group)Co	China	Insurance	9,386	15.6
Oct-13	Oak Leaf BV	Austria	Investment	DE Master Blenders 1753 BV	The Netherlands	Food	8,620	100.0
Sep-13	Shuanghui Intl Hldg Ltd	China	Food	Smithfield Foods Inc	United States	Food	6,977	100.0
Feb-13	TCC Assets Ltd	Thailand	Investment	Fraser & Neave Ltd	Singapore	Food	6,896	91.2
Dec-13	Perrigo Co	United States	Pharmaceuticals	Elan Corp PLC	Ireland	Pharmaceuticals	6,535	100.0
Oct-13	Investor Group	Canada	Investment	Neiman Marcus Group Inc	United States	Retail	6,000	100.0

Notes: (1) Deals that have been completed as of 2013.

(2) Some company names have been abbreviated.

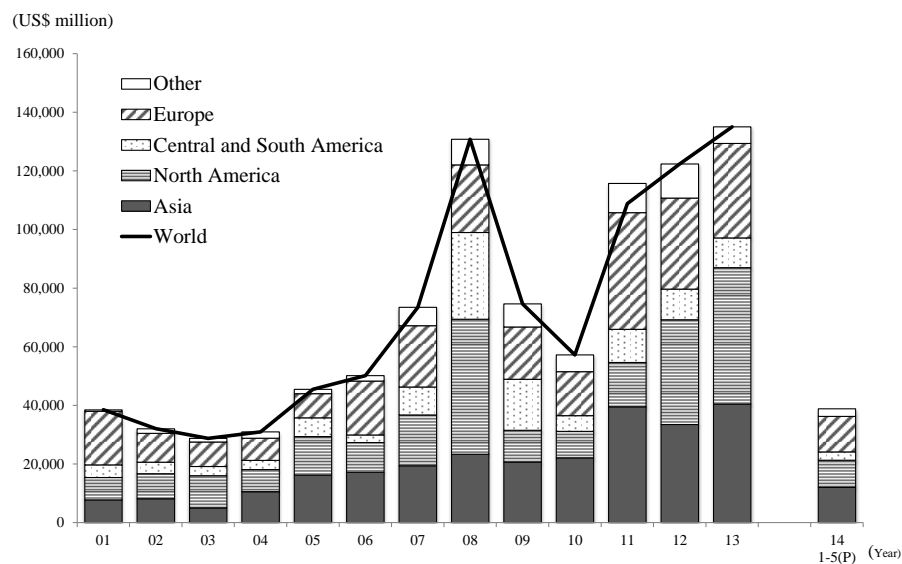
Sources: Thomson Reuters

## Japanese outward FDI reaches record high

○Japan's outward FDI (balance of payments basis, net flows) for 2013 rose by 10.4% year-on-year to US\$135 billion, achieving an increase for the third consecutive year. It was recording a historical high since the last peak in 2008 (US\$131 billion). The United States was Japan's largest investment partner with outward FDI value of US\$43.7 billion (36.7% growth).

○Investment in ASEAN grew 2.2 times over the previous year to US\$23.6 billion, marking historical high. In contrast, investment in China fell 32.5% to US\$9.1 billion.

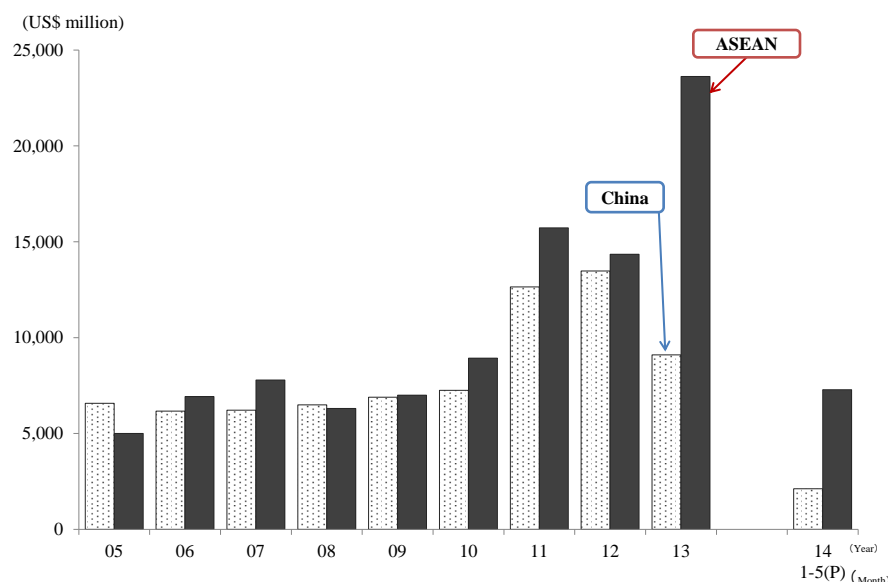
Figure I-15: Japan's outward FDI by country and region (net flows)



Note: 1) Yen-based values are converted to dollar-based values by JETRO. 2) Only the data for "world" was revised in 2011. Since detailed information has not been announced, original values are used for regional data. 3) Figures have been calculated based on the new standards set in the sixth edition of IMF Balance of Payments Manual since January 2014.

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

Figure I-16: Japan's outward FDI: Comparison between China and ASEAN



Note:

1) Data excludes investment in the finance and insurance sectors of Thailand in relation to the floods in the country. (Q4, 2011: US\$3.924 billion, Q1, 2012: -US\$3.674 billion)

2) Figures have been calculated based on the new standards set in the sixth edition of IMF Balance of Payments Manual since January 2014.

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

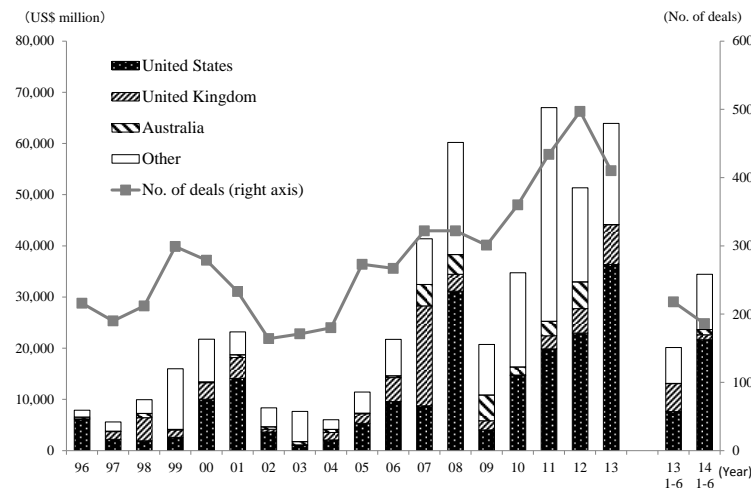
## Outward M&A deals reach second highest level ever

○The value of outward M&A deals for 2013 increased 24.6% to US\$63.9 billion, reaching the second highest level ever after 2011. Compared to 2012, exchange rates were about 20% lower for the Japanese yen. However, Japanese companies showed no significant changes in their proactive attitude for M&A. The United States mostly remained consistent in its position as Japan's largest partner for acquisition deals.

○Outward M&A from January to June 2014 increased 71.1% to US\$34.4 billion. The conclusion of large-scale outward M&A deals continue in 2014.

Figure I-17: Value of Japan's outward M&A and number of deals

Figure I-18: Top deals for Japan's outward M&A (2013 – June 2014)



Source: Thomson Reuters

Rank	Date of completion	Acquiring company	Industry	Acquired company		Value (US\$ million)	Ownership (%) after transaction
				Country	Industry		
1	Jul-13	SoftBank Corp	Telecommunications	United States	Telecommunications	21,640	78.0
2	Apr-14	Suntory Holdings Ltd	Beverage	United States	Beverage	15,688	100.0
3	Dec-13	The Bank of Tokyo-Mitsubishi UFJ	Banking	Thailand	Banking	5,315	72.0
4	Mar-13	Dentsu Inc	Advertising	United Kingdom	Advertising	4,311	100.0
5	Jan-14	LIXIL Corporation, Development Bank of Japan	Housing equipment	Germany	Housing equipment	3,960	87.5
6	Jul-13	Marubeni Corp	Commerce	United States	Food products	2,700	100.0
7	Jul-13	ORIX Corp	Finance	The Netherlands	Finance	2,593	90.0
8	Dec-13	Suntory Beverage & Food Limited	Beverage	United Kingdom	Beverage	2,122	100.0
9	Apr-13	Itochu Corp	Commerce	United States	Food products	1,685	100.0
10	Feb-14	Nippon Steel & Sumitomo Metal, and other companies	Metal and metal products (steel)	United States	Metal and metal products (steel)	1,550	100.0

Notes: (1) Year and month indicate the date of completion of the deals. (2) The definition of M&A follows Thomson Reuters' definition. The deals are ranked for the transaction value each time.

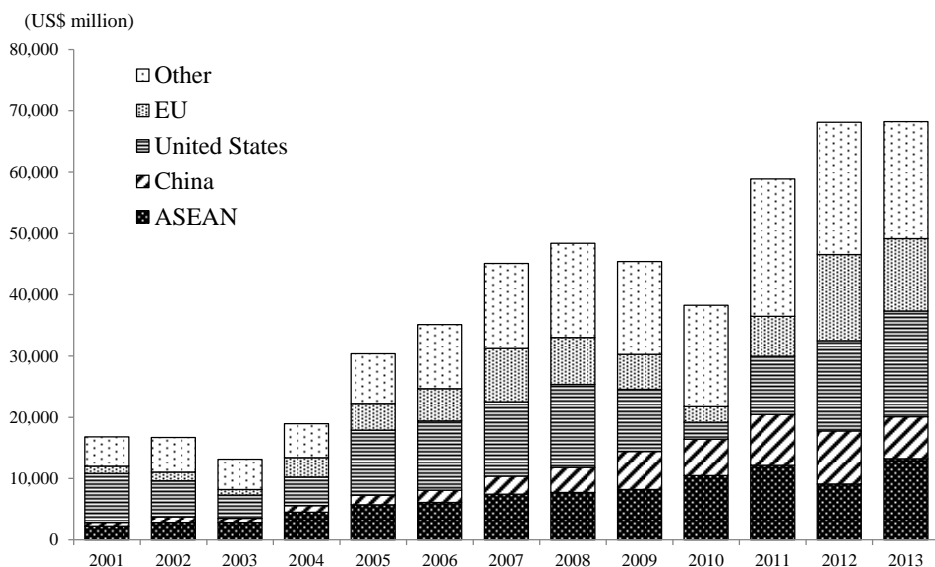
Source: Thomson Reuters

## Steady performance for rate of return on outward FDI

○Japan's outward FDI return for 2013 increased by 0.2% to US\$68.2 billion. The composition ratio by region was Asia in the top at 37.1% (US\$25.3 billion), followed by North America at 27.0% (US\$18.5 billion), and Europe at 18.6% (US\$12.7 billion). In 2013, there was a significant rise in FDI return from ASEAN and the United States.

○Outward FDI rate of return for 2013 (world average) fell year-on-year by 0.2 points to 6.4%. It is important to further raise the rate of return mostly in Asia, which is the largest source of earning, and to steadily increase FDI return.

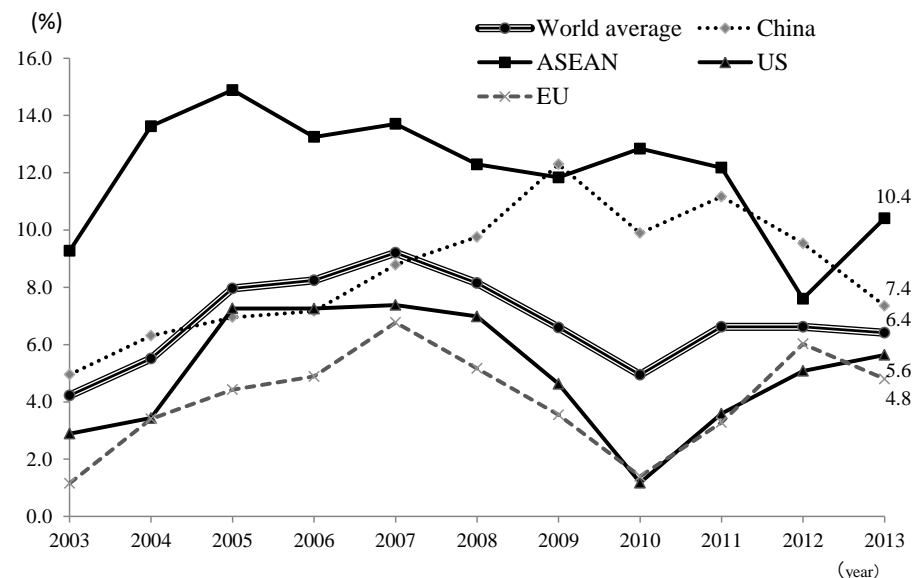
**Figure I-19: Changes in returns on Japan's outward FDI by country and region**



Note: The EU comprised of 15 countries up to 2003, 25 countries from 2004 to 2006, 27 countries from 2008 to 2012, and 28 countries after 2013

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

**Figure I-20: Changes in rate of returns on Japan's outward FDI by country and region**



Note:

1) (Rate of returns on Japan's outward FDI) = (Current direct investment income credit) / (Stock of outward direct investment during the period) x 100 (%).

2) The number of EU member countries was 15 until 2003, 25 between 2004 and 2006, 27 between 2008 and 2012, and has been 28 since 2013.

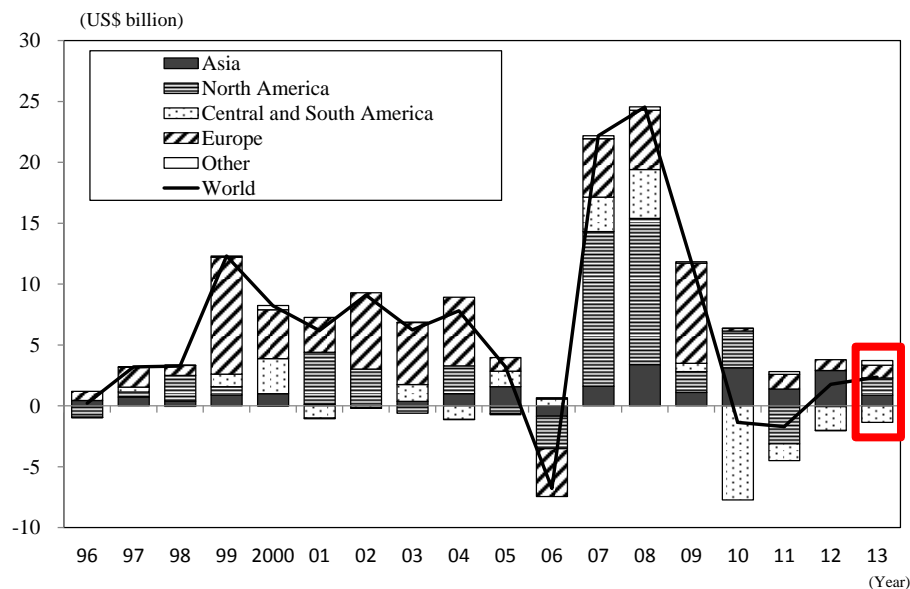
Source: "Balance of Payment Statistics", "International Investment Position" (Ministry of Finance, Bank of Japan)

# Japan's inward FDI registers net inflow for second consecutive year

○Japan's inward FDI for 2013 (balance of payments basis, net flows) increased 33.9% year-on-year to US\$2.358 billion, registering a net inflow for the second consecutive year. Investments from North America underwent a reversal from net outflow in 2012 to net inflow in 2013 (US\$1.4 billion). In Asia, the fall in investment in the finance and insurance sectors made an impact, contributing to a significant drop in FDI (US\$2.9 billion→US\$0.9 billion).

○Inward FDI stock as of the end of 2013 was ¥17.9758 trillion (0.9% increase), while the ratio of inward FDI stock to nominal GDP remained mostly unchanged at 3.8%. The rate of return against Japan's inward FDI stock was 7.1% in 2013, moving in an upward trend after Lehman Shock and exceeding rates for South Korea, the United States, and Germany.

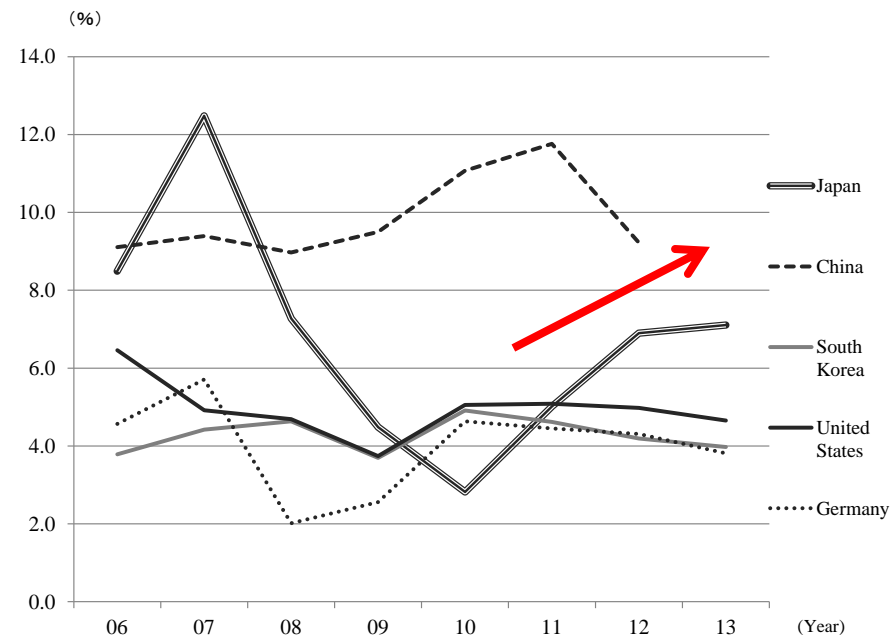
**Figure I-21: Changes in Japan's inward FDI by region**



Notes: 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" (Bank of Japan, Ministry of Finance)

**Figure I-22: International comparison of inward FDI rate of return**



Notes: (1) Rate of return on inward FDI = Payment of FDI earnings in the term / Average of inward FDI stock at the start and end of the period  $\times 100(\%)$  (2) Figures for China are up to 2012.

