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1 Macroeconomic and Inward Foreign Direct Investment Trends in the World and Japan

(1) Macroeconomic Trends in the World and Japan

■ Global economy expected to decline due to COVID-19

The International Monetary Fund (IMF) released its World Economic Outlook in October 2020 (Chart 1-1). Global real GDP grew 2.8% in 2019, the lowest since 2010. Global economic and social uncertainties, including US-China trade conflicts and the UK's withdrawal from the EU, have slowed economic growth.

The economic growth rate in 2020 is forecasted to be -4.4% due to the impact of the novel coronavirus disease (hereafter, COVID-19). It would be the first negative growth of the world economy since 2009 (-0.1%). The forecast economic growth rate of the advanced economies is -5.8%, while that of the emerging economies is -3.3%. Negative growth in developed economies would be for the first time since 2009 (-3.3%), and negative growth in developing economies would be the first time since 1980, for which IMF data are available. The economic growth forecast for 2020, announced in October 2020, were revised upward in many regions from those announced in June of the same year. In its forecast, the IMF stresses that there is still a great deal of uncertainty in the global economic outlook. Factors contributing to the upward change in the outlook include the early containment of the virus and the spread of the vaccine, the possibility of higher-than-expected economic activity and the introduction of further economic support measures by national and regional governments. On the other hand, the main downside risk is a prolonged stagnation of economic activity due to further spread of the virus and delay in the spread of the vaccine. Even the spread of the virus in a particular region could have a widespread impact due to weak external demand. In addition, a number of other risks, such as uncertainty in global trade due to trade conflicts between the US and China as well as trade relations between the UK and the EU after 2021, are considered as factors that could have a negative impact on the global economy.

In light of the impact of uncertainty caused by COVID-19 on the economy, the IMF has prepared two alternative scenarios in the World Economic Outlook released in October 2020 apart from the base scenario described above (Chart 1-2). Under the base scenario, current social distance and other infection prevention measures will continue in 2021, but by the end of 2022, vaccine dissemination and improvements in treatment will have progressed, and the level of infection will decrease in many parts of the world. The downside scenario, on the other hand, assumes that progress in curbing the spread of COVID-19 in the second half of 2020 will not be curtailed, which will have a stronger negative impact on the economy, and that progress in vaccine development and treatment will be slower than in the base scenario. Under the downside scenario, the IMF estimates that economic growth in 2020 will be 0.8% points lower than under the base scenario, and 2.9% points lower than under the 2021 economic growth rate.

The second scenario is the upside scenario, which assumes that the containment of COVID-19 will proceed more smoothly than in the base scenario. The second scenario assumes that the fear of infectious diseases will be reduced as a result of progress in treatment, and that vaccines will be available earlier and more widely than in the base scenario as a result of investment in vaccine development and cooperation. In addition, the early recovery of economic activity is expected to reduce the number of corporate bankruptcies and unemployment more quickly than in the base scenario. Under the upside scenario, economic growth is expected to be 0.5% points higher in 2021 and 1.1% points higher in 2023 than in the base scenario.

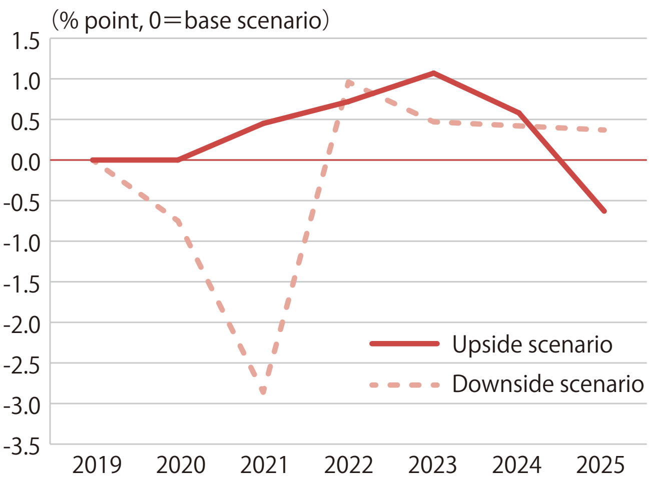
Chart 1-1: World Economic Outlook

(%)

Country/Region	2018	2019	2020	2021
World	3.5	2.8	*-4.4*	*5.2*
Advanced Economies	2.2	1.7	*-5.8*	*3.9*
US	3.0	2.2	*-4.3*	*3.1*
Japan	0.3	0.7	*-5.3*	*2.3*
UK	1.3	1.5	*-9.8*	*5.9*
Euro	1.8	1.3	*-8.3*	*5.2*
Germany	1.3	0.6	*-6.0*	*4.2*
Developing Economies	4.5	3.7	*-3.3*	*6.0*
Asia	6.3	5.5	*-1.7*	*8.0*
China	6.8	6.1	*1.9*	*8.2*
India	6.1	4.2	*-10.3*	*8.8*
ASEAN5	5.3	4.9	*-3.4*	*6.2*
Latin America	1.1	0.0	*-8.1*	*3.6*
Middle East and Central Asia	2.1	1.4	*-4.1*	*3.0*
Sub-Saharan Africa	3.3	3.2	*-3.0*	*3.1*

Note: 1) Categories of regions follows the rules of the source. 2) Data in Italic indicates outlook.
Source: "World Economic Outlook, Oct. 2020" (IMF)

Chart 1-2: Scenarios of the World Economic Outlook



Source: "World Economic Outlook, Oct. 2020" (IMF)

The Organisation for Economic Co-operation and Development (OECD) and the World Bank, each of which separately release their own economic outlook, also assume various scenarios in anticipation of uncertainties associated with the expansion of COVID-19 (Column: Economic Outlook of International Organizations). In their projections, the global economy is expected to experience negative growth in 2020, followed by a recovery from 2021. The containment of COVID-19 in each country and region holds the key to minimizing its impact on the economy and future economic recovery.