Sources: "Balance of Payments Statistics", June 2014 (IMF), "Balance of Payments Statistics", "International Investment Position of Japan" (Bank of Japan, Ministry of Finance)

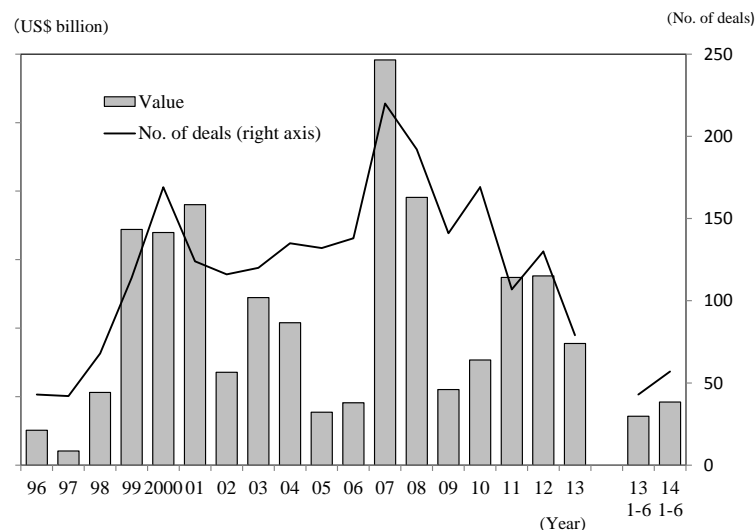
## Value of M&A deals in Japan fall for the first time in four years

○The value of M&A deals in Japan in 2013 fell 35.7% to US\$8.9 billion from 79 deals. This was the first decline in four years. M&A deals in the real estate sector stood out amongst high-ranking deals in terms of deal value. Amongst the industries, the real estate sector also contributed the largest share to the value of M&A deals at US\$3.8 billion. Electronic and electrical equipment maintained its high position at US\$3.2 billion with the conclusion of a large-scale deal, while the other sectors remained mostly the same with small fluctuations. There were 57 M&A deals in Japan for the first half of 2014 valued at US\$4.6 billion (29.1% increase).

Both the number of deals and value rose when compared to same period in the previous year.

○Looking at M&A deals by country, the United States ranked highest for both the value (US\$6.1 billion) and the number of M&A deals (41 deals) in Japan. In the electronic and electrical equipment sector, the conversion of Elpida Memory, Inc. into a wholly-owned subsidiary of Micron Technology, Inc. was one of several prominent M&A deals that reflected a trend in the reorganization and restructuring of business divisions in anticipation of profitability and growth potential.

Figure I-23: Changes in value of M&A deals in Japan



Source: Thomson Reuters (data as of 3 July 2014)

Figure I-24: Top M&A deals in Japan (2013 – June 2014)

Deal completed	Acquired company	Industry	Acquiring company			Value (US\$ million)	Ownership (%) after transaction
			Company	Country	Industry		
Jul-13	Elpida Memory	Electronic and electric equipment	Micron Technology	United States	Electronic and electric equipment	2,516	100.0
Mar-14	Panasonic Healthcare	Medical equipment	Kohlberg Kravis Roberts & Co.	United States	Investment	1,680	100.0
Aug-13	Shiba Park Building	Real estate	Asia Pacific Land (Hong Kong), and other companies	-	Investors' group	1,203	100.0
Mar-14	Nippon Paint	Chemical products	Nipsea International Limited (unit of Singaporean paint company Wuthelam Group)	Singapore	Investment	591	14.8
Jun-14	Tokyo Star Bank	Banking	CTBC Bank	Taiwan	Banking	529	98.2
Aug-13	Sheraton Grande Tokyo Bay Hotel	Real estate	Fortress Investment Group	United States	Investment	502	100.0
Jan-14	MACROMILL, INC.	Business services (Online survey)	Bain Capital	United States	Investment	407	93.5
Feb-13	SPC (Prologis Park Ichikawa 1)	Building management (Excluding residential buildings)	Nippon Prologis REIT, Inc.	United States	Real estate investment trusts	381	100.0
Feb-13	SPC (Prologis Park Zama 1)	Building management (Excluding residential buildings)	Nippon Prologis REIT, Inc.	United States	Real estate investment trusts	314	100.0
Apr-13	Akasaka Garden City (Morgan Stanley (U.S.) equity)	Real estate	Westbrook Partners and other companies	United States	Other investment	308	66.1

Notes: (1) Industries are classified according to Thomson Reuters classification, transaction.

(2) The name of acquiring company are the final parent company of the acquiring company. (3) Ranking for a single transaction.

Source: Thomson Reuters

# Chapter 2

## Trends in the development of world trade rules



# Realization of FTAAP through the promotion of TPP and RCEP

○The number of free trade agreements in the world (FTAs in force) stands at 264 as of July 25, 2014.

○The TPP serves as a driving force behind other mega FTAs. There is a need to speed up negotiations toward the establishment of the respective mega FTAs by the end of 2015. The TPP is oriented toward the establishment of high-level rules, while the RCEP seeks to create a business-friendly framework in aspects such as supply-chains.

○The mutual complement of the TPP and RCEP contributes toward the realization of a Free Trade Area of the Asia Pacific (FTAAP). To that end, it is important to raise the levels of liberalization of RCEP, introduce new rules into the TPP such as the certification of standards, and promote the greater participation of Asian countries, including China, in the TPP.

**Figure II-1: Number of FTAs in force across the world, by period and region (as of 25 July 2014)**

	Asia Pacific	Americas	Europe	Middle East and Africa	Russia and CIS	Cross-regional	Total
1955 - 59			1	1			2
1960 - 64		1	1	1			3
1965 - 69							0
1970 - 74		1	1			2	4
1975 - 79	2					1	3
1980 - 84	2	1					3
1985 - 89		2		1		2	5
1990 - 94	4	1	5	1	6	2	19
1995 - 99		4	3	7	16	6	36
2000 - 04	9	6	5	10	3	19	52
2005 - 09	20	9	4	4	2	35	74
2010 -	11	10	7		2	27	57
Year FTA came in force unknown				4		2	6
Total	48	35	27	29	29	96	264

2000	1		1	5	1	6	14
2001	1	1		1	1	3	7
2002	1	2	2	2	1	2	10
2003	3	1	1	2		3	10
2004	3	2	1			5	11
2005	5	1		1	1	7	15
2006	4	1	1	2	1	9	18
2007	3			1		6	10
2008	6	1	2			5	14
2009	2	6	1			8	17
2010	5	1	6		1	1	14
2011	3	1				10	14
2012		6	1		1	6	14
2013	2	2				7	11
2014	1					3	4

Note: Unit: No. of cases

Sources: WTO, materials from individual governments.

**Figure II-2 Proportions of mega-FTAs in relation to the world in terms of economy and population**

	Economic scale (Note (1))		Population scale (Note (2))		countries/regions
	Trillion dollars	%	100 million people	%	
Trans-Pacific Partnership agreement (TPP)	27.8	37.5	8.0	11.4	12
Regional Comprehensive Economic Partnership (RCEP)	21.3	28.7	34.4	48.8	16
China-Japan-South Korea Free Trade Agreement	15.3	20.7	15.4	21.9	3
EU-Japan Economic Partnership Agreement (EIJ)	22.3	30.1	6.3	9.0	29
Transatlantic Trade and Investment Partnership (TTIP)	34.2	46.2	8.2	11.7	29
Mega FTAs that Japan is a member of (TPP+RCEP+CJK+EIJ)	59.0	79.8	44.6	63.4	49
Mega FTAs that the United States is a member of (TPP+TTIP)	45.1	61.0	13.0	18.5	40
Mega FTAs that the EU is a member of (EIJ+TTIP)	39.1	52.8	9.5	13.5	30
Mega FTAs that China is a member of (RCEP+CJK)	21.3	28.7	34.4	48.8	16
Mega FTAs that ASEAN is a member of (*3) ((TPP)+RCEP)	41.6	56.3	39.5	56.2	21
Free Trade Area of the Asia-Pacific (FTAAP)	42.6	57.6	28.0	39.9	21
World	74.0	100.0	70.4	100.0	189

Notes: Note: 1) Figures were calculated based on nominal GDP in 2013. 2) Figures are from 2013.

3) Only four countries from ASEAN – Brunei, Malaysia, Singapore and Vietnam – participated in TPP. Cambodia, Laos and Myanmar did not participate in FTAAP (APEC). 4) Percentage values show the ratio in comparison to the world. The total of the percentages for each agreement exceeds 100% since many countries are participating in more than one FTA.

Source: "World Economic Outlook", April 2014 (IMF)

# Japan's FTA coverage at 18.2%

○Japan's FTA coverage in 2013 was 18.2%. Japan is currently involved in negotiations for the TPP, RCEP, the Japan-EU EPA, the Japan-China-South Korea FTA, and other bilateral FTAs. If the FTAs currently under negotiation become in force, Japan will increase its coverage to 84.2%, giving it one of the highest FTA coverage rates in the world.

○Japan has already put in force investment agreements with 28 countries and regions. After the mid-2000's, the mainstream trend had tended toward the conclusion of liberalization agreements. Japan's coverage for investment agreements stands at 29.1%.

**Figure II-3: Japan's FTA coverage (2013)**

	FTA coverage rate (%)		
	Exports + Imports	Exports	Imports
<b>In force</b>	<b>18.2</b>	<b>18.9</b>	<b>17.6</b>
Singapore	1.8	2.9	0.9
Thailand	3.7	5.0	2.6
Malaysia	2.9	2.1	3.6
Indonesia	3.0	2.4	3.5
Philippines	1.2	1.4	1.1
Vietnam	1.6	1.5	1.7
Other ASEAN countries	0.5	0.2	0.7
India	1.0	1.2	0.9
Mexico	0.9	1.4	0.5
Peru	0.2	0.1	0.3
Chile	0.6	0.2	1.0
Switzerland	0.7	0.5	0.9
<b>Signed</b>	<b>4.4</b>	<b>2.4</b>	<b>6.1</b>
Australia	4.4	2.4	6.1
<b>In negotiations</b>	<b>61.6</b>	<b>59.4</b>	<b>63.5</b>
China	20.0	18.1	21.7
South Korea	6.0	7.9	4.3
Mongolia	0.0	0.0	0.0
New Zealand	0.3	0.3	0.3
United States	13.1	18.5	8.4
Canada	1.3	1.2	1.4
Colombia	0.1	0.2	0.1
EU28	9.7	10.0	9.4
GCC	11.1	3.1	17.9
Saudi Arabia	3.7	1.0	6.0
Kuwait	1.0	0.3	1.6
United Arab Emirates	3.3	1.2	5.1
Oman	0.6	0.4	0.7
Bahrain	0.1	0.1	0.0
Qatar	2.5	0.2	4.4
<b>Other</b>	<b>15.8</b>	<b>19.3</b>	<b>12.7</b>
(Reference) In force + Signed + In negotiations	<b>84.2</b>	<b>80.7</b>	<b>87.3</b>
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Note: "In negotiations" include those that are agreed in principle (Japan-Mongolia EPA), postponed negotiations (GCC), and suspended negotiations (Japan-Korea EPA)

Source: "Trade Statistics" (Ministry of Finance)

**Figure II-4: Status for the conclusion of investment agreements with Japan**

Protection agreement	Liberalization agreement	Agreement in principle	Agreement to start negotiations
Egypt (in force January 1978)	*Singapore (in force November 2002)	Kazakhstan	*Turkey
Sri Lanka (in force August 1982)	South Korea (in force January 2003)	Oman	In preliminary consultations
China (in force May 1989)	Vietnam (in force December 2004)	Angola	Morocco
Turkey (in force March 1993)	*Mexico (in force April 2005)	*ASEAN	Libya
Hong Kong (in force June 1997)	*Malaysia (in force July 2006)	*Mongolia	Tanzania
Bangladesh (in force August 1999)	*Chile (in force September 2007)	<b>In negotiations</b>	
Russia (in force May 2000)	*Thailand (in force November 2007)	Ukraine	Note: ☆ are signed treaties. * refers to the FTA investment chapter. As for Taiwan, there is an agreement between private organizations. Source: METI.
Mongolia (in force March 2002)	Cambodia (in force July 2008)	Algeria	
Pakistan (in force May 2002)	*Brunei (in force July 2008)	Uruguay	
Papua New Guinea (in force January 2014)	*Indonesia (in force July 2008)	Qatar	
Iraq (in force February 2014)	Laos (in force August 2008)	UAE	
China and South Korea (in force May 2014)	*Philippines (in force December 2008)	Kenya	
☆ Saudi Arabia (signed April 2013)	Uzbekistan (in force September 2009)	Ghana	
	*Switzerland (in force September 2009)	*GCC	
	Peru (in force December 2009)	*Canada	
	*India (in force August 2011)	*Japan-China-Korea	
	Kuwait (in force January 2014)	*EU	
	☆ Colombia (signed September 2011)	*RCEP	
	☆ Mozambique (signed June 2013)	*TPP	
	☆ Myanmar (signed December 2013)		
	☆ Australia (signed July 2014)		

**Figure II-5: Japan's outward FDI stock of partner countries that Investment Agreements with Japan are in force**

In force			In negotiations/Signed			Other		
Country/Region	FDI stock	Percent	Country/Region	FDI stock	Percent	Country/Region	FDI stock	Percent
ASEAN	136,258	12.2	United States	331,439	29.7	Cayman Islands	48,352	4.3
China	98,132	8.8	EU	259,153	23.2	Brazil	33,402	3.0
South Korea	29,850	2.7	Australia*	54,112	4.8	South Africa	8,794	0.8
Hong Kong	19,820	1.8	Canada	16,783	1.5	Iran	5	0.0
India	13,738	1.2	New Zealand	2,471	0.2			
Taiwan	11,808	1.1	United Arab Emirates	232	0.0			
Switzerland	4,947	0.4						
Mexico	4,241	0.4						
Saudi Arabia	3,906	0.3						
Russia	2,499	0.2						
Treaties in force: Total	325,197	29.1						

Notes: (1) Outward FDI stock is as of the end of 2013. (2) Investment agreements include FTA investment chapters. (3) \*: FTA with Australia has been signed. (4) Fifteen partner countries are excluded from the total since their statistics are not available. (5) FTA investment chapter with ASEAN has been agreed, while bilateral investment agreements with each ASEAN country are in force or have been signed.

Source: "International Investment Position" (Bank of Japan)

# Problems with procedures related to certificates of origin

- Looking at the trend for FTA consultations handled by JETRO in fiscal 2013, the largest number of inquiries was related to the utilization of FTAs for exports from Japan and trade between third countries.
- Procedures for applying for a certificate of origin or satisfying rules of origin are a burden on Japanese companies using FTAs. Efforts to expand the utilization of self-certification systems of approved exporters need to be continued.

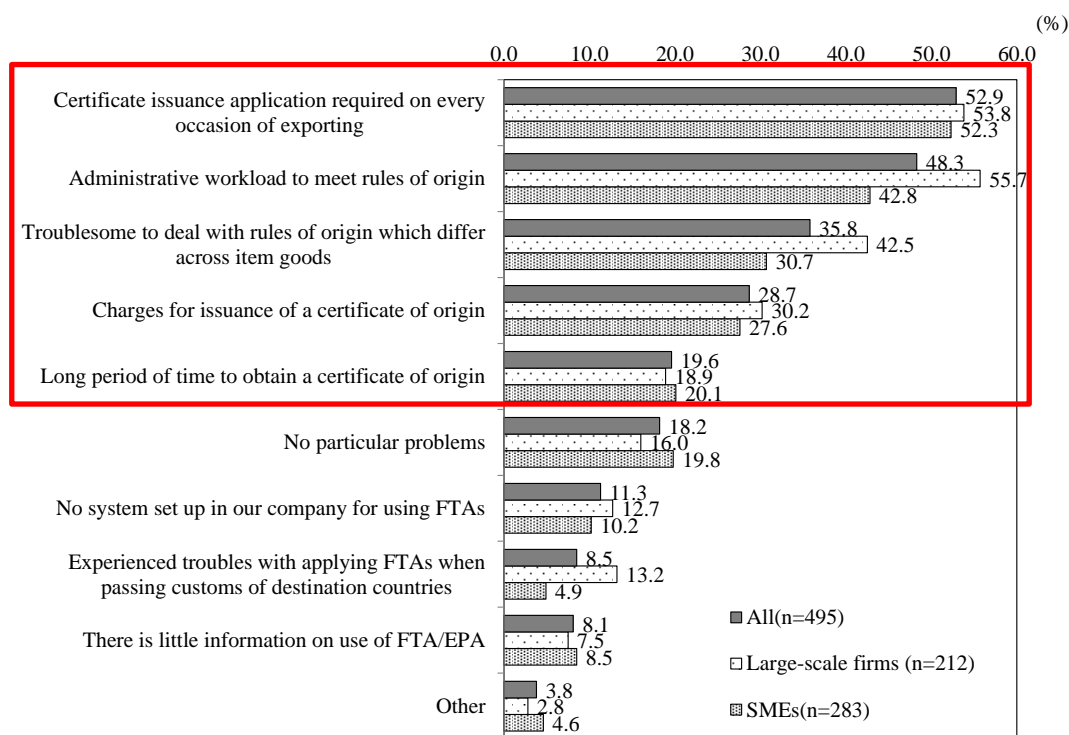
Figure II-6: Trend of FTA consultation handled by JETRO (%)

Target region/destination	Imports to Japan	Exports from Japan	Trade between third countries	Other purposes	Total
Asia	5.5	29.1	35.1	6.6	76.3
Thailand	1.0	11.9	5.4	0.9	19.2
Indonesia	1.3	6.3	5.7	0.9	14.2
Vietnam	1.5	2.2	2.3	1.4	7.5
ASEAN	0.2	1.3	5.1	0.3	6.8
China	0.1	0.2	5.1	0.6	6.0
India	0.5	2.1	2.4	0.3	5.3
Central and South America	0.5	2.6	2.9	1.8	7.7
Europe	0.2	0.6	1.1	0.7	2.6
North America	0.0	0.3	1.1	0.9	2.2
Other regions	2.8	4.5	1.6	2.2	11.2
<b>Total</b>	<b>8.9</b>	<b>37.0</b>	<b>41.8</b>	<b>12.3</b>	<b>100.0</b>

Note: Figures are based on the breakdown of 1,523 cases from the data about inquiries received by JETRO in FY2013. These cases were categorized under "International Treaties/Agreements (FTA, etc.)" and included one or more of the following keywords: "FTA," "EPA," "free trade agreement/economic partnership agreement." This does not necessarily mean that those who had submitted the inquiries had utilized or will utilize FTAs in their respective business dealings. "Other purposes" includes investments to Japan, investments from Japan, investments between third countries, and statistical/survey purposes, etc. "ASEAN" refers to inquiries for multiple countries including Thailand, Indonesia, and Vietnam. "Other regions" includes inquiries for all regions, and inquiries with unspecified regions or which could not be categorized.

Source: JETRO

Figure II-7: Problems faced by exporters using FTAs (%)



Note: Companies utilizing FTAs for exports from Japan were surveyed.

Source: "FY 2013 Survey on the International Operations of Japanese Firms" (JETRO)

## Issues in implementation of WTO Bali Package and progress of plurilateral negotiations

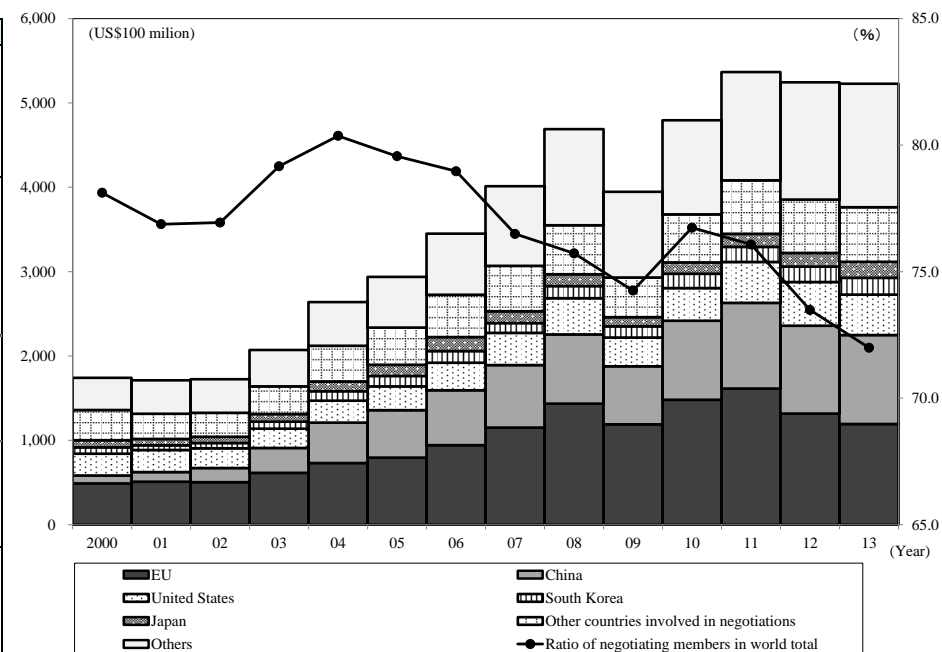
- At the 9th Ministerial Conference held in December 2013, WTO members took a significant step reaching a multilateral agreement in specific issues. For concluding the entire round of negotiations, members agreed to prepare a work program by the end of 2014.
- Plurilateral agreements are also in progress. Expansion of the Information Technology Agreement (ITA) would generate significant advantages for the electric and electronics industry, if concluded. Official negotiations have also begun for environmental goods liberalization, where an increase in participating members is expected. Negotiations on the Trade in Services Agreement (TISA) have also been active as one of the plurilateral agreements outside the framework of the WTO.

**Figure II-8: Overview of the Bali Package and declarations by developing countries during negotiations**

Area	Overview	Contents of the package	Stance of developing economies
Trade facilitation	Expansion of trade by eliminating costly barriers to goods as they cross international borders.	Conclusion of the negotiation of a new Agreement on Trade Facilitation ("Trade Facilitation Agreement" or TFA).	Some countries including Cuba are opposed to the agreement as it may benefit only advanced economies. (After 2014, India and African countries put up strong objections to the agreement.)
Agriculture	Public stockholding for food security purpose	Until a permanent solution is found, members shall refrain from challenging via dispute settlement members' food stockholding programs, so long as they are maintained in accordance with this decision.	India has been insisting on a permanent peace clause to prevent challenges to India's agricultural subsidies for food stockpiling beyond the 2017 deadline.
	Tariff rate quota	Establishing an understanding on tariff rate quota administration provisions of agricultural products, as defined in the Agreement on Agriculture.	Assertion that the tariff quotas of advanced economies are not fully utilized.
	Export competition	Restates the Members' commitment, to eliminate all forms of export subsidies, and to maintain disciplines on all export measures with equivalent effect.	Developing economies such as Brazil demand the abolishment of export subsidies for U.S. and EU.
Development	Development and Least Developing Countries (LDC) Issues	Preferential rules of origin for LDC, operationalization of the waiver concerning preferential treatment to services and service suppliers of LDC, duty-free and quota-free market access for LDC, monitoring mechanism on special and differential treatment.	(After 2014, Ecuador emphasized the need of annual review for the implementation status of LDC issues.)

Sources: WTO and METI documents.

**Figure II-9: Trade value of environmental goods (Imports basis)**



Note: Negotiating members are Australia, Canada, China, Costa Rica, EU, Hong Kong, Japan, South Korea, New Zealand, Norway, Singapore, Switzerland, Taiwan, and United States.

Source: Trade statistics of each country.

# Chapter 3

## On making Japan a base for international business circulation

# On making Japan a base for international business circulation

In order to achieve the goals set out in the government's growth strategy, and to ensure that the Japanese economy continues to grow in the future, it is vital for Japan to become a base for the circulation of global business activities, in both the outbound (exports, outward FDI, etc.,) and inbound (inward FDI, tourism, etc.) directions. It is also important for this circulation to continue cycling in motion. Hence, going forward, Japan has to engage in nationwide efforts to tackle global business, including all regions as well as small and medium-sized enterprises. Japan must create a well-functioning cycle of international business where excellent human resources and technology gathered from abroad by offering attractive investments into Japan creates innovation, which will then encourage Japanese companies to develop business overseas. It is necessary for Japan to develop the business environment through economic partnerships such as the TPP or RCEP. Also Japanese society and companies must be reborn as a base for international business circulation by means of new intellectual property strategies including protection of trade secrets, highly skilled Japanese professionals brought in through brain circulation, and diversity of business encouraging active performance by foreign students. In line with the revised growth strategy, JETRO will also review its achievements thus far and drive its initiatives toward a new stage.

## 1. Development of overseas markets by Japanese corporations

- ◆ As of 2012, household consumption in Asia was 1.5 times that of Japan's. In China and the ASEAN region, the number of cities where per capita GDP has exceeded US\$10,000 is on the rise.
- ◆ Amongst industries for which exports are expected to grow in the future, progress has been made in initiatives to develop overseas markets in the agricultural, forestry and fishery product; food product; service; and medical equipment sectors. Export of agricultural, forestry, fishery and food products in 2013 hit a record high of ¥550.5 billion.

## 2. Expansion of inbound business such as inward investment

- ◆ Foreign corporations view the high costs of operating a business in Japan as a problem. However, the gap in some costs, such as personnel and real estate costs, with other cities in Asia is shrinking. There has also been movements toward reducing corporate taxes.
- ◆ The key countries put great importance on inward FDI, which contributes toward creating employment and revitalizing the economy. Presidents and prime ministers of these countries are taking proactive efforts to develop inward FDI from the top. In addition to strengthening practical support, it is also vital for the country to take on this task as a nationwide effort.

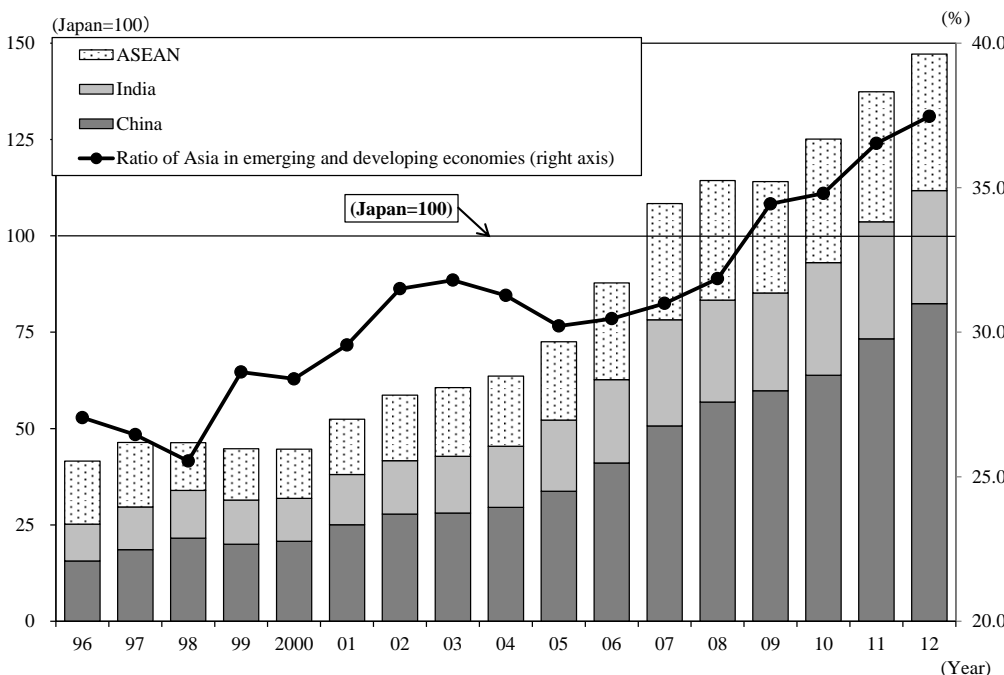
## 3. Toward further globalization for Japanese corporations

- ◆ Japan ranks second in the world in the number of patent applications. However, as many as 40% of small and medium-sized enterprises have not formulated any form of intellectual property policy. There is a need to formulate comprehensive intellectual property strategies including the protection of trade secrets.
- ◆ In 2013, the number of foreign students in Japan was about 140,000. However, of these, only 20% of those who graduate each year take up employment in Japanese corporations. Japanese corporations need to practice diversity management that includes the active utilization of diverse human resources.

## Asian consumer markets becoming solid both in scale and quality

- Household consumption in expenditures in Asia is 1.5 times that of Japan as of 2012. The proportion of Asia among emerging and developing economies is also on the rise. The Asian market is continuing to expand due to the growth of population and an increase in income levels.
- Consumption in Asia is changing in quality as well as quantity. Expenditure is growing more sophisticated. The demand is shifting from basic goods to durable consumer goods and further on to services.

**Figure III-1: Household consumption expenditure in Asia (nominal)**

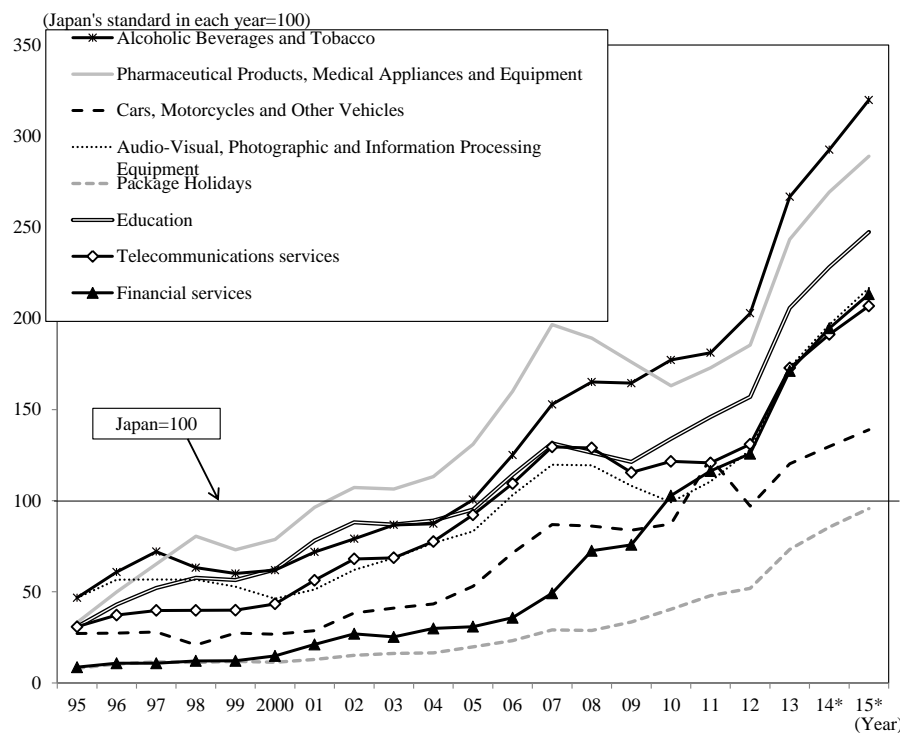


Note: The definition of emerging and developing economies follows the United Nations.

Source: "National Accounts Main Aggregates Database" (United Nations).

Note: On this page and the following, Asia represents three economies: China, India and ASEAN.

**Figure III-2: Consumption expenditure in Asia by purpose**



Note: \* indicates predicted figures.

Source: Euromonitor International



## Asian cities gaining economic strength

○Number of cities with per capita GDP of US\$10,000 or more have been emerging, most of which are capital cities. There is an increasing number of cities gaining economic power, including large Chinese cities with populations of more than 10 million, Thai provinces with industrial parks, and Indonesian and Malaysian states where resource development is in progress.

**Figure III-3: GDP per capita in major Asian cities (2010 / 2012)** (US\$, 10,000 people)

Country	City	GDP per capita	Population	Country	City	GDP per capita	Population
China	(National)	6,078	135,404	India	(National)	1,515	122,719
	Shenzhen (Guangdon)	19,532	1,055		National Capital Territory of Delhi*	3,280	1,694
	Guangzhou (Guangdong)	16,784	1,284		Haryana	2,200	2,569
	Tianjin	14,766	1,413		Maharashtra	1,976	11,357
	Shanghai	13,530	2,380		Gujarat	1,870	5,949
	Beijing*	13,863	2,069		Tamil Nadu	1,839	6,770
	Wuhan (Hubei)	12,596	1,012		Kerala	1,660	3,471
	Chengdu (Sichuan)	9,132	1,418		Punjab	1,623	2,957
	Shijiazhuang (Hebei)	6,902	1,039		Andhra Pradesh	1,455	8,519
	Chongqing	6,167	2,945		Karnataka	1,436	5,978
	Linyi (Shandong)	4,724	1,012		West Bengal	1,119	8,999
	Baoding (Hebei)	3,812	1,135		Rajasthan	1,103	6,847
	Nanyang (Henan)	3,659	1,166		Jammu and Kashmir	1,042	1,181
	Zhoukou (Henan)	2,811	1,126		Thailand	(National)	5,390
Fuyang (Anhui)	1,999	1,040	Rayong	31,211	84		
Indonesia	(National)	3,591	24,447	Chachoengsao	14,187	74	
	Jakarta*	11,947	999	Bangkok*	14,044	844	
	East Kalimantan	11,683	380	Chonburi	13,404	159	
	North Sumatra	2,831	1,341	Ayutthaya	12,138	87	
	Banten	2,025	1,120	Prachinburi	11,873	57	
Malaysia	(National)	10,387	2,934	Samut Prakan	11,735	190	
	Kuala Lumpur*	17,376	167	Samut Sakhon	11,310	91	
	Penang	10,390	158	Vietnam	(National)	1,753	8,876
	Sarawak	10,344	249		Ho Chi Minh	4,117	768
			Hanoi*		2,253	696	
Philippines	(National)	2,790	9,580	Cambodia	(National)	926	1,525
	Metro Manila*	7,391	1,155	Myanmar	(National)	876	6,366
	Calabarzon	3,147	1,190	(Reference) Japan	Tokyo*	91,537	1,313
	Central Luzon	2,151	1,016				

Notes: (1) \* indicates the capital or regions where the capital is located. (2) Cities for China and the Philippines are restricted to those with population of 10 million and above, for Thailand with per capita GDP of US\$10,000 and above, and for India with per capita GDP of US\$1,000 and above. (3) In Thailand, although there are provinces with higher per capita GDP than Bangkok, they are often places with low population and concentration of industrial parks. For instance, Rayong has been a prosperous petrochemical industrial complex, and has the largest concentration of oil mining and refining industries in the country. (4) Data for Malaysia and the Philippines (population only) is for 2010, while data for other countries is for 2012. Tokyo's per capita GDP is for FY2011, and population as of 2013.

Sources: "WEO, April 2014" (IMF), CEIC, IFS (IMF), Thailand National Economic and Social Development Board (NESDB), Hanoi Statistical Yearbook 2012, Tokyo Metropolitan Government.