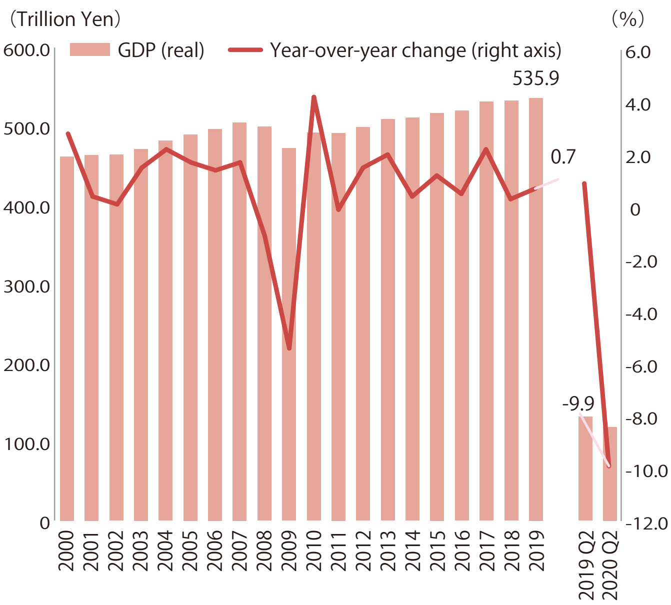
Unlike the financial crisis of 2008-2009, the current economic slump is triggered by the epidemic, which is a factor external to the economics. As the external factor will continue to have a significant impact on the economy, it will be essential to take coordinated measures against the virus globally, including the development of vaccines and the production of necessary medical devices.

■ The Japanese economy expanded for the eighth consecutive year but negative growth expected in 2020

According to the Cabinet Office, Japan's real GDP grew 0.7% to 535.9 trillion yen in 2019, marking growth for eighth consecutive year after 2011, when it recorded negative growth of 0.1% (Chart 1-3).

Private consumption expenditure accounts for the largest proportion at 55.8%, followed by government consumption expenditure at 20.4% (Chart 1-4). In 2019, the growth rate of private consumption remained almost unchanged at 0.1%, while that of government consumption was 1.9%. Growth in government consumption contributed to more than half of the overall GDP growth (0.7%), which made it the biggest driver of the growth in 2019.

Chart 1-3: GDP of Japan

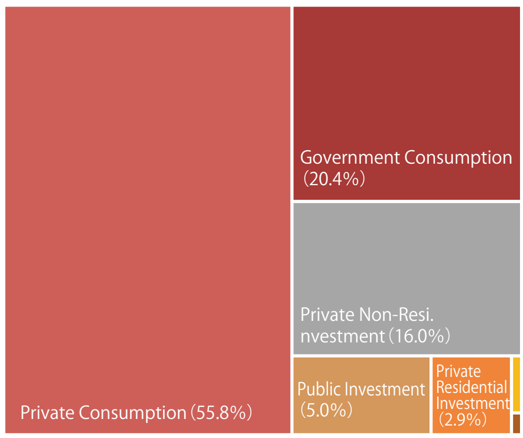


Source: Cabinet Office (As of Sep. 16th, 2020)

As for the current economic trends, the growth rate in the first quarter of 2020 was -0.6% from the previous quarter (the fourth quarter of 2019) and contracted further to -7.9% in the second quarter (Chart 1-5). The expansion of the COVID-19 infection in Japan, the government's declaration of a state of emergency and restrictions on entry to Japan affected significantly (see Chapter 3 (1) "Impact of COVID-19 on the World and Japan" for details on the impact of COVID-19 on the Japanese economy and market). In terms of the growth rate by GDP's components, private consumption, which is the largest, was -0.7% in the first quarter of 2020 and -7.9% in the second quarter from the previous quarter, respectively, lowering the overall growth rate.

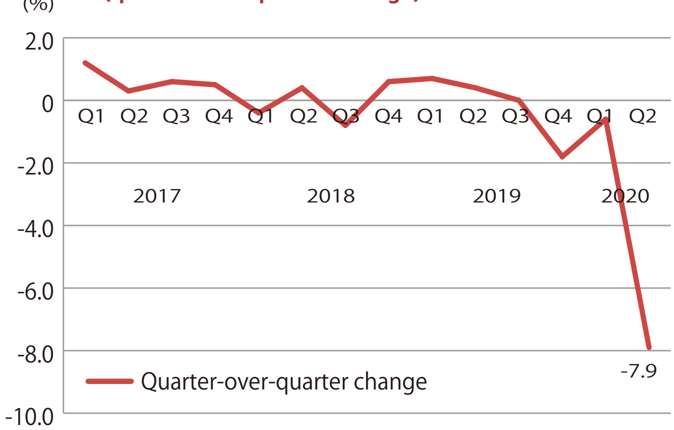
Compared to the same period in 2019, GDP growth rate was -9.9% in the second quarter of 2020. According to the IMF's World Economic Outlook mentioned above, Japan's GDP growth rate in 2020 is forecast at -5.3%. The trend of sustained economic expansion since 2011 is expected to come to a halt in 2020 due to the COVID-19 infections and associated impacts.