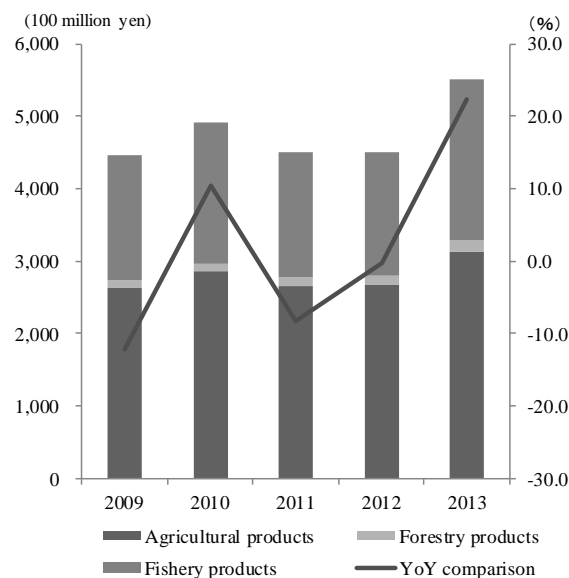


## Agricultural, forestry, fishery and food exports reach historical high of ¥550 billion

○The value of agricultural, forestry, fishery and food exports from Japan in 2013 reached a historical high of ¥550.5 billion (22.4% increase year-on-year). The value of exports to Asia including Hong Kong, Taiwan, China, and South Korea made up 72.7% of all exports. The top five products exported were scallops, alcoholic beverages, tobacco, sauce condiments, and pearls. The rise in demand in the United States due to poor catches for scallops, as well as other factors, contributed to the significant growth in scallop exports to 2.1 times above the previous year's levels.

○The Ministry of Agriculture, Forestry, and Fisheries has formulated a “Country-Specific and Product-Specific Export Strategy of Japanese Agricultural, Forestry, Fishery and Food Products” (August 2013). This strategy lays out the target of reaching ¥700 billion in yearly export value of agricultural, forestry, fishery and food products by 2016 (interim target), and ¥1 trillion by 2020. In June 2014, it established an Export Strategy Executive Committee to serve as the command center for promoting exports as a nationwide initiative. JETRO is focused on efforts to provide market information to exporters.

Figure III-4: Japan's agricultural, forestry, fishery and food exports



Note: Includes alcoholic beverages, tobacco, and pearls  
Source "Exports and Imports of Agricultural, Forestry and Fishery Products" (MAFF)

Figure III-5: JETRO's key agricultural, forestry, fishery and food export projects

JETRO's support	Project
Information and skills	(1) Export consultation services, consultation services provided by overseas coordinators; (2) Overseas surveys; (3) Provision of information through JETRO's website; (4) Conducting seminars (introduction of export activities, business negotiation skills, marketing, etc.)
Support for the establishment of commercial distribution systems (providing opportunities for business meetings)	(1) Trades fairs overseas; (2) Business meetings in Japan; (3) Business meetings overseas
Dissemination of information to overseas professionals	Holding food demonstrations at trade fairs overseas, arranging for opportunities for invited buyers to observe production sites and learn about cultural background, seminars for overseas professionals
Support for individual corporations	Partial support by specialists for corporations that have products they wish to export, and that are motivated and enthusiastic about exporting
Accelerated, focused support	Focusing resources on potential cases from the program that provides support to each prefecture, as part of efforts aimed at improving effectiveness

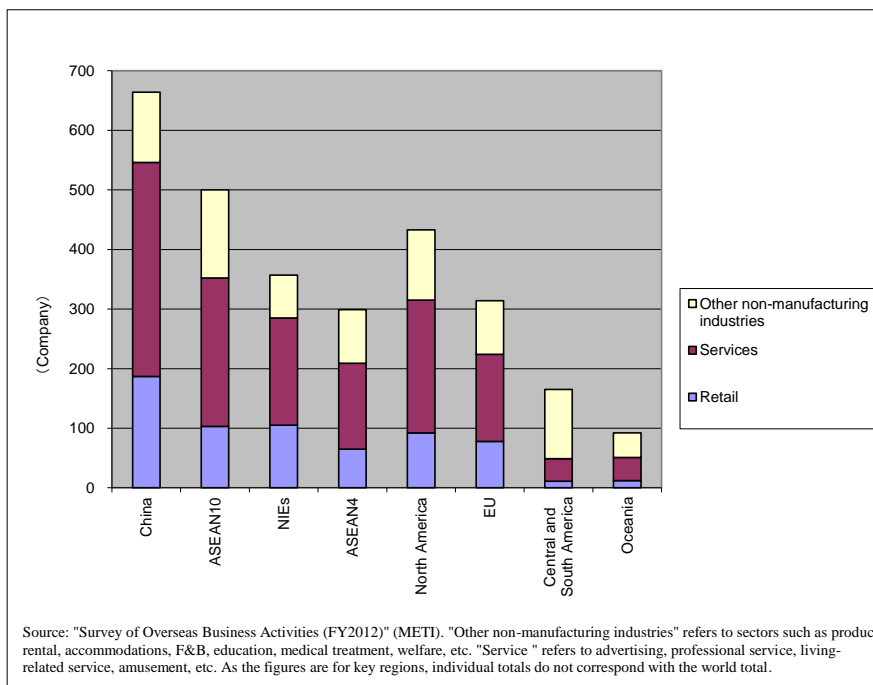
Source: JETRO's Agriculture, Forestry, Fisheries and Food Department

## The increasing overseas expansion of the service industry, and challenges in the overseas markets

○ In the second Field Survey Concerning Overseas Presence in the Service Industry FY2013 conducted by JETRO, amongst Japanese companies that have had experience in venturing into overseas markets (responses received from 546 companies), 73% had already moved into their second country. The top five countries that companies were entering for the first time, in descending order, were China (37%), the United States (17%), Hong Kong (9%), Singapore (8%), and Taiwan (7%). These five countries accounted for 78% of the total.

○ From February to March 2014, JETRO implemented a “test kitchen” project in Bangkok, Thailand, on seven food service companies that have not yet moved into the Thai market. JETRO is also injecting effort into providing support for the export of products such as lifestyle goods, design products, apparel and textiles, and media content.

**Figure III-6: Number of local companies in the retail and service industries, by country and region**



**Figure III-7: Challenges faced by Japanese companies in the service industry that are expanding overseas**

- (1) Making the leap from developing several directly-managed retail stores or franchises that are dependent on partners, to developing a large number of quality stores  
Companies need to standardize and optimize operations (decentralization and integrated management), as well as set up local franchise headquarters.
- (2) Securing a leadership position in a specific area of trade by accelerating the speed of expansion  
After outstanding Japanese companies in the service industry have moved into the market, their positions in the same region become threatened by the rapid establishment of a large number of imitation stores by local services.
- (3) Tight local marketing activities through the employment of local human resources  
Companies face limitations with the Japanese style if they wish to provide smart and sensible services to local consumers. The key lies in striking a balance between standardization and localization.

## Effectively disseminating “Japan’s appeal” through content, and transforming it into industries

- Objectives of the “Cool Japan” strategy: Converting the appeal of Japanese culture and lifestyle, including food, clothing, and shelter, as well as contents such as anime, drama, and music, into added value, acquiring a share of the strong overseas demand in emerging economies, and thereby contributing to the growth of the Japanese economy (revitalization of corporations, creation of employment).
- Three stages in acquiring a share of overseas demand: (1) Creating a “Japan boom” overseas by disseminating Japan’s appeal; (2) Sales of related products and services in the local market; (3) Encouraging consumption by actually drawing foreign visitors who have an interest in Japan into the country, in line with tourism policies, etc. Support is provided at each of these stages.

### 【Strategic overseas expansion】

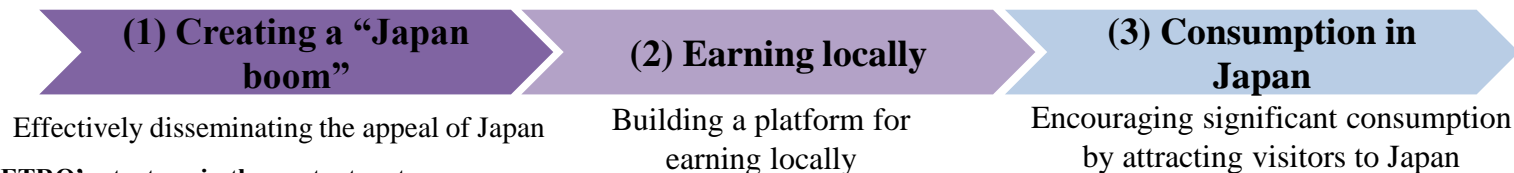


Figure III-8: JETRO’s strategy in the content sector

#### Film and video

Establishing “Japan Booths” in the key film and video markets in the world, and providing support to small and medium-sized film/video companies from Japan in their overseas expansion efforts.



Hong Kong FILMART

- Cannes Film Market (jointly organized by UNIJAPAN in Cannes, France)
- American Film Market (Santa Monica, United States)
- Hong Kong FILMART (jointly organized by UNIJAPAN Hong Kong)

#### Games

Local coordinators are actively utilized in initiatives to provide support for overseas expansion by small and medium-sized enterprises in the Japanese gaming industry. Hands-on support is provided through support to participate in the world’s largest gaming trade fair, Game Connection (San Francisco, the United States) as an exhibitor.

#### Music

With the Music Publishers Association of Japan (MPA) as a co-organizer, a Japan Booth is set up at MIDEM (Cannes, France), the largest international music industry fair, and support is provided to small and medium-sized enterprises in Japan’s music industry for their global expansion efforts.



MIDEM

#### Strengthening tie-ups with the “Cool Japan” campaign

##### Reception to bring “Doraemon” into North America (Los Angeles and New York)

Promoting the development of the market through cooperation between different industries, by harnessing J-LOP contents

##### Business matching seminars for different industries (jointly organized by J-LOP secretariat and the Association of Japanese Animations)

Introduction of six overseas expansion case studies that involved cooperation between different industries

#### Projects to establish an international content network

##### International business symposiums toward the overseas dissemination of Japanese content

Holding symposiums that provide information about human resource development, legal information, and policies and measures.

##### Cool Japan Awards (Los Angeles)

Awards ceremony (presentation of awards to those who have made active use of Japanese content / panel discussions / networking events

##### Business panels in the American Film Market (Los Angeles)

##### Los Angeles Cool Japan Committee (Los Angeles)

Users of Japanese contents hold periodic discussions about the challenges faced by Japanese content in Hollywood, and measures to ensure the business success of Japanese content in Hollywood.

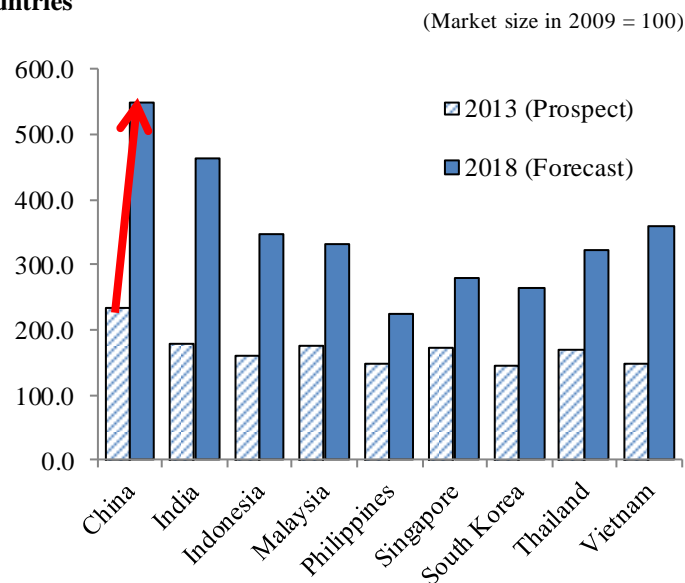
## Expectations toward strengthening export competitiveness in the growing medical equipment market

○The size of the global medical equipment market stood at US\$328.3838 billion in 2013. The market is expected to reach a scale of US\$454.5665 billion by 2018 with contributing factors such as the growth in demand in emerging Asian economies. In particular, China's market, which is facing the challenges of an ageing society, has been forecasted to expand by about 5.5 times from US\$7.3412 billion in 2009 to US\$40.3535 billion in 2018.

○ Under the Healthcare and Medical Strategy (passed by the Cabinet in July 2014) drawn up by the Japanese government, the target value for medical equipment exports has been raised from ¥500 billion in 2011 to ¥1 trillion in 2020. JETRO is a member of the government's Task Force on the International Expansion of the Medical Industry, and is involved in promoting the international expansion of the medical industry through public-private cooperation.

○There are even several companies engaged in the production and sale of medical equipment in the list of the "Global Niche Top (GNT) Companies Selection 100" (Note) drawn up by the Ministry of Economy, Trade and Industry. (Note: Manufacturing companies that have secured a large market share globally in niche sectors)

**Figure III-9**  
The market size of the medical equipment in major Asian emerging countries



Source: Worldwide Medical Market Forecasts to 2018

**Figure III-10**  
Companies in the medical equipment sector selected as the "Global Niche Top Companies Selection 100"

Company	Location	Overview
Freund Corporation	Tokyo	Develops and manufactures pelletization and coating devices for the pharmaceuticals and food industries. Has 70% of the domestic market share and more than 20% of the global market share.
Hopnic Research Co., Ltd.	Fukui	Possesses the technology to produce thin and lightweight high refractive index polarized lenses for correcting vision. Has more than 90% of the global market share.
Yamahachi Dental Mfg. Co.	Aichi	Has expanded its prosthetic teeth products, which has both rigidity and color fastness, to more than 80 countries around the world.

Note: Only Yamahachi Dental Mfg. Co. has been selected as one of the "Next GNT" which has not achieved the "GNT 100" standards but expects for dramatic growth in the future.

Source: Documents released by METI

# Uncovering the challenges and countermeasures in developing the Chinese and ASEAN markets

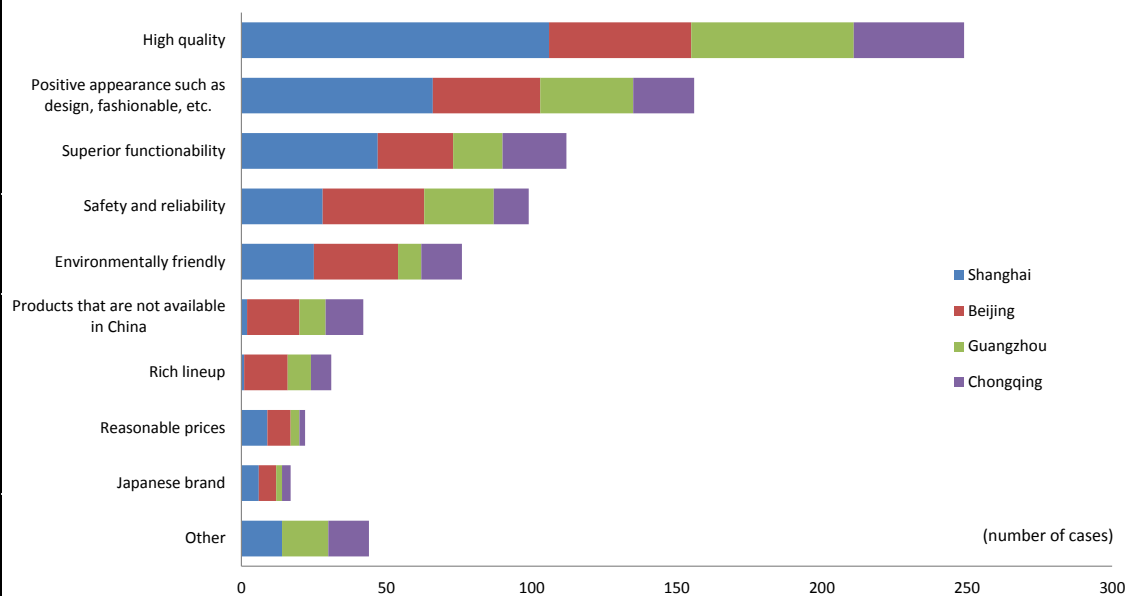
○Some challenges that are shared by Japanese corporations in their efforts to break into the Chinese market are high prices, counterfeit products, human resource development, selection of dealers, and licensing and identification (according to the JETRO Asia Caravan project). The relatively higher prices of in-house products as compared to Chinese products is perceived as a bottleneck in opening up sales channels.

○The following are some examples of countermeasures employed in efforts to develop the ASEAN market (according to the JETRO ASEAN Caravan project): Ensuring the easy appeal of the product's characteristics, reducing customs tariffs through the utilization of FTAs, product selection and development that corresponds with local tastes and circumstances, utilization of external human resources and trading companies for inadequate resources, paying careful attention to checking the sales networks of buyers, not agreeing easily to exclusive contracts, taking thorough measures against counterfeit products, taking feedback about issues seriously when products do not sell, careful preparation in advance and collection of information at the local site, moving to the next step through follow-up in business negotiations after returning to Japan, etc.

**Figure III-11: Challenges and countermeasures in developing the Chinese market**

Challenges	Examples of countermeasures
Challenge 1 High prices are a bottleneck in expanding sales channels	<ul style="list-style-type: none"> <li>Developing and strengthening salespeople: Thorough training of salespeople, such as nurturing human resources who are able to explain products in dealer</li> <li>Setting up product POP: Setting up POP advertisements in the sales spaces to provide product explanations in order to promote understanding about production amongst consumers</li> <li>Active utilization of the Internet: Utilization of the Internet to transmit product information to many consumers, in particular wealthy consumer groups</li> </ul>
Challenge 2 Intellectual property risks such as counterfeit products, etc.	<ul style="list-style-type: none"> <li>Establishing the brand</li> <li>Injecting effort into sales in areas such as local high-class department stores with strong information dissemination capabilities</li> <li>Introduction of new products into the market</li> </ul>
Challenge 3 Human resource development for overseas businesses (internal systems)	<ul style="list-style-type: none"> <li>Ability of the company's top management to take action</li> <li>Ability of the company's president to lead its overseas operations and respond swiftly</li> <li>Deploying dedicated personnel in charge</li> <li>Appointing members of the management, such as executive officers, to take charge of overseas operations, and deploying dedicated full-time employees</li> <li>Developing human resource that is able to speak Chinese and English</li> </ul>
Challenge 4 Selection of dealers (credit management), collection of receivables	<ul style="list-style-type: none"> <li>Improving business negotiation methods</li> <li>Improving contract methods, such as making it a principle to pay in advance</li> <li>Utilization of test sales</li> </ul>
Challenge 5 Procedures for obtaining licenses, etc., business practices	<ul style="list-style-type: none"> <li>Sharing information and promoting understanding in the company</li> <li>Counting the necessary expenses to China's unique business practice</li> <li>Improving methods based on local conditions</li> <li>Switching some import clearance to Hong Kong</li> </ul>

**Figure III-12: Advantages of Japanese commodities and lifestyle goods from the perspective of Chinese buyers**



Source: Survey conducted on participating buyers in JETRO's Asia Caravan project (FY2013)

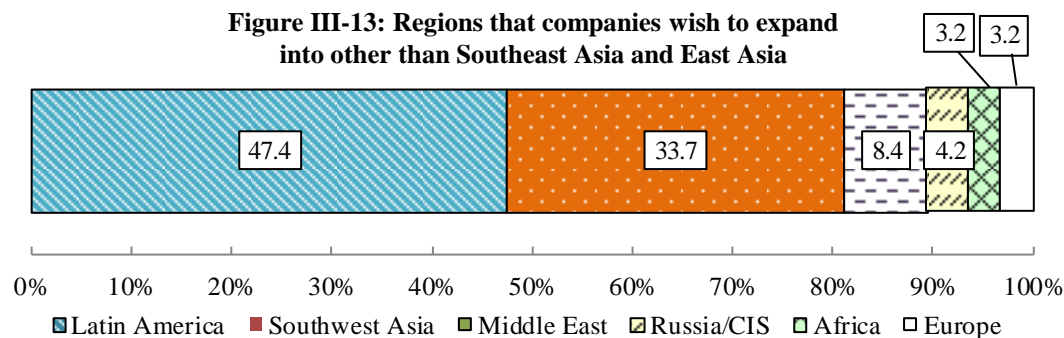
## Small and medium-sized enterprises are motivated to expand into Latin America and Southwest Asia

○Of the 695 SMEs (Note) that are selected for JETRO's individual assistance service for launching businesses in emerging countries (No. of companies that applied: 1,449. No. of companies selected: 1,195), 95 (13.7%) SMEs hope to expand into other than East Asia and ASEAN. Of these, approximately 80% SMEs hope to expand into Latin America and Southwest Asia.

○Approximately 70% of the SMEs that hope to expand into Latin America and Southwest Asia are manufacturing companies. Of those which hope to expand into Latin America, more than 50% are automotive companies, and mostly hope to expand into Mexico. On the other hand, of those which hope to expand into Southwest Asia are various manufacturing sectors.

(Note: As of July 2014, the number of companies for which figures could be tabulated was 695 companies)

**Breakdown of companies selected for JETRO's individual assistance service for launching businesses in emerging countries**



**Figure III-14: Breakdown of manufacturing sectors that wish to expand into Latin America and Southwest Asia**

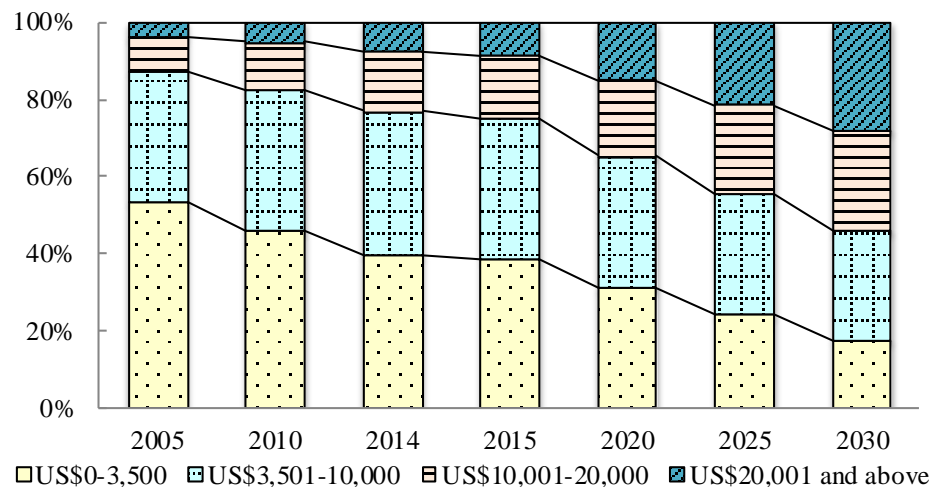


## Strengthening support for expanding into the African market

○The low-income population of Africa (annual income per capita US\$3,500 or less) is expected to drop from 53.4% in 2005 to 17.4% in 2030. The middle-income population (annual income per capita US\$20,001 or more) is expected to increase from 4% in 2005 to 28.1% in 2030.

○Japan's FDI in Africa is extremely low in comparison to other key countries. The development of the African market is a challenge for Japan.

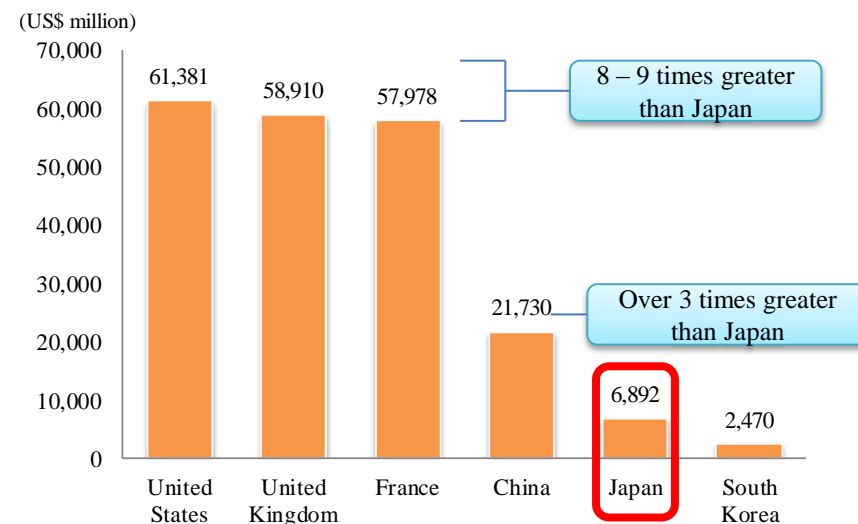
**Figure III-15: Population composition by annual income (Africa)**



Notes: (1) The denominators are the seven countries in the African region that are registered in the source material. (2) Purchasing Power Parity (PPP) basis.

Source: Euromonitor International

**Figure III-16: FDI stock in Africa by country (2012)**



Note: The definition of Africa is based on the source materials.

Sources: Japan: "Balance of Payments Statistics" (Bank of Japan, Ministry of Finance), China: "Statistical Bulletin of China's Outward Foreign Direct Investment", All other countries: "International Direct Investment Statistics 2014"(OECD).



JETRO will take up the challenge of expanding into the African market through public-private cooperation  
**Pilot Project for Business in Africa**  
 (Starting FY2014)



# Market development in third countries by Japanese corporations

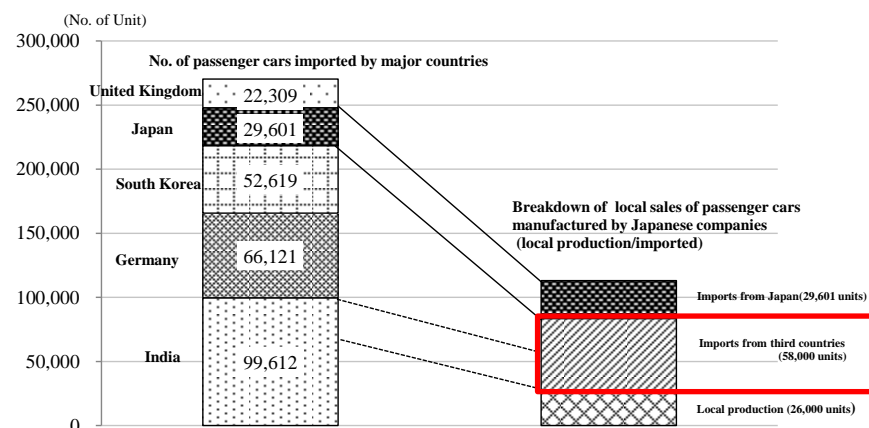
- In tandem with the expansion in overseas production, Japanese corporations have made prominent moves toward exporting to third countries from their overseas production bases (“Made by Japanese”).
- In South Africa, the number of Japanese-manufactured passenger cars imported from Japan’s overseas bases such as India is twice as big of that of from Japan.

Figure III-17: Examples of third country export by Japanese corporations

Industry	Company	Plant Location	Export destinations	Overview
Machine tools	Yamazaki Mazak Corporation	China	Turkey, Europe	Products manufactured at the Liaoning plant in China are exported to Europe, beginning with Turkey. Going forward, there are plans to sell progressively in Russia, South America, and Southeast Asia.
Automobile parts	Bridgestone	Vietnam	Europe and United States	Establishment of a new plant in Vietnam to produce tires for passenger vehicles for export to Europe and Japan (production to commence in mid-2014).
Food products	Nissin Foods Holdings	United States	Colombia	Sale of instant noodles to Colombia commenced in August 2013. Utilizing the US-Colombia FTA, it is exporting instant noodles tax-free from the United States to Colombia.
Industrial machinery	Nissei Plastic Industrial	Thailand	Southeast and West Asia	Established a production subsidiary in Thailand in April 2013 for the assembly of injection molding machines and other production activities. In tandem with strengthening sales to the Southeast and West Asia regions, it also aims to utilize FTAs to develop its global sales strategy.
Food products	Morinaga & Company	Indonesia	Near and Middle East	Established a joint venture with a local company in Indonesia in October 2013. Local production plants serve as the strategic production bases for the Southeast Asia as well as Near and Middle East markets.
Food products	Ajinomoto	Indonesia, Malaysia	Near and Middle East, Islamic region	Developing the Near and Middle East and Islam markets by utilizing production bases, products, and human resources in line with Halal standards in Indonesia and Malaysia.
Food products	Nisshin Seifun Group	Turkey	Europe, Asia, Africa	Established a joint venture in Turkey. It is harnessing the geographical location of Turkey to sell locally produced pasta to Europe, Asia, and Africa.
Food products	Hagoromo Foods Corporation	Indonesia	Middle East	Hagoromo Foods exports tuna cans to the Middle East and Japan through local plants in Indonesia that are funded through joint ventures with Itochu Corporation and other companies.
Medical equipment	Toshiba Medical Systems Corporation	Malaysia	Europe, Middle East, etc.	Established a production plant for medical diagnostic imaging systems in Malaysia (scheduled to commence operations in December 2014). Products are distributed to the global market including Europe and the Middle East from Malaysia, which is a logistics hub.
Automobiles	Mitsubishi Fuso Truck and Bus Corporation	India	Africa, Middle East, Latin America	Commenced production of left-drive trucks in India, developed for the Africa, Middle East, and Latin America markets. These are scheduled to be exported to Nigeria, Ethiopia, Egypt, and other countries. There are also plans to introduce the products into other African markets, as well as into the Latin America and Middle East markets.
Textile products	Kaneka Corporation	Malaysia	Africa	Established a production plant for acrylic fibers in Malaysia. Schedule to commence operations in October 2015, it will supply all products to Africa.

Source: Information released by the respective companies, websites, news materials

Figure III-18: Import volume for passenger cars imported by Japanese manufacturers from third countries in South Africa



Note:

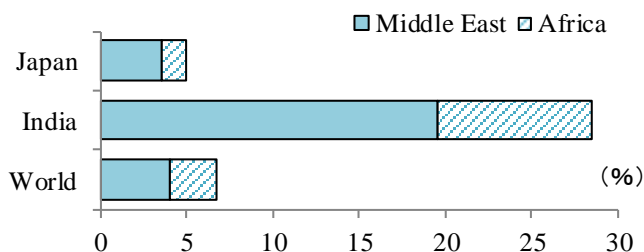
- 1) The number of passenger cars imported to South Africa by major countries shows the top five exporting countries of HS8703, to South Africa.
  - 2) The number of passenger cars manufactured and imported by Japanese manufacturers is based on data from a local company which does research on passenger cars and small-sized commercial vehicles. An approximate calculation was made for a portion of the data in which the two types of vehicles could not be distinguished.
- Source: “The South African Merchandise Trade statistics”



## India has an advantage in entering the Middle East and African markets

- The proportion of exports to the Middle East and Africa against the total value of India's exports is about six times that of Japan's. The proportion of its investment in the same regions against its total investments is about 24 times that of Japan's.
- Export activities in the western part of India are particularly robust. Under exports from India to the Middle East and Africa, the eight main ports in the western part have approximately 60% proportion against the total value of India's exports to the same region.
- There are 22 million Indians called PIO (Person of Indian Origin) and NRI (Non-Resident Indians) in the world. Of these more than eight million PIO and NRI live in the Middle East and Africa. Thus the concept of establishing bases in India is one of the effective measures to develop the Middle East and African markets.

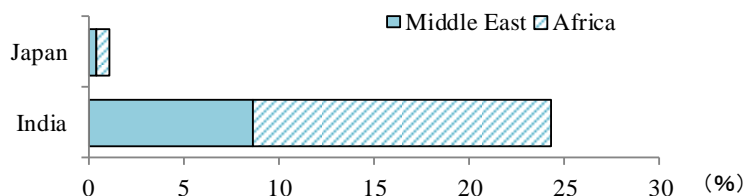
**Figure III-19**  
Proportion of exports to the Middle East and Africa (2013)



Note: Classification of region follows IMF definitions.

Source: "Direction of Trade Statistics" (IMF), May 2014.

**Figure III-20**  
Proportion of outward FDI stock in Middle East and Africa (2012)



Notes: (1) Classification of Japan's regions follows "Balance of Payments Statistics" (Bank of Japan, Ministry of Finance), while classification for India follows IMF definitions. (2) Investments with no specified countries were not included in the denominator.

Sources: Japan: "Balance of Payments Statistics" (Bank of Japan, Ministry of Finance), India: "Coordinated Direct Investment Survey" (IMF).

**Figure III-21: Exports value by India's major ports (2013)**

(US\$ million, %)

	To world		To Middle East and Africa		
	Value	Percentage	Value	Percentage	Global ratio
Overall (including "Other")	315,147	100.0	93,055	100.0	29.5
Nhava Sheva Sea	49,442	15.7	14,047	15.1	28.4
Sez Jammagar (Reliance)	30,876	9.8	11,113	11.9	36.0
Mumbai Air, Dpcc, Gems & Jeweller	24,094	7.6	4,629	5.0	19.2
Chennai Sea	16,549	5.3	2,681	2.9	16.2
Sikka	14,257	4.5	7,819	8.4	54.8
Mundra	12,129	3.8	5,182	5.6	42.7
Delhi Air	11,385	3.6	1,355	1.5	11.9
Mumbai Air	8,341	2.6	1,713	1.8	20.5
Newmangalore Sea	7,549	2.4	1,476	1.6	19.6
Kolkata Sea	6,885	2.2	1,609	1.7	23.4
Vadinar	6,875	2.2	3,407	3.7	49.6
Bangalore Airport	6,409	2.0	2,018	2.2	31.5
Mumbai Sea	6,179	2.0	2,234	2.4	36.2
Epz/Sez Surat	6,084	1.9	4,027	4.3	66.2
Delhi (Icd)	5,979	1.9	2,347	2.5	39.3
Other	102,105	32.4	27,395	29.4	26.8
Eight ports in the western part of India	158,277	50.2	54,171	58.2	34.2

Notes: (1) The shaded cells refer to the eight ports in the western part of India. (2) Mumbai Air, Dpcc, Gems & Jeweller carries out customs clearance mainly for Gems and Jewellery items in Mumbai. Mumbai Air, Dpcc, Gems & Jeweller is regarded as a part of Mumbai Air. Therefore the numbers of the main ports of Western part of India is considered as 8. (3) Percentages are rounded off to the nearest 0.1%, so the total may not add up to 100%.

Source: Trade Statistics of India

# Challenges for the investment environment in emerging economies

○ Risk items that ranked high for the question related to challenges for the investment environment in emerging economies included “inadequate infrastructure,” “undeveloped legal system and problems with implementation,” “political risks,” and “exchange rate risks.” For China and Thailand, many responses pointed to “high labor costs.”

○ According to JETRO’s survey, there are differences between the head offices in Japan and the overseas offices in their perspective of challenges for the investment environment. Compared to the head offices in Japan, local offices have a higher awareness about the complexity of tax systems and procedures.