Chart 1-4: Breakdown of GDP of Japan



Source: Cabinet Office (As of Sep. 16th, 2020)

Chart 1-5: Trends in Japan's GDP over the Past Few Years (quarter-over-quarter change)



Source: Cabinet Office (As of Sep. 16th, 2020)

Economic Outlook of International Organizations

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In addition to the IMF, the OECD and the World Bank independently publish their global economic outlooks. Because of the economic uncertainties associated with the COVID-19 infection, each institution uses assumptions in line with various scenarios. The OECD released its Interim Economic Outlook in September 2020, which forecasts the global economic growth in 2020 to be -4.5% and that in 2021 to be 5.0%. The Outlook predicts that while regional outbreaks of COVID-19 are expected to continue to occur, the transmission of the disease will be confined to a limited area and no nationwide urban blockades will be imposed. It is also assumed that the vaccine will not be widely available until the second half of 2021.

In addition to the above scenarios, the OECD has drawn up both upside and downside scenarios, which state that the state of infection of each country and region and their policies will determine their future economic growth. The upside scenario assumes that the spread of COVID-19 in each region will be controlled and consumer and business consumption and investment increase more than expected under the base scenario, which will result in faster economic recovery. Under the upside scenario, GDP growth is expected to increase from 5.0% under the base scenario to 7.1% by the end of 2021. Under the downside scenario, the spread of the disease and its prolonged duration will increase economic uncertainty and have a negative impact on the global economy; under the downside scenario, GDP growth is projected to be 2.2% by the end of 2021.

The World Bank considers three scenarios: the baseline scenario, the downside scenario, and the upside scenario. Like the OECD, these scenarios assume the COVID-19 infection's impact on financial and goods markets, and the effectiveness of policy measures to differ depending on the timing of curtailing the expansion of the virus.

The baseline scenario assumed the epidemic in developed economies to calm down by the second quarter of 2020, but measures to prevent the spread of infectious diseases adopted in each country and region to continue until the third quarter. Besides, it expected infections in developing countries and regions to peak after developed economies. Fluctuations in the financial markets and the decline in oil prices were expected to bottom out in the second quarter and recover as social and economic activities resume. The baseline scenario projected the world GDP growth rate to be -5.2% in 2020 and 4.2% in 2021.

The downside scenario assumed the continuation and reintroduction of lockdowns to prevent the spread of infections until the third quarter. As a result, international trade, production, and consumption in each country and region were likely to be affected more severely than in the baseline scenario. The World Bank projected global GDP growth in 2020 to plunge by 2.6% points below the baseline scenario, to -7.8%.

The upside scenario assumed the spread of infections and most preventive measures to cease by the second quarter of 2020. It projected rapid economic recovery because of the removal of restrictions on trade and people movement, and successful policy measures in each country and region. However, even in this scenario, global economic growth was expected to fall to -3.7% in 2020.

Although the negative growth of the global economy in 2020 is unavoidable, the degree of the impact heavily depends on the extent of the COVID-19 infections. In making medium-to-long-term investment plans, it is vital to building strategies with an eye to the future global economy and society, taking into account the risks assumed in each scenario.

(2) FDI Trends in the World and Japan

① Global Trends in Inward FDI

■ Global inward FDI increased for the first time in four years in 2019

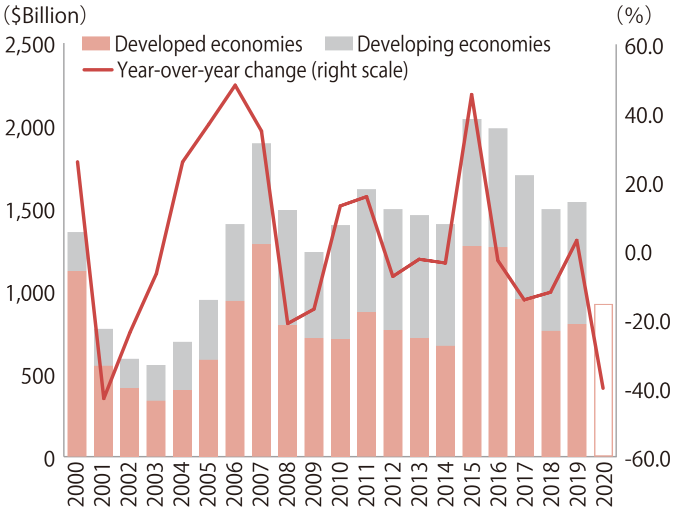
According to United Nations Conference on Trade and Development (UNCTAD), the inward foreign direct investment (net, flow. Hereafter, inward FDI) in 2019 increased by 3.0% from the previous year to $1.5 trillion (Chart 1-6). Global FDI increased for the first time in four years since 2015 but remained at only about three-quarters of the 2015 peak value at $2 trillion.

Breaking down the amount of inward FDI received by developed and developing economies, investment in developed economies accounted for 52.0% of the total in 2019, while investment in developing economies accounted for 48.0%. In 2019, the proportion of developing economies declined from 49.1% in 2018 due to increased investment in developed economies, but it continued to account for around half of global inward FDI.

The increase in inward FDI in developed economies in 2019 is attributable to a weakening trend among US firms that repatriated their capital from developed economies in the previous year. By region, Europe, a large investment recipient from the US, rose 18.0% to $430 billion (Chart 1-7). Inward FDI in Asia, a significant recipient among developing economies, fell 4.9% to $470 billion. Hong Kong, the region's leading investment destination, experienced a 34.4% decline from the previous year, and was a primary factor behind the reduction among developing economies.

In 2019, the US remained the largest recipient country with inward FDI of $250 billion (Chart 1-8). However, the amount was a 2.9% decrease from the previous year, marking the third consecutive year-over-year decline since 2017. The amount invested was about half of the peak amount of $470 billion in 2016. China ($140 billion, up 2.1% from the previous year) and Singapore ($92 billion, up 15.5%) followed the US as the largest recipients. Investment in China marked a record high. The country has been deregulating to accept foreign capital, and has successfully increased investment in the targeted services industry. Also, there were investments from companies in the manufacturing industry, notably from those in Japan, Europe, and the US.

Chart 1-6: Trends in Global Inward FDI



Note: 1) The year-over-year change in 2020 is estimated to be negative 30-40%. The graph shows an assumption where FDI declines by 40% in 2020.
2) "Developed economies" is as defined by UNCTAD. The amount of inflow to developing economies is computed by subtracting that of developed economies from that of the world.
Source: "World Investment Report 2020"(UNCTAD)

Chart 1-7: Global Inward FDI and Growth Rate

($Billion, %)

Region	2017		2018		2019	
	Flow	YoY	Flow	YoY	Flow	YoY
World	1,700	-14.3	1,495	-12.1	1,540	3.0
Developed Economies	950	-24.9	761	-19.9	800	5.1
Europe	570	-15.6	364	-36.2	429	18.0
North America	304	-40.2	297	-2.2	297	-0.2
Developing Economies	750	4.5	734	-2.2	740	0.8
Africa	42	-9.8	51	21.8	45	-10.3
Asia	502	7.2	499	-0.7	474	-4.9
Latin America	156	14.3	149	-4.7	164	10.3

Note: "Developed economies" is as defined by UNCTAD. The amount of inflow to developing economies is computed by subtracting that of developed economies from that of the world.
Source: "World Investment Report 2020" (UNCTAD)

Chart 1-8: Inward FDI in 2019:Top 10 Recipient Countries and regions

($Billion, %)

2019 Ranking	Change in Ranking	Recipient Country / Region	2017	2018	2019	YoY	Share
1	→	US	277	254	246	-2.9	16.0
2	→	China	136	138	141	2.1	9.2
3	↗	Singapore	84	80	92	15.5	6.0
4	↘	Netherlands	60	114	84	-26.3	5.5
5	↗	Ireland	53	-28	78	-	5.1
6	↗	Brazil	67	60	72	20.4	4.7
7	↘	Hong Kong	111	104	68	-34.4	4.4
8	→	UK	101	65	59	-9.4	3.8
9	↗	India	40	42	51	19.9	3.3
10	↗	Canada	27	43	50	15.8	3.3
22	↗	Japan	11	10	15	47.6	0.9
-	-	World	1,700	1,495	1,540	3.0	100.0

Note: "World" and the ranking exclude financial centers in the Caribbean.
Source: "World Investment Report 2020" (UNCTAD)

■ The number of greenfield investment projects remained high in 2019 but decline expected in 2020

In 2019, the number of greenfield investments worldwide increased by 0.1% from the previous year to 16,762 (Chart 1-9). Up to August, the number of projects announced is 6,911, 40.2% decline from the same period of the previous year.

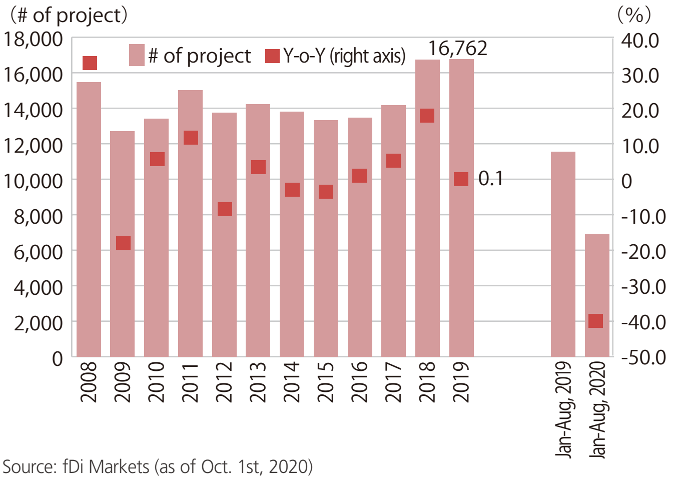
In 2019, the US was the largest greenfield investor with 3,645 investments, followed by the UK (1,583) and Germany (1,460). The top five investor countries accounted for more than half, or 50.5%, of the total. As for the investment destinations, the US received 1,912 investments, while the UK and Germany received 1,330 and 1,150, respectively. The top five recipient countries accounted for 35.2% of the total, while the top ten countries accounted for 50.9%.

UK followed with 1,125 deals (10.2% of the total) and Japan with 708 deals (6.4% of the total).

The total value of M&A investments in 2019, for which a value is available, was $990 billion, down 23.6% from the previous year (Chart 1-11).The value of investment by M&A had been over $1 trillion since 2015, but has fallen below that level for the first time in five years. In terms of investment by country/region, the US recorded the largest value at $190 billion (19.6% of the total), followed by Japan at $130 billion (13.2% of the total).

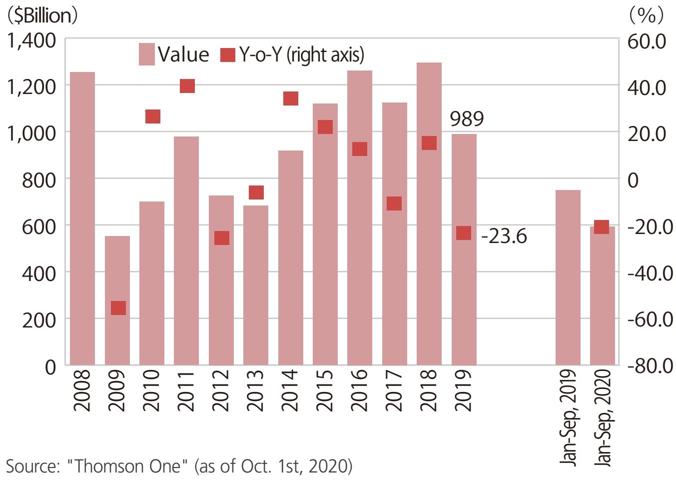
Looking at M&A activity through September 2020, there were 6,493 M&A deals, down 20.5%, and $580 billion in value, down 22.5%, with both number and value down more than 20% from the same period last year.