**Figure III-22: Challenges for the investment environment in emerging economies**

(Multiple responses, %)

	n	High exchange rate risks	Inadequate infrastructure	Undeveloped legal system and problems in application of laws	Problems in protection of intellectual property rights	High or rising labor costs	Tax risk and problems	Political risks or problems in social conditions and law and order	Natural disaster risks or environmental pollution
China	2,018	20.5	9.9	44.5	51.3	50.8	18.9	59.8	27.2
Thailand	1,217	13.1	9.1	7.1	4.5	29.3	4.4	46.4	28.8
Malaysia	566	11.8	11.7	7.1	4.9	17.8	2.5	5.7	3.4
Indonesia	886	21.8	41.5	24.5	6.4	19.9	11.1	22.6	12.8
Philippines	500	11.6	31.4	12.2	5.2	5.2	4.4	23.2	23.6
Vietnam	878	15.7	48.7	31.9	8.0	12.6	7.9	8.2	4.3
Myanmar	468	12.0	70.5	42.5	8.1	2.6	5.8	32.7	4.7
India	648	21.5	55.7	28.7	8.3	7.7	13.9	17.9	9.3
Mexico	276	17.0	14.9	7.2	4.0	5.8	6.5	32.2	1.4
Brazil	324	31.2	14.2	16.0	4.6	16.4	19.4	27.5	1.2
Russia	313	17.6	11.8	30.7	5.8	8.3	12.8	27.5	2.6
Turkey	220	15.9	7.3	6.8	3.6	6.4	3.6	20.5	2.3
Republic of South Africa	210	15.7	18.6	11.9	4.3	5.7	2.9	34.8	2.4

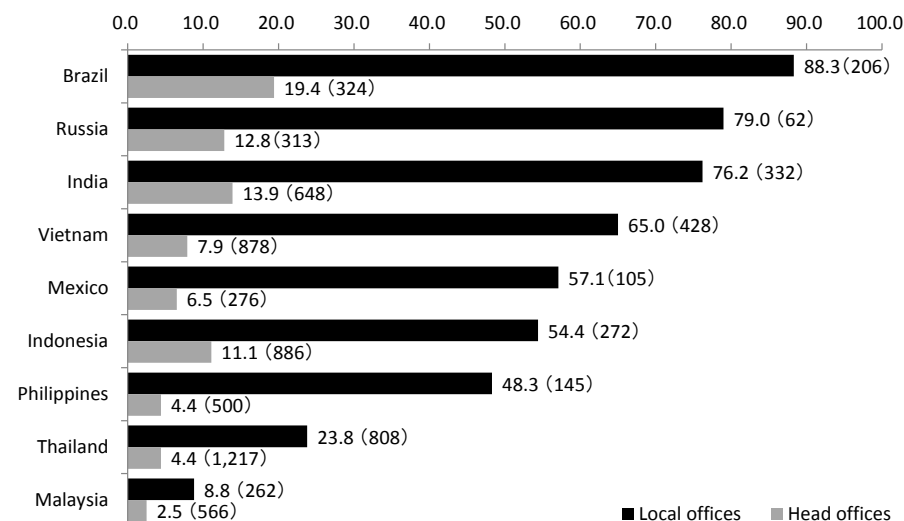
Note: (1) The variable “n” indicates the total number of firms that are doing business or considering starting new business, who reported a risk or problem in the respective country;

(2) Each figure is the response ratio for the corresponding risk item, arrived at by dividing the number of responses by “No.”;

(3) Highlighted frames represent risk items that recorded a response ratio of 20% or more.

Source: “FY 2013 Survey on the International Operations of Japanese Firms” (JETRO)

**Figure III-23: Comparison of response rates from head offices and local offices for the complexity of tax systems and procedures**



Note: The numbers in brackets ( ) refer to the number of firms that responded for the respective country.  
Source: “Survey of Japanese-Affiliated Companies in Asia and Oceania, Latin America, Europe and Russia (FY2013 survey)” (JETRO)

“FY 2013 Survey on the International Operations of Japanese Firms” (JETRO)

## Restrictions on foreign investment for the logistics industries in ASEAN countries

○FDI stock in the ASEAN region for the wholesale, retail, and transportation industries as of the end of 2013 was US\$15.92 billion, and grew by about seven times by the end of 2005. Japan's logistics industries are becoming increasingly active in their efforts to enter the growing consumer market of ASEAN.

○Although the AFAS negotiation is in progress, strict restrictions on foreign investment still remain.

**Figure III-24: Japan's outward FDI stock toward Asia (wholesale, retail, and transportation, by country and region)**

(US\$ million, %)

	End of 2005		End of 2013	
	Total for wholesale, retail, and transportation		Total for wholesale, retail, and transportation	
	Value	Percentage	Value	Percentage
Asia	8,878	100.0	36,606	100.0
China	3,052	34.4	10,310	28.2
Hong Kong	2,409	27.1	6,414	17.5
Taiwan	898	10.1	1,544	4.2
South Korea	322	3.6	1,876	5.1
ASEAN	2,129	24.0	15,920	43.5
Singapore	1,354	15.3	11,460	31.3
Thailand	388	4.4	2,712	7.4
Indonesia	80	0.9	555	1.5
Malaysia	135	1.5	562	1.5
Philippines	190	2.1	416	1.1
Vietnam	-	-	207	0.6

Note: Figures were first released in Japanese yen and converted to US dollars using Bank of Japan average inter-bank rates.

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

**Figure III-25 Commitments in wholesale and retail industries to other ASEAN investors in the ASEAN Framework Agreement on Services (AFAS)**

	Wholesale	Retail
Thailand	Allows foreign equity up to 49% for sports goods and 70% for medical goods.	Allows foreign equity up to 70% only for products manufactured in Thailand under its own brand.
Indonesia	Allows foreign equity up to 51% for food and beverages, textile and footwear that fulfill the space criteria.	No commitment.
Philippines	Allows foreign equity up to 51% for fur articles.	Allows foreign equity of up to 51% for snowmobiles and related products, and 70% conditionally for petroleum product retail outlets.
Vietnam	Allows 100% foreign equity with the exception of certain sectors.	Allows 100% foreign equity with the exception of certain sectors, but Economic Needs Test required for the second establishment onwards.
Cambodia	Allows 100% foreign equity for radio and television equipment, musical instruments, etc., motor vehicles, and motorcycles and related parts.	Allows 100% foreign equity for motor fuel, and a wide range of sectors that fulfill the space criteria.
Laos	Allows foreign equity up to 49% for textiles, clothing and footwear. Economic Needs Test required, however.	No commitment.
Malaysia	Allows foreign equity up to 51% under a minimum foreign capital investment.	
Myanmar	Joint venture with Myanmar citizen or enterprise with a minimum of 35% foreign equity is permitted.	

Note: Singapore has no restrictions on foreign investments. Brunei has made no commitments in any of the sectors.

Source: Schedule of commitments by each country in AFAS8.

# China (Shanghai) Pilot Free Trade Zone: Testing ground for the easing of regulations

- The China (Shanghai) Pilot Free Trade Zone was established in September 2013. Easing of regulations is in progress particularly in the financial sector. This progressive approach in Shanghai is expected to ripple across the country. In China, 28 more areas have submitted plans to set up free trade zones.
- The number of companies set up as of the end of June 2014 was 10,445, including 1,245 foreign companies. As of June 11, 58 Japanese companies have been established.

**Figure III-26: Overall plan for the China (Shanghai) Pilot Free Trade Zone**

Finance	(1) Pilot Renminbi capital account convertibility, interest rate liberalization, and cross-border use of Renminbi, under proper risk control. (2) Finance sector will be fully opened to private investors and foreign invested financial institutions. <b>Foreign-invested and Chinese-foreign equity joint venture banks will be allowed.</b> (3) Administration on foreign debt will be further reformed to facilitate cross-border financing. (4) Cross-border Renminbi reinsurance business also encouraged to cultivate reinsurance market.
Investment	(1) <b>Opening up 18 service sectors</b> (2) Trial national treatment on investment permission and a <b>"Negative List" mechanism will be implemented</b> within the zone. (3) The approval requirement on foreign investment contracts and Articles of Association will be replaced by a <b>filing procedure.</b>
Trade	(1) Supervision techniques and approaches will be improved to pilot the model of import quarantine and relaxed import/export inspection. (2) <b>Multinational companies are encouraged to set up Asia-Pacific regional headquarters and/or operation centers with comprehensive functions of trading, logistics, settlement, etc.</b>
Legislation	Administrative examination and approval requirements under certain regulations will be temporarily adjusted and such adjustment will be tentatively implemented in the next three years started from October 2013.
Government administration	(1) The focus of administrative management procedures will shift from prior approval to <b>mid-event control and subsequent supervision.</b> (2) Enhance cooperation among authorities.

Source: "Overview of China (Shanghai) Pilot Free Trade Zone" (JETRO)



**Figure III-27: 18 service sectors receiving liberalized policies**

Areas	Sectors
Financial	Banking, health and medical insurance, financial leasing.
Transportation	Ocean cargo transportation, international ship management.
Commerce and Trade	Value-added telecommunications, entertainment gaming consoles sales and services.
Professional	Legal, credit investigation, travel agencies, human resources, investment management, engineering design, construction.
Cultural	Performance agencies, entertainment facilities.
Public	Education and vocational skills training, medical.

Source: Overall Plan for the China (Shanghai) Pilot Free Trade Zone.

**Figure III-28: Japanese corporations entering the Free Trade Zone**

Sectors	Corporation	Overview
Finance	The Bank of Tokyo-Mitsubishi UFJ	The 100% subsidiary, Bank of Tokyo-Mitsubishi UFJ (China) Ltd., is the first Japanese bank to establish a branch, which started operations in January.
	Sumitomo Mitsui Banking Corporation	The 100% subsidiary, Sumitomo Mitsui Banking Corporation (China) Ltd., has set up a branch in February, acquiring information and knowhow pertaining to new systemic reforms, for further service improvement.
	Mizuho Bank, Ltd.	The 100% subsidiary, Mizuho Bank (China), Ltd., established a branch in March.
	SBI Holdings, Inc.	The subsidiary, SBI (China) Co., Ltd. established a preparatory company, "Shanghai New Successful Way Investment Consulting Co., Ltd." in March, for the development of an online finance business in a joint venture with two Chinese companies. It is conducting business surveys and related license applications toward the establishment of an online finance company.
	Totan Holdings Co., Ltd.	It has set up its first consulting company, Tokyo Tanshi Business Consultancy (Shanghai), which is the first consulting company with 100% capital funded by a Japanese financial institution. This company was authorized for business in March. It will provide consulting services in China, using the knowhow and networks developed in the group. It is starting business in July 2014.
Electrical equipment	Nomura Holdings, Inc.	Through a joint venture with three Chinese companies, it concluded a joint venture agreement in May to establish Shanghai Nomura Lujiazui Investment Management Co., Ltd. (tentative) that provides financial information in China. This joint venture will provide information about financial markets and products to financial institutions located within the zone, and serve as a key partner for Chinese foreign products. It aims to expand its presence in the Chinese onshore market. It is 60% funded by Nomura Holdings, Inc.
	Sony Corporation	In May, a leading culture and leisure industry player, Shanghai Oriental Pearl Group Co., Ltd., announced that its 100% subsidiary, Shanghai Oriental Pearl Culture Development and Sony Group's 100% subsidiary, Sony China, will be establishing a joint venture. The company will be engaged in production, sale and related services for hardware and software of Sony's Playstation.

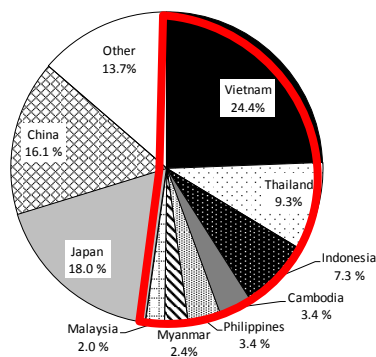
Source: Press releases from the individual companies, and announcement by Shanghai Oriental Pearl Group Co., Ltd.

## Focus on Asian frontier countries

Japanese corporations have been moving to reorganize their overseas bases for reasons such as the rise in labor costs. More than half of the destinations for the relocation of bases and functions from China are in ASEAN countries. Furthermore, in recent years, there has been a trend of Japanese companies in Thailand advancing into neighboring countries, called “Thailand-Plus-One”. More than half of the target “Thailand-Plus-One” countries are those located along the Mekong River (Vietnam, Cambodia, Laos, and Myanmar).

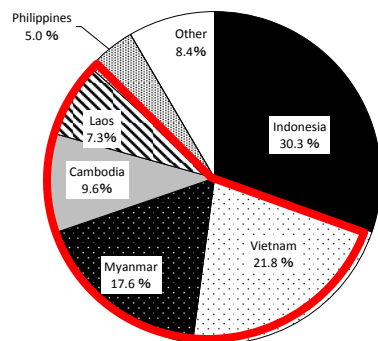
Southwest Asia countries (Bangladesh, Sri Lanka, and Pakistan) also possess strong potential as production bases. Sri Lanka has been rated comparatively in the Business Environment Survey conducted by the World Bank, for the ease of starting businesses in the country, and the ease of trading across borders.

**Figure III-29: Destinations of shift of bases and functions from China**



Notes: (1) "Other" includes the answers without any specific countries.  
 (2) Figures for each country indicate the ratio to the total of 205 responses.  
 Source: "FY 2013 Survey on the International Operations of Japanese Firms" (JETRO)

**Figure III-30: Countries in which Japanese companies have established or are expected to establish overseas bases for “Thailand-Plus-One”**



Notes: (1) Includes multiple answers.  
 (2) Figures for each country indicate the ratio to the total of 261 responses.  
 Source: "For the 2nd half of 2013 Survey of Business Establishment by Japanese Corporation in Thailand" (Japanese Chamber of Commerce in Bangkok, Thailand).

**Figure III-31: Examples of Japanese corporations moving into countries along the Mekong River**

Corporation	Industry	Country	Overview
Nikon	Electrical equipment	Laos	Launched operation of a production factory for digital single reflex-lens cameras in October 2013. Responsible for a part of the manufacturing processes of final products in Thailand.
Denso	Automobile parts	Cambodia	In order to strengthen the production and supply systems in ASEAN region in July 2013, it established a production plant for sensor parts used in dynamos for two-wheeled vehicles in Cambodia.
Minebea	Precision equipment	Cambodia	Started production at its inhouse plant in a special economic zone in December 2011. The plant carries out assembly of compact motors using parts supplied by plants in Thailand and Malaysia.

Source: Press releases from the individual companies.

**Figure III-32: Business environment ranking by country and item**

Item	Bangladesh	Pakistan	Sri Lanka	Cambodia	Laos	Myanmar	Vietnam	China	Thailand
Starting business	74	105	54	184	85	189	109	158	91
Dealing with construction permits	93	109	108	161	96	150	29	185	14
Getting electricity	189	175	91	134	140	126	156	119	12
Registering property	177	125	145	118	76	154	51	48	29
Getting credit	86	73	73	42	159	170	42	73	73
Protecting investors	22	34	52	80	187	182	157	98	12
Paying taxes	100	166	171	65	119	107	149	120	70
Trading across borders	130	91	51	114	161	113	65	74	24
Enforcing contracts	185	158	135	162	104	188	46	19	22
Resolving insolvency	119	71	59	163	189	155	149	78	58
Overall	130	110	85	137	159	182	99	96	18

Source: "Doing Business 2014" (The World Bank)

## Experts provide recommendations for policy issues, aimed at increasing investment in Japan

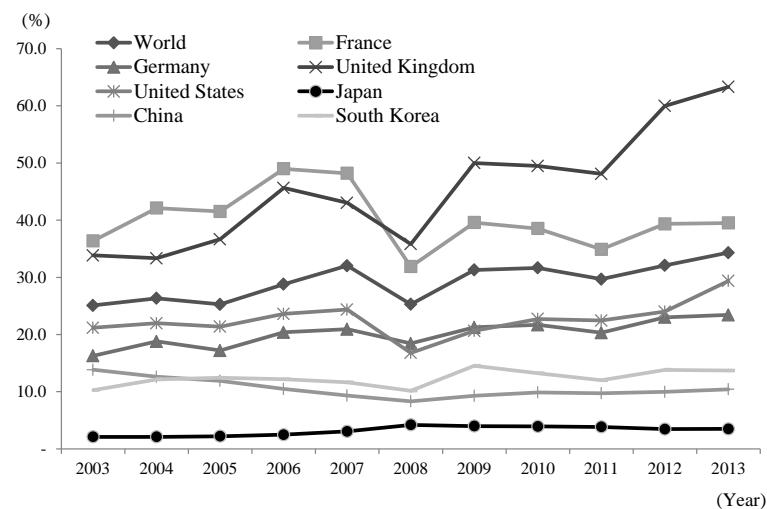
- At an expert Group Meeting on Foreign Direct Investment in Japan organized by the government, attendees pointed out that Japan faces the challenges of high costs and low profitability. They also recommended six items toward improving Japan's investment environment, including improving conformity with global systems.
- From an international perspective, Japan's inward FDI stock has remained at low levels. As of the end of 2013, the GDP ratio of Japan's inward FDI stock was 3.8%, below the world average. It has leveled off after reaching a peak in 2008.
- The economic effects of investment in Japan cover a wide range, including the creation of employment opportunities, improvements in productivity, and improvements in current account balance, thereby contributing significantly to the Japanese economy.

**Figure III-33: Policy recommendations raised at the Expert Group Meeting on Foreign Direct Investment in Japan**

(1) Harmonization with the global systems	
(a) Tax system	Reduction of the corporate tax rate, carryover and carryback of retained loss
(b) Securing human resources, employment systems, etc.	Fostering globally competitive human resources, ensuring the flexibility of employment agreements and termination rules, and so forth
(c) Corporate governance	Improvement of the independent external director system, and so forth
(d) Corporate merger system	Greater deferred tax charges for forward triangular mergers
(e) International harmonization of regulations and administrative procedures	Provision by administrative agencies of one-stop services, making English versions of laws and other instruments available, and so forth
(2) Promotion of economic partnerships, social security treaties, etc.	
(3) Improvement of living conditions	Promotion of labeling in English and alphabets along with Japanese, increasing the number of medical staff who can speak English, and so forth
(4) Challenges related to individual business sectors	(a) Health care and pharmaceuticals
	(b) Agriculture
	(c) Food items
	(d) Energy
	(e) Tourism and hotels
	(f) Retail sales
(5) Support and preferential measures for foreign direct investment in Japan	Expansion of the project to promote the location of global corporations in Japan, JETRO's stepped-up efforts to provide one-stop services, and so forth
(6) Promotion of the appeal of Japan	Publicity by the prime minister and other ministers of state, cooperation between the national and local governments in publicity, and so forth

Source: Report on the Expert Group Meeting on Foreign Direct Investment in Japan

**Figure III-34: Changes in GDP ratio of inward FDI stock in key countries**



Source: World Investment Report 2014 (UNCTAD)



## Foreign companies regard Japan's expensive business costs as obstacle

- International organizations that study the investment environments of various countries have highly appraised Japan's infrastructure, including the quality of labor and legal systems, and cited these as factors contributing to Japan's appeal as an investment destination. The scale of Japan's economy is also highly attractive, and its living environment is safe and secure, while communication in foreign languages is an issue.
- The top factors that obstruct investment in Japan include the high tax rates and business costs, the uniqueness of the Japanese market, and the regulatory and licensing systems. Of these, foreign companies perceive the high business operating costs as the greatest problem when setting up business in Japan.