Chart 1-9: Trends in Global Greenfield Investment



Source: fDi Markets (as of Oct. 1st, 2020)

Chart 1-11: Trends in Global M&A Values



Source: "Thomson One" (as of Oct. 1st, 2020)

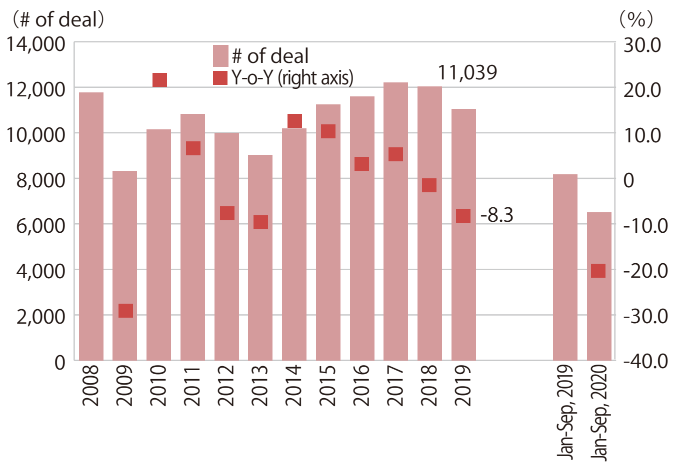
■ The number of M&As exceeded 10,000 for the sixth consecutive year

The number of M&A deals in the world in 2019 decreased by 8.3% year-over-year to 11,039 (Chart 1-10). Although the number of deals fell for the second year in a row, this is the sixth consecutive year since 2014 that the number of deals has exceeded 10,000. The US had the highest number of investments in 2019 by final acquisition country/region, with 2,275, accounting for 20.6% of the total. The

■ Global inward FDI in 2020 is expected to fall 40% from 2019

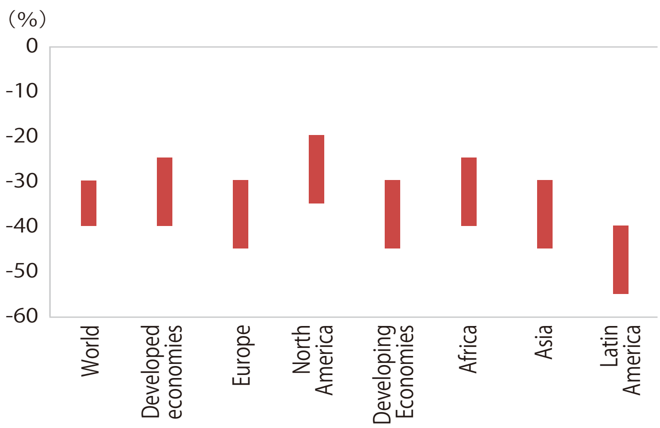
UNCTAD forecasts global inward FDI to decline 30 to 40% year-over-year in 2020 and further 5 to 10% in 2021, due to the economic impact of the COVID-19 epidemic (Chart 1-12). A 40% year-over-year decrease in global inward FDI in 2020 would be the second-largest decline after a 43.0% year-over-year decrease in 2001 since 1970, from which comparable data is available.

Chart 1-10: Trends in Global M&A Deals



Source: "Thomson One" (as of Oct. 1st, 2020)

Chart 1-12: FDI Growth (forecast)



Note: Classification of each region is as defined by UNCTAD.
Source: "World Investment Report 2020" (UNCTAD)

The FDI statistics consists of three forms of capital – equity capital, reinvestment of earnings, and debt instruments (see P.10 for the definition of each form). Of these, declines are expected in 2020 in equity capital and reinvestment of earnings. Equity capital includes investment such as M&As and greenfield investments by companies. Growth in the number of these investments has been slowing due to COVID-19, resulting in an expected decline.

Also, reinvestment of earnings, which reflects foreign companies' retained earnings, are expected to shrink due to the decrease in multinational corporations' sales. The 5000 multinational corporations tracked by UNCTAD have revised their sales forecasts downward by an average of 36% between February and May 2020. In particular, sales forecasts have been revised downward by more than 50% in the accommodation and food service activities (down 94%), transportation and storage industries (down 63%), and motor vehicles and other transport equipment (down 50%). Reinvestment of earnings are forecasted to decline mainly in these industries.

UNCTAD expects global inward FDI to decline by an additional 5-10% year-on-year in 2021, and only start to recover in 2022. UNCTAD forecasts that the growth in inward FDI will likely slow due to the rising number of revisions of the screening process of foreign investments in the short run and the modifications of the overseas business development plans by companies in light of the COVID-19 infections.

② Global Trends in Outward FDI

■ Japan became the largest investor for the second consecutive year

In 2019, the global outward FDI (net, flow) by region was 69.8% from developed economies and 30.2% from developing economies (Chart 1-13). The proportion of investment by developing economies rose to 45.9% in 2018, but fell sharply in 2019.

In 2019, Japan's FDI reached $230 billion (up 58.3% from the previous year), making it the largest investor for the second consecutive year (Chart 1-14). Investment from Japan grew significantly, reflecting increased M&A activities in the US and Europe, such as Takeda Pharmaceutical's acquisition of Shire. The US, which had a negative outflow in the previous year, became the second largest investor after Japan, with an investment of $125 billion in 2019.

China, which had been driving the increase in investment from developing economies, fell to fourth place at $117 billion, moving down from second place in the previous year. The 18.1% year-over-year decrease was a decline for the third consecutive year. The amount remained at about 60% of the peak value of $200 billion in 2016. The decline in M&A was particularly notable due to the introduction of investment screening systems by countries and regions. Among developing economies, Hong Kong, the second largest FDI investor after China, recorded an investment of $60 billion in 2019, a substantial decrease of 27.9% from the previous year.

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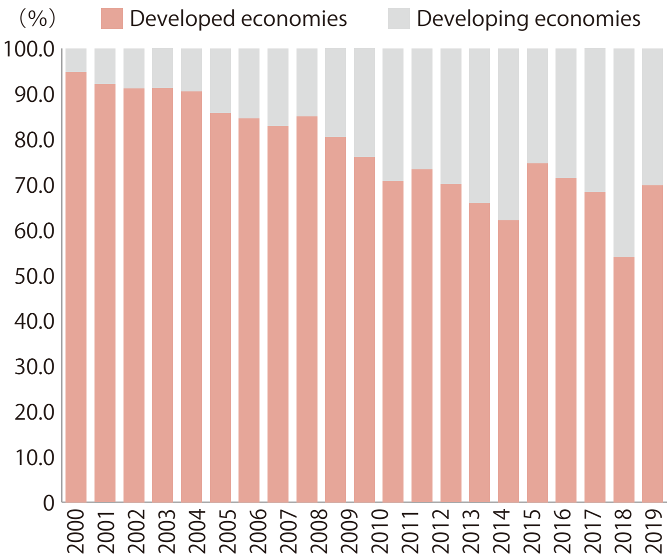
Chart 1-13 Share of Outward FDI by Region



Note: "Developed economies" is as defined by UNCTAD. The amount of inflow to developing economies is computed by subtracting that of developed economies from that of the world.
Source: "World Investment Report 2020" (UNCTAD)

Chart 1-14: Outward FDI in 2019: Top Ten Investor Countries and Regions

($Billion, %)

2019 Ranking	Change in Ranking	Investor Country/Region	2017	2018	2019		
						YoY	Share
1	→	Japan	165	143	227	58.3	17.3
2	↗	US	300	-91	125	-	9.5
3	↗	Netherlands	47	-19	125	-	9.5
4	↘	China	158	143	117	-18.1	8.9
5	→	Germany	104	79	99	25.2	7.5
6	↗	Canada	78	50	77	53.6	5.8
7	↘	Hong Kong	87	82	59	-27.9	4.5
8	↘	France	36	106	39	-63.4	2.9
9	→	South Korea	34	38	36	-7.0	2.7
10	↗	Singapore	49	30	33	11.8	2.5
-	-	World	1,601	986	1,314	33.2	100.0

Note: "World" and the ranking exclude financial centers in the Caribbean.
Source: "World Investment Report 2020" (UNCTAD)

③ Trends in Inward FDI to Japan

1) FDI Flow to Japan

■ FDI Flow to Japan in 2019 was the second largest

In 2019, inward foreign direct investment flow (net, flow. Hereafter, FDI flow) to Japan increased 37.3% from the previous year to 4.0 trillion yen, the second largest since 2014, for which comparable data is available (Chart 1-15).

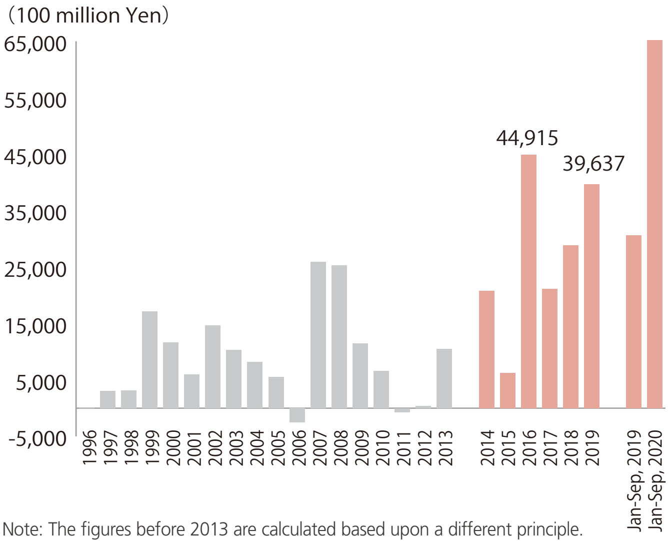
By type of capital in 2019, reinvestment of earnings was the largest for the third consecutive year since 2017, but the amount was 1.5 trillion yen, down 16.9% from the previous year[1] (Chart 1-16). Debt instrument was 1.3 trillion yen, the second largest, and more than doubled from 500 billion yen in 2018[2]. Equity capital marked a significant 76.1% increase to 1.2 trillion yen, the highest level since 2014, exceeding 1 trillion yen for the first time[3].

Equity capital is considered to indicate the trend of new investment and capital increase in Japan. Breaking down investment deals worth 10 billion yen or more in 2019 by investment purposes, M&A-type investments totaled 820 billion yen, a slight decrease from 940 billion yen in the previous year[4]. On the other hand, "capital increase for business expansion" rose significantly from 91 billion yen in 2018 to 860 billion yen, exceeding the record high of 510 billion yen in 2016.