**Figure III-35: Top 5 incentives and obstacles of the investment environment in Japan**

Attractiveness			
	World Bank	IMD	UNCTAD
1	Resolving insolvency	Skilled workforce	Availability of low-cost labour and skills
2	Protecting investors	Reliable infrastructure	Enabling infrastructure
3	Ease of trading across borders	High educational level	Presence of natural resources
4	Ease of getting electricity	Strong R&D culture	Market attractiveness
5	Ease of getting credit	Effective labor relations	-
Overall rankings of Japan	27th/189 countries/regions	24th/60 countries/regions	10th/177 countries/regions
Notes	Ranking of 10 indexes on the ease of doing business	Ranking based on percentage of responses by companies. Multiple answers up to 5 choices.	Ranking of 4 indexes on attractiveness. "Labor force" and "Infrastructure" were both ranked first.
Obstacles			
	World Economic Forum (WEF)	JETRO	Ministry of Economy, Trade and Industry
1	Tax rates	Business cost	Business cost
2	Restrictive labor regulations	Uniqueness of the Japanese market	Exclusivity and uniqueness of the Japanese market
3	Inefficient government bureaucracy	Communication in a foreign language	High level of customers' demand
4	Policy instability	Administrative procedures/authorization system	Regulations/authorization system
5	Insufficient capacity to innovate	Securing human resources	Difficulties in securing human resources
Overall rankings of Japan	9th/148 countries/regions	n.a.	n.a.
Notes	Ranking based on percentage of responses by companies. Multiple answers up to 5 choices.	Ranking based on the number of companies that responded. Multiple answers up to 4 choices.	Ranking based on percentage of responses by companies. Multiple answers up to 5 choices.

Source: "Doing Business 2014" (World Bank), "World Competitiveness Yearbook 2013" (IMD), "World Investment Report 2012" (UNCTAD), "The Global Competitiveness Report 2013-2014" (WEF), "Survey of Trends in Business Activities of Foreign Affiliates (2012)" (METI), "Results of JETRO's survey of foreign firms regarding obstacles and necessary improvements in doing business in Japan" (JETRO).

**Figure III-36: International comparisons of Japan's gross regional product(nominal) (FY2011)**

(Unit: billion dollar)

Kanto	2530.0	Brazil	2474.6
Kinki	981.0	South Korea	1114.5
Chubu	930.4	Indonesia	845.6
Hokkaido/Tohoku	717.8	Turkey	774.7
Kyushu	602.5	Switzerland	658.9
Chugoku	355.3	Thailand	345.7
Shikoku	175.3	New Zealand	162.7

Note: Regional GPA outputs were converted to dollar-based values by JETRO.

Source: "WEO, April 2014" (IMF), "Report on Prefectural Accounts" (Cabinet Office).

**Figure III-37: Top 10 countries in the Global Peace Index (GPI)**

Rank	Country	Score
1	Iceland	1.189
2	Denmark	1.193
3	Australia	1.200
4	New Zealand	1.236
5	Switzerland	1.258
6	Finland	1.297
7	Canada	1.306
8	Japan	1.316
9	Belgium	1.354
10	Norway	1.371

Note: The lower the score, the higher the level of peace  
Source: "Global Peace Index 2014", (The Institute for Economics and Peace)

## Signs of improvement in Japan's business costs

- Japan's corporate tax rate (Tokyo) is the second highest at 35.64%, coming after the United States (California) among the key countries. However, the revised Japan Revitalization Strategy drawn up by the Japanese government lays out clearly the aim to reduce effective corporate tax rates over the next few years to the 20% level.
- Foreign companies point to high personnel, property and energy costs in Japan. However, there are real estate expenditures that are higher in other Asian cities than in Tokyo. The gap between Tokyo and other Asian cities is also shrinking for personnel costs.
- In order to increase investment in Japan, there is also a need to improve profitability of Japanese companies. Progress has been made toward reviewing existing corporate governance structures, such as through the introduction of independent external directors.

**Figure III-38: Comparison of business cost among major Asian cities**

(Unit: dollar, %, month)

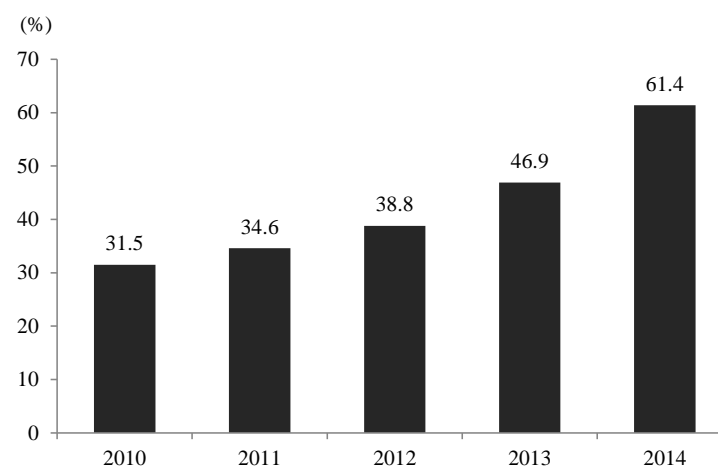
		Shanghai	Hong Kong	Seoul	Singapore	Tokyo
Wages	Manufacturing : Worker	495	1,728	1,851	1,432	2,523
	Manufacturing : Mid-level engineers	867	2,148	2,392	2,947	3,475
	Manufacturing : Department chief	1,485	3,492	3,218	4,584	4,653
	Non-manufacturing : Clerical staff	908	2,168	2,301	2,396	2,591
	Non-manufacturing : Department chief	2,230	4,152	3,711	4,489	4,901
	Social security burden ratio (Employer's) (%)	42.0	5.0	25.4	16.0	19.2
	Bonus payments (months)	1.8	1.9	3.4	2.4	4.0
Real estate	Office rent(monthly)(per sq.m)	52	109	57	66	35
	Store/showroom rent in the city center(monthly)(per sq.m)	206	368	32	309	46
	Industrial estate (land) purchaserate (per sq.m)	222	477	320	999	1,433
	Housing rent for resident agent(monthly)	2,703	2,966	2,167	4,654	2,761
Public utility rate	Electricity rate for general use (per kWh)	0.13	0.18	0.09	0.21	0.24
	Water rate for general use (per cu.m)	0.76	0.86	0.78	1.74	2.04

Note:

- 1) In the case that figures vary, the intermediate values are selected.
- 2) The monthly base salaries are used as the value for wages in manufacturing and non-manufacturing industries.
- 3) Refer to source materials for detailed information on real estate.

Source: "The 24th Survey of Investment Related Costs in Asia and Oceania (May 2014)" (JETRO).

**Figure III-39: Percentage of companies listed in the First Section of the Tokyo Stock Exchange with independent external directors**



Source: the Tokyo Stock Exchange



## Growth in presence of foreign companies in Japan

- In sectors with large inward FDI stock, including the pharmaceuticals, electric and transport equipment, there has been a steady rise in the domestic market share of foreign companies.
- In the domestic market, there are many foreign companies with a large share of sales, particularly for consumer goods. In the categories of beverages, contact lenses, and personal accessories, the sales share of foreign companies has overtaken that of Japanese companies to take the top place.
- Other countries collect and distribute open quantitative data on the contribution of foreign countries to their economies. Sufficient statistics related to inward FDI again become crucial.

**Figure III-40: Top 10 companies in Japan's pharmaceuticals and life insurance firms (1995→2012)**

1995			2012 (Billion yen)		
Ranking	Company	Sales	Ranking	Company	Sales
1	Takeda Pharmaceutical	602	1	Takeda Pharmaceutical	790
2	Sankyo	410	2	Asetellas Pharma	624
3	Otsuka Pharmaceutical	370	3	Otsuka Pharmaceutical	598
4	Yamanouchi Pharmaceutical	295	4	Daiichi Sankyo	550
5	Eisai	254	5	Pfizer	524
6	Taisho Pharmaceutical	221	6	Mitsubishi Tanabe Pharma	397
7	Shionogi	226	7	Chugai Pharmaceutical	382
8	Daichi Pharmaceutical	217	8	MSD	356
9	Fujisawa Pharmaceutical	219	9	Eisai	348
10	Mitsubishi Tanabe Pharma	175	10	Novartis Pharma	323

Ranking	Company	Income	Ranking	Company	Income
1	Nippon Life	6,146	1	Japan Post Insurance	6,481
2	Dai-ichi Life	4,092	2	Nippon Life	5,342
3	Sumitomo Life	3,555	3	Meiji Yasuda Life	3,659
4	Meiji Life	2,688	4	Sumitomo Life	3,144
5	Asahi Seimei	1,859	5	Dai-ichi Life	2,921
6	Mitsui Life	1,687	6	Aflac	1,995
7	Yasuda Life	1,588	7	MetLife	1,497
8	Taiyo Life	1,326	8	Gibraltar Life Insurance	1,903
9	Daido Life	1,153	9	Prudential Gibraltar Financial Life Insurance	1,052
10	Chiyoda Life	995	10	Taiyo Life	1,018

Source: Tekikoku Databank, Toyo Keizai, Inc.

**Figure III-41: Foreign-affiliated companies occupying large shares in the Japanese consumer market** (Unit: %)

Categories/Companies	Company Shares	ranking in the Category
(Café/Bar)		
Starbucks Corp (U.S)	2.6	2nd
(Soft drink)		
Coca-Cola Co. (U.S)	23.2	1st
(Tobacco)		
Philip Morris International Inc (U.S)	24.5	2nd
British American Tobacco Plc (U.K)	11.4	3rd
(Coffee)		
Nestlé SA (Switzerland)	32.6	1st
Mondelez International, Inc (U.S)	16.0	2nd
(Fast food)		
McDonald's Corp (U.S)	12.3	2nd
(Glasses : •contact glass)		
Johnson & Johnson Inc (U.S)	17.1	1st
Bausch & Lomb Inc (U.S)	3.5	3rd
(Personal ornaments)		
Richemont SA, Cie Financière (Switzerland)	6.5	1st
LVMH (France)	5.9	2nd
PPR (France)	3.8	3rd

Note: 1) The definitions of each category are those proposed by the Euromonitor. 2) The shares for soft drinks and cigarettes are calculated based on the trade/retail volume, while in other categories, they are calculated based on service/retail value. 3) Rankings and shares in glasses and personal ornaments are as of 2012.

Source: "Euromonitor International"

## Nationwide efforts are essential in order to increase inward FDI in Japan

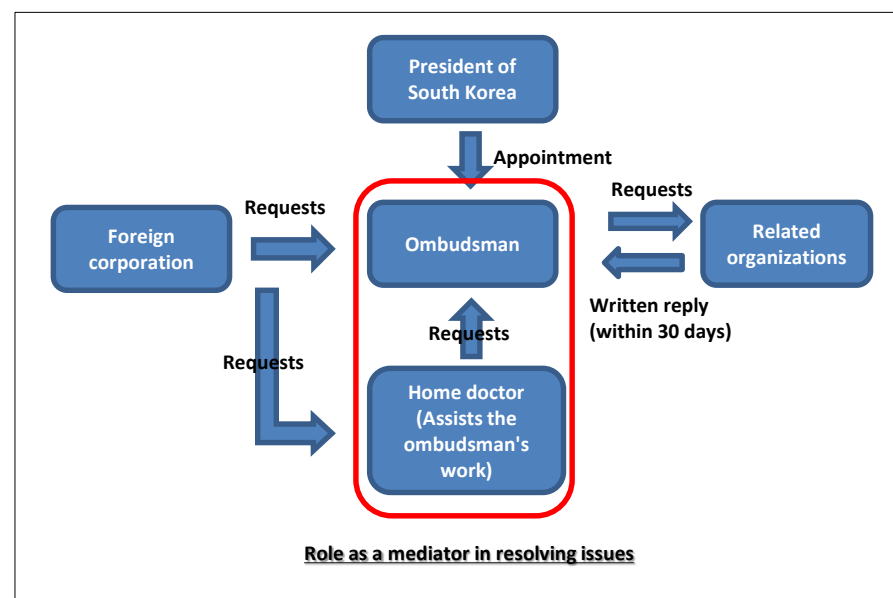
- The key countries place importance on inward FDI that contributes to the creation of employment and revitalization of the economy. The presidents and prime ministers personally appeals for their countries, or listen to the views of foreign investors to improve the business climate. Amidst the intensification of global competition to attract companies, it is essential to put in place nationwide efforts to attract investors.
- In Asia, South Korea is taking the lead to implement one-stop services for administrative procedures. It has also established an ombudsman system that consolidates the requests from foreign companies. Singapore has also introduced similar systems.

**Figure III-42: Action taken by key countries to increase inward FDI**

U.S.	President Obama established a federal investment promotion project referred to as “Select USA” (June, 2011). The President held “Select USA Summit” in Washington. 1,200 investors from over 58 countries participated (October, 2013).
France	“Strategic Investment Attraction Council” was held by President Hollande, attended by 34 foreign companies located in France (February, 2014).
U.K.	Prime Minister Cameron invited executives of 18 Japanese companies located in the UK and conducted hearings regarding matters necessary to expand investment in the UK (February, 2014). A program in which a minister is appointed to each major investment project implemented by foreign companies is being conducted.
South Korea	President Park Geun-hye invited executives of foreign companies located in South Korea to hear about such matters as obstacles when doing business in South Korea (April, 2013 and January, 2014).
China	Premier Li Keqiang invited foreign residents in China and delivered a policy of attracting excellent human resources to China (January, 2014).

Source: Compiled by JETRO from various news articles

**Figure III-43: Conceptual diagram of South Korea’s ombudsman system for inward FDI**



## Growing importance of the role of local governments

○In attracting foreign investment, in addition to sales initiatives from the leaders of the country, it is also important to provide practical support such as through the provision of information. In Europe and America, organizations at the provincial level also provide support to investing companies. In the United States, the governors of states take personal steps to explore opportunities for attracting foreign companies.

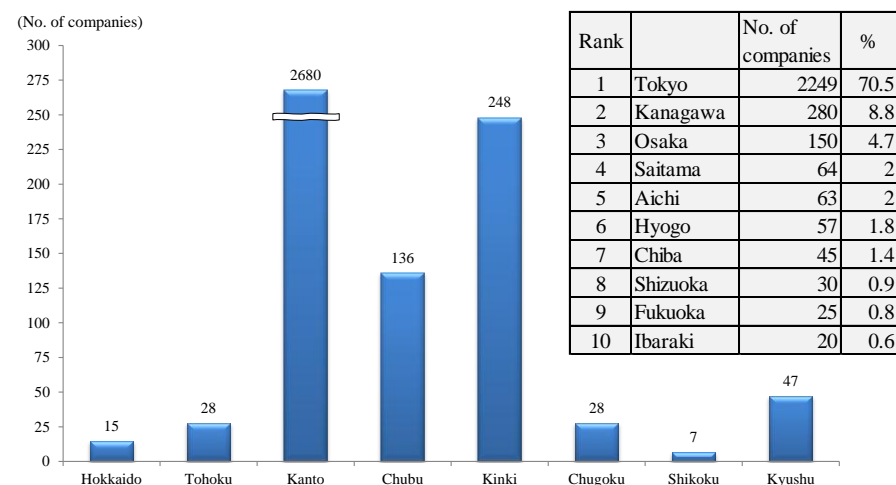
○The significance of inward FDI in the regions include (1) the development of new products and technologies through collaboration with small and medium-sized companies in the region, and (2) the revitalization of local economies through the concentration of global human resources. Foreign companies have a strong interest in collaborating with small and medium-sized Japanese companies that have strong business capabilities.

**Figure III-44: Regional Investment Promotion Agencies (IPAs) which own representative offices in Japan**

U.S.	IPAs	U.S.	IPAs
Alabama	Department of Commerce	North Carolina	State government
Arkansas	State government	Ohio	Jobs Ohio
Florida	Enterprize Florida	Oregon	State government
Georgia	Georgia Department of Economic Development	Pennsylvania	Exports pennsylvania's products,techonologies & services
Iowa	Iowa economic development	Tennessee	State government
Indiana	State government	Texas	State government
Kentucky	State government	Virginia	Virginia Economic Development Partnetship
Mississippi	State government	Washington	Export Washington
Missouri	State government	West Virginia	State government
Nebraska	State government	South Carolina	State government
U.K.	IPAs		
England	London & Partners		
Scotland	Scottish Development International		
Wales	Welsh government		
Northern Ireland	Invest Northern Ireland		
Germany	IPAs		
Bayern	Investment in Bavaria		
Hamburg	HWF Hamburg Business Development Corporation		
Hessen	Hessen Trade & Invest GmbH		
North Rhine-Westphalia	NRW. Invest GmbH		
Saxony	Saxony Economic Development Corporation		

Source: the American State Offices Association (ASOA), JETRO website

**Figure III-45: Location of head offices of foreign companies in Japan**



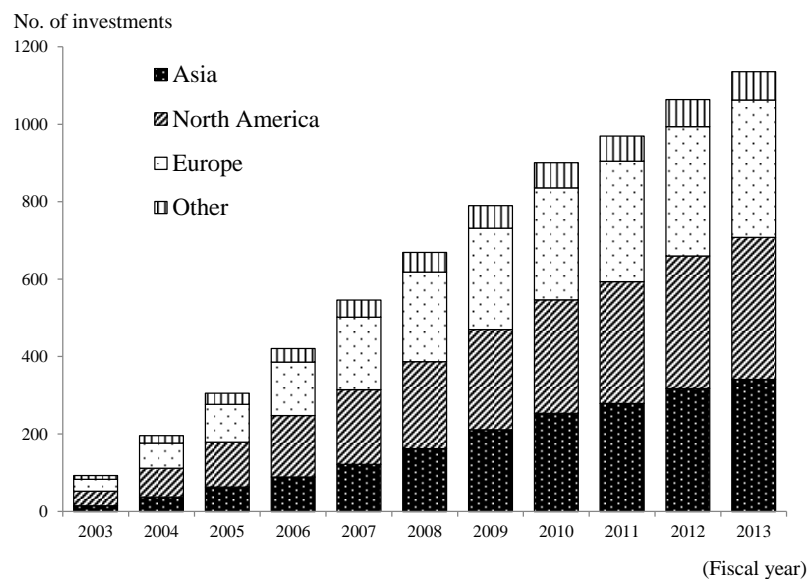
Source: "Survey on Trends of Foreign Companies" (TEIKOKU DATABANK, LTD.)