■ Investment from North America was the largest

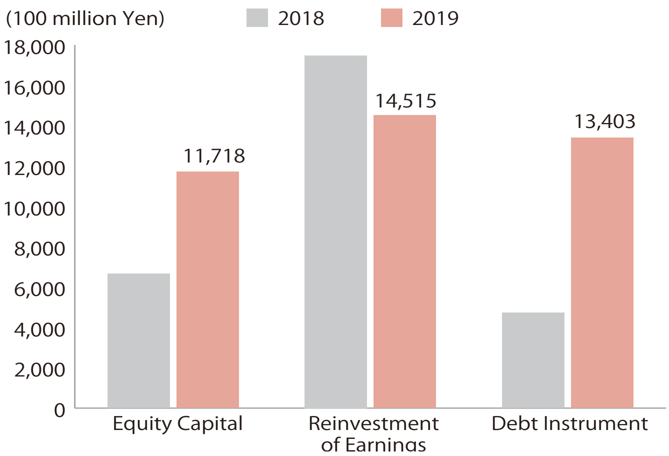
By region, investment from North America rose 140.4% in 2019 from the previous year to 1.9 trillion yen, accounting for the largest proportion at 48.6% of the total (Chart 1-17). In 2019, investment from the US was 1.9 trillion yen, up 141.5% from the previous year, continuing to be the largest investor by country (Chart 1-18). The country alone accounted for 48.3% of the total FDI flow to Japan in

Chart 1-15 FDI Flow to Japan



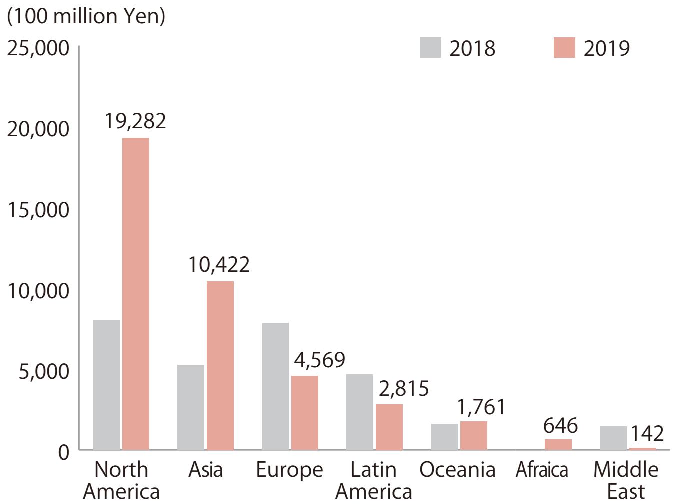
Note: The figures before 2013 are calculated based upon a different principle.
Source: "Balance of Payments" (Ministry of Finance, Bank of Japan)

Chart 1-16 FDI Flow to Japan by Form of Capital



Source: "Balance of Payments" (MoF, BoJ)

Chart 1-17 FDI Flow to Japan by Region



Source: "Balance of Payments" (MoF, BoJ)

Chart 1-18 FDI Flow to Japan: Top 10 Countries and Regions

(100 million Yen, %)

2019 Ranking	Change in Ranking	Investor Country/ Region	2019			2020 Jan-Sep (P)
				Share	YoY	
1	→	US	19,140	48.3	141.5	22,204
2	→	UK	3,122	7.9	-35.6	31,577
3	↗	Hong Kong	2,519	6.4	192.9	1,327
4	↗	Singapore	2,141	5.4	-	3,410
5	↗	China	2,090	5.3	135.9	170
6	↘	Cayman	1,445	3.6	-65.1	-1,214
7	↗	Luxemburg	1,387	3.5	-	-318
8	↘	France	1,370	3.5	-48.0	1,357
9	↘	Thailand	1,135	2.9	-13.9	1,216
10	↗	Taiwan	1,114	2.8	170.4	763
-	-	World	39,637	100.0	37.3	65,210

Source: "Balance of Payments" (MoF, BoJ)

[1] Reinvestment of earnings: proportion of undistributed earnings from a Japanese business or local subsidiary with foreign ownership corresponding to the level of foreign investment are recorded.
[2] Debt instrument: cash loans exchanged between parent and subsidiary and acquisition/disposal of bonds are recorded.
[3] Equity capital: share purchase or capital expenditure with a value of at least 10% of voting rights, equity interest on investment to a branch, and other capital expenditures by a foreign company are recorded.
[4] The Bank of Japan only includes investments worth ¥10 billion or more in these statistics. Therefore, the figures may not represent the entire picture of inward direct investment, and should be used as a reference.

2019, leaving the UK, the next largest country (7.9%), far behind. The country continues to have the largest number of M&A deals and greenfield investments in Japan (detailed below) and plays a significant role as an investor.

Asia made the second-largest flow by region (Chart 1-19). FDI from the region in 2019 increased by 98.1% over the previous year to 1.0 trillion yen, accounting for 26.3% of the total. It was the first increase after two years of decline. Investment increased from major countries and regions. In particular, the three East Asian countries and regions - Hong Kong (¥250 billion, up 192.9%), China (¥210 billion, up 135.9%), and Taiwan (¥110 billion, up 170.4%) all recorded remarkable increases. The aggregated amount of investment from East Asian countries and regions, including the above three countries plus Korea, was 660 billion yen, accounting for 16.6% of the total.

Similarly to East Asia, the FDI flow from ASEAN in 2019 rose 287.3% from the previous year to 380 billion yen, well above 2018 levels. The increase in the region is attributable to a recovery in investment from Singapore to 210 billion yen, which saw a net withdrawal in 2018.

In 2019, investment from Europe was 460 billion yen, a decrease of 41.7% over the previous year. Investment from major countries declined, as seen in the case of the UK, the largest investor of the region in 2019, whose investment declined by 35.6% from the previous year to 310 billion yen.

■ FDI flow to Japan in the statistics by industry increased for the first time in three years

According to the statistics for FDI by industry, FDI flow to Japan rose 55.2% year on year to 1.6 trillion yen in 2019[5]. The manufacturing sector accounted for 1.0 trillion yen, or 64.0% of the total, while the non-manufacturing sector accounted for 600 billion yen, or 36.0% (Chart 1-20).