## Attracted more than 1,000 investments in 10 years

○ Since FY2003, JETRO has provided support to foreign companies for inward FDI in more than 10,000 investments. Of these, 1,136 cases actually entered the Japanese market by the end of March 2013. There has been a marked increase in investments from Asian companies. The key areas that JETRO is focused on attracting investment to are environment, health, tourism, retail, and research and development.

○ JETRO has launched new initiatives to attract foreign companies. In addition to directly approaching the corporate managers of global companies to invest in Japan, it has set up a consultation hotline to provide one-stop services on investing in Japan. It has also strengthened collaboration with local governments that actively promote attraction of foreign investors.

**Figure III-46: Achievements by JETRO in attracting foreign investors to Japan (accumulated number of cases)**



**Figure III-47: Breakdown of JETRO's achievements in attracting foreign investors to Japan (2003 – 2013)**

Sector	(No. of investments, %)		Function	(No. of investments, %)	
	No. of investments	%		No. of investments	%
Service	208	18.3	Sales	875	77.0
Software contents	200	17.6	Communication, PR, collection of information	138	12.1
Electrical and electronic parts	80	7.0	R&D	34	3.0
Machinery and parts	76	6.7	Procurement	30	2.6
Automobile parts	73	6.4	Finance	16	1.4
IT equipment	65	5.7	Manufacturing	13	1.1

Note: Percentage does not add up to 100% as only the main sectors/functions have been listed.

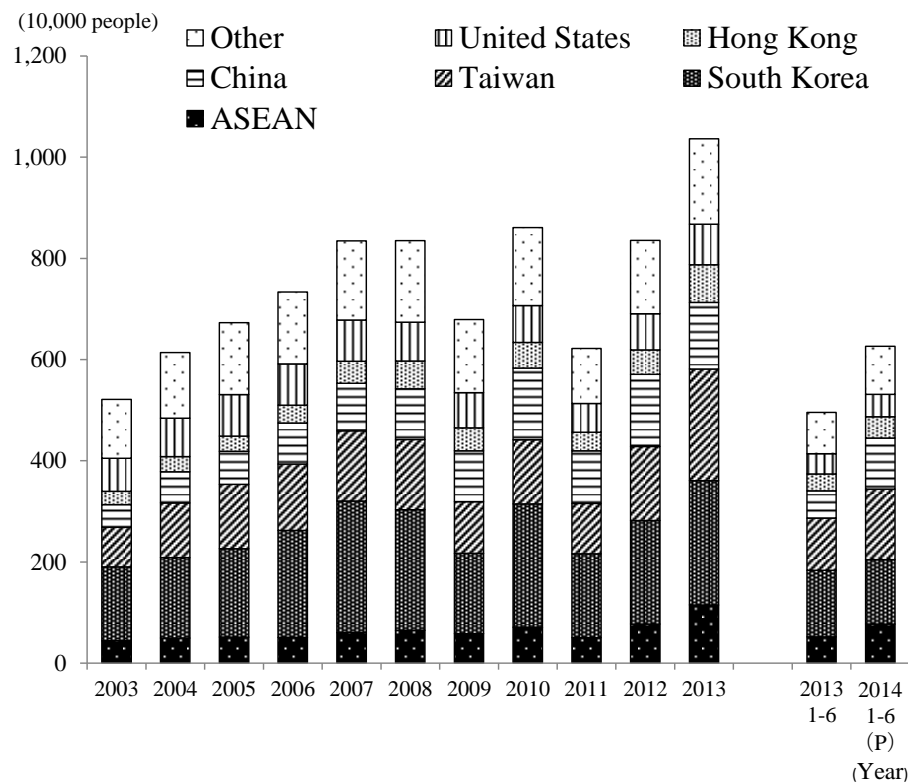
## Number of foreign visitors to Japan tops 10 million

○The number of foreign visitors that visited Japan in 2013 grew by 24.0% year-on-year to 10.36 million, reaching a historical high. The increase was driven by the rise in visitor numbers from South Korea, Taiwan, Hong Kong, and the ASEAN region. The number of visitors from the ASEAN region increased by 48.3%, topping a million for the first time.

○Over the past 10 years, the number of foreign visitors to Japan doubled. The government aims to reach 20 million visitors by 2020. The key to success lies in the Asian market.

○“Industrial tourism” initiatives are being put in place to utilize local industrial facilities and factory plants as tourism resources. Nationwide efforts are necessary to increase the number of repeat visitors to Japan by conveying the attractiveness of the rich culture and history of industrial areas.

**Figure III-48: Number of foreign visitors to Japan**



Notes: (1) Figures for 2014 are provisional figures for January to April, and estimates for May to June. (2) Figures for ASEAN are the total for Thailand, Singapore, Malaysia, Indonesia, Philippines, and Vietnam (six countries).  
Source: Japan National Tourist Organization (JNTO)

**Figure III-49: Number of Asian visitors to Japan (2003→2013)**

(No. of people, %)

	2003	2013	% change	Composition ratio(2013)
World	5,211,725	10,363,904	98.9	100.0
Asia total	3,511,513	8,115,789	131.1	78.3
South Korea	1,459,333	2,456,165	68.3	23.7
China	448,782	1,314,437	192.9	12.7
Taiwan	785,379	2,210,821	181.5	21.3
Hong Kong	260,214	745,881	186.6	7.2
ASEAN total	441,602	1,149,060	160.2	11.1
Thailand	80,022	453,642	466.9	4.4
Singapore	76,896	189,280	146.2	1.8
Malaysia	65,369	176,521	170.0	1.7
Indonesia	64,637	136,797	111.6	1.3
Philippines	137,584	108,351	-21.2	1.0
Vietnam	17,094	84,469	394.1	0.8

Note: Total for Asia includes other countries and regions not listed above.

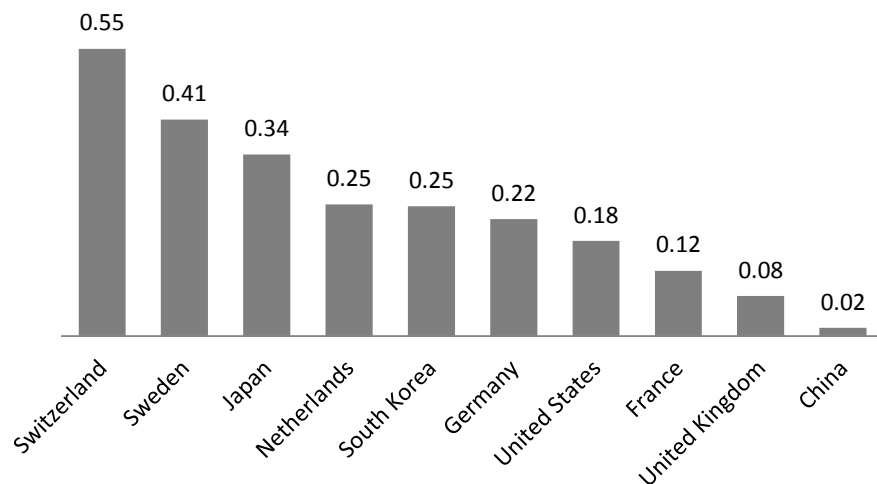
Source: Japan National Tourist Organization (JNTO)

## From intellectual property measures to a comprehensive intellectual property strategy that includes protecting trade secrets

○With regard to the number of patent applications across the world in 2013, the United States took top place (global share of 27.9%), Japan took second place (global share of 21.4%), China took third place, Germany took fourth place, and South Korea took fifth place. Japan overtook the United States in the number of patent applications per 1,000 people of the population. Japanese corporations should move from the acquisition of patents and intellectual property measures for counterfeit products and piracy, toward formulating a comprehensive intellectual property strategy that includes the protection of trade secrets.

○The percentage of small and medium-sized enterprises that have not formulated policies for trade secrets and patent applications was 38.3%. It has also been conjectured that small and medium-sized enterprises do not fully comprehend the need for the protection of trade secrets. The appropriate protection and management of trade secrets is an important issue for small and medium-sized companies that hold technology as their greatest lifeline.

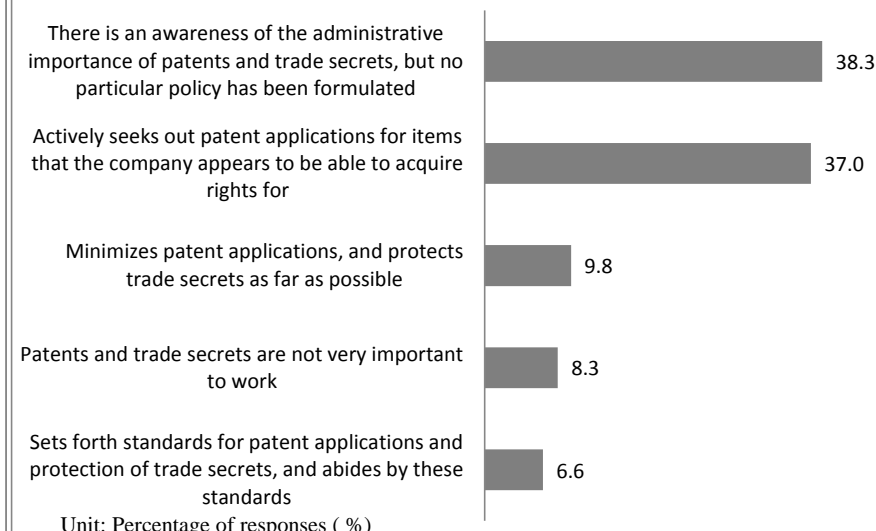
**Figure III-50: Number of patents per 1,000 people in the population**



Note: Figures shown for top 10 countries in the number of international patent applications for 2013.

Source: World Intellectual Property Organization (WIPO)

**Figure III-51: Strategies related to patents and trade secrets for small and medium-sized enterprises**



Unit: Percentage of responses (%)

Source: "Report on Basic Survey on Intellectual Property Activities of SME" under the FY2013 Analysis Project for Support Measures to SME on Intellectual Property (Japan Patent)

## Revitalizing Japanese corporations through “brain circulation”

- The “Declaration to be the World’s Most Advanced IT Nation,” dated June 24, clearly lays out initiatives to “to strengthen JETRO projects, in order to advance global business for small and medium-sized ventures in Japan with harnessing Silicon Valley, and to strengthen support for the creation of business innovation originating in Japan as well as support for global business expansion by promoting ‘brain circulation.’”
- After the groundbreaking emergence of President Shinohara of Tempstaff and CEO Son of Softbank, there have been continuous signs of “brain circulation.” There are expectations toward the revitalization of Japanese corporations through “brain circulation.”

**Figure III-52: Current situation in “brain circulation”**

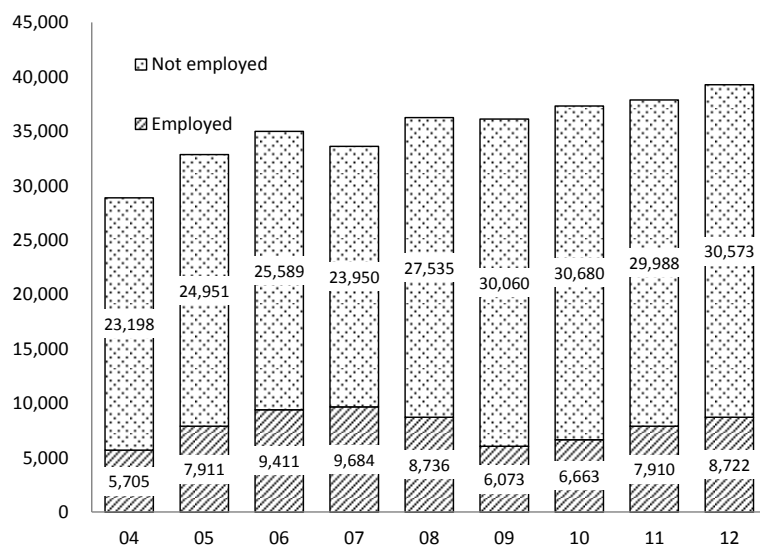
	Countires/regions with brain circulatlion established	Japan
Historical backdrop of brain circulation	<ul style="list-style-type: none"> <li>○ Highly skilled personnel in Taiwan, Israel, China and India experienced difficulties in finding good research/employment opportunities for some time after the WWII.</li> <li>○ They migrated to Silicon Valley and other regions in the US, in search for opportunities to study abroad and for employment, by the thousand.</li> </ul>	<ul style="list-style-type: none"> <li>○ Brain circulation did not occur in Japan, where the rapid reconstruction and economic growth provided excellent circumstances for research and employment after the WWII.</li> <li>○ The fear of brain drain out was more dominant than the benefit of brain circulation.</li> </ul>
Background of establishing brain circulation	<ul style="list-style-type: none"> <li>○ Since 1980, highly-skilled personnel who were employed or educated in the US have begun to return to their native countries, with their economies rapidly growing.</li> <li>○ The experience in the US enabled them to transfer international technology and the creation of added value to their native countries.</li> </ul>	<ul style="list-style-type: none"> <li>○ Highly skilled personnel is fostered through internal transfer in Japanese companies principally implementing lifetime employment.</li> <li>○ Means of brain circulation across companies was not utilized in fostering highly skilled personnel. Human resources were not developed by means of brain circulation,</li> </ul>
Present situation of brain circulation	<ul style="list-style-type: none"> <li>○ Social and economic (eco) systems encouraging entrepreneurs, such as Sillicon Valley, have been established in Hsinchu in Taiwan, Tel Aviv in Israel, Shanghai in China and Bangalore in India.</li> <li>○ Highly skilled personnel returning to their native countries have contributed to the founding and development of new industries, by utilizing Silicon Valley's network.</li> <li>○ In regards to the number of foreign companies going public on the NASDAQ exchange, Israel marks second after China.</li> </ul>	<ul style="list-style-type: none"> <li>○ Cases where the Japanese founded companies in Silicon Valley, or in Japan by utilizing Silicon Valley's network, is few in number.</li> <li>○ Unique manufacturing venture companies, using Silicon Valley's ecosystems, are finally beginning to appear.</li> <li>○ The entrepreneurship environment ranks 120th in the world. (World Bank Doing Business).</li> </ul>



## Toward diversity management through the employment of foreign students

- There is a need for Japanese companies to review the utilization of human resources in traditional homogeneous groups such as “Japanese, male, full-time, lifelong employment,” and to put in place diversity management initiatives to create innovation that can make maximum use of the capabilities of human resources with diverse attributes and values.
- The hurdles faced by foreign students who wish to work in Japanese corporations remain high. It is desirable for Japanese corporations to keep in view the future career plans of foreign students as potential candidates for managerial positions in overseas offices, and to put in place flexible recruitment and selection methods corresponding to their diverse backgrounds, capabilities, and aspirations.
- There are also many cases whereby doors to conducting business overseas have opened up for small and medium-sized enterprises through the employment of foreign employees.

**Figure III-53: Number of foreign students working in Japanese corporations after graduation**



Notes: (1) The "foreign students" represented here are those who are enrolled in universities, two-year colleges, technical colleges, and professional vocational schools.  
 (2) Year refers to fiscal year. 12 is the period from April 2012 to March 2013.  
 (3) "Not employed" is the number obtained by deducting "Employed" from "Number of foreign student graduates." Includes those with unknown course taken after graduation.  
 Source: Japan Student Services Organization (JASSO)

**Figure III-54: Examples of foreign employees working in small and medium-sized enterprises (Diversity Management Selection 100)**

Company name	Prefecture	Type of business	Foreign employees/Total employees	Actual example
Kaneko Manufacturing Co., Ltd.	Saitama	Cutting work of parts in health care/aviation/space fields	2/80	In order to negotiate overseas direct transactions, which have been realized through JETRO's overseas exhibitions, they have employed foreigners who are currently being trained as sales engineers.
Fujii Corporation Co., Ltd.	Niigata	Snowblower/Grassmower manufacturer and seller	1/143	They offer foreign students a half-year internship. They have hired a person from Bangladesh who graduated from a Japanese local college and majored in electrical and electronic sciences in graduate school. He is engaging in product development and writing manuals for overseas customers using his sufficient knowledge of technical terms. Proper attention to foreign religion, customs and culture are given by the company and his
Kikusui Sake Co., Ltd.	Kochi	Sake brewing company	1/60	They employed an American woman to develop a new kind of sake for export to attract overseas consumers. They successfully produce unique sparkling sake and expanded their business.
DUNKSOFT Co., Ltd.	Tokyo	Website construction, Software development	2/22	They accept internship of foreign students, including a Turkish student who is now employed as the team leader of software development due to strong ability in the IT field.
Okinawa Watabe Wedding Corporation	Okinawa	Wedding Service	7/233	Every year, they employ at least one foreign student. They have accepted exchange students from East Asia who are studying at a local college in Okinawa, to meet demand from East Asia for luxurious wedding ceremonies in Okinawa. They engage in coordinating with East Asian countries and working as ceremony staff.

Note: These examples were selected from amongst companies with less than 300 employees and that are engaged in sectors that target foreign customers.

Source: "Diversity Management Selection 100 - Collection of Best Practices 2013 and 2014" (METI)