By industry in more detail, investment in the financial and insurance industry rose 41.8% from the previous year to 890 billion yen, making up 55.9% of the total (Chart 1-21). By country, the FDI flow from the US in the industry overwhelmed others at 790 billion yen.

Electrical machinery and equipment fell 29.3% from the previous year to 390 billion yen, becoming the second-highest industry. By region, Europe commanded a large share of 310 billion yen, with substantial investment from France and the UK.

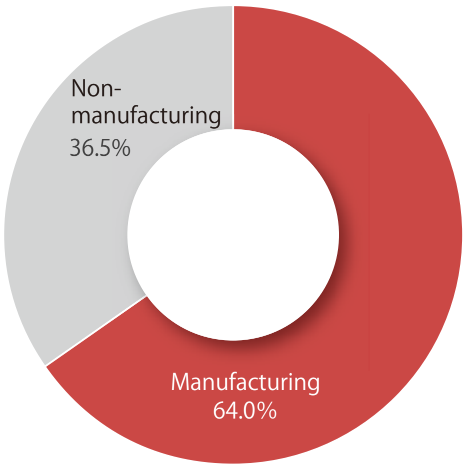
Chart 1-19 FDI Flow to Japan from Asia

(100 million Yen, %)

Country/ Region	2019	Share	YoY	2020 Jan-Sep (P)
Hong Kong	2,519	6.4	192.9	1,327
Singapore	2,141	5.4	-	3,410
China	2,090	5.3	135.9	170
Thailand	1,135	2.9	-13.9	1,216
Taiwan	1,114	2.8	170.4	763
Asia	10,422	26.3	98.1	7,214
ASEAN	3,830	9.7	287.3	4,453

Source: "Balance of Payments" (MoF, BoJ)

Chart 1-20 FDI Flow to Japan by Industry



Source: "Balance of Payments" (MoF, BoJ)

Chart 1-21: FDI Flow to Japan: Top 10 Industries

(100 million Yen, %)

2019 Ranking	Change in Ranking	Sector	2019	YoY	2020 Q1-Q2(P)
1	→	Finance&insurance	8,875	41.8	3,955
2	→	Electric machinery	3,877	-29.3	1,968
3	↗	Transportation Equipment	3,813	76.6	2,144
4	↘	Chemicals&pharmaceuticals	3,359	28.5	90
5	↗	Services	1,289	3827.9	976
6	↗	Food	610	556.8	4
7	↘	Real estate	349	-57.3	619
8	↗	Construction	267	-	-14
9	↘	Transportation	170	38.3	-37
10	↘	Iron, non-ferrous&metals	109	52.5	-4

Note: 1) Based upon different principles from statistics for FDI by region. 2) Negative amount indicates withdrawal exceeds inflow.
Source: "Balance of Payments" (MoF, BoJ)

5 The statistics for FDI by industry is based upon different principles from statistics for FDI by region.

1

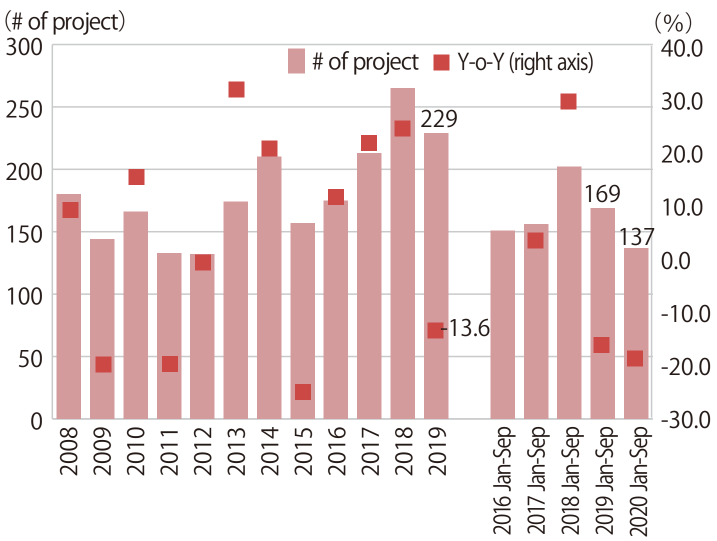
■ **The number of greenfield investments remained at a high level, although it decreased from the previous year.**

In 2019, the number of greenfield investments in Japan fell 13.6% from the previous year to 229 (Chart 1-22). Although the number of investment projects decreased from the previous year, which was the highest since 2003, it exceeded 200 for the third consecutive year.

By source country, the US marked the largest number at 87 (Chart 1-23). Although the number of cases decreased by 17.9% from the previous year, it accounted for about 40% of the total, at 38.0%. France (25 projects, up 92.3%), the UK (19 projects, up 35.7%), and Germany (17 projects, up 30.8%) followed. The number of investment projects by the top five countries, the above four countries plus China, accounted for about 70% of the total.

By industrial sector, software accounted for the largest number at 71 (Chart 1-24). Although the number of projects decreased by 6.6% from the previous year, it accounted for more than 30% of the total. Business services (23 projects, up 15.0%) and real estate (18 projects, down 37.9%) followed. The number of investment projects from the top five sectors was 140, accounting for more than 60%.

Chart 1-22: Trends in Number of Greenfield Investments in Japan



Source: fDi Markets (as of Nov. 4th, 2020)

Chart 1-23: Number of Greenfield Investments in Japan by Country and Region

(# of project, %)

Ranking	Change in Ranking	Country	2019	Share	YoY
1	→	US	87	38.0	-17.9
2	↗	France	25	10.9	92.3
3	→	UK	19	8.3	35.7
4	→	Germany	17	7.4	30.8
5	↗	China	10	4.4	-16.7
-	-	Total	229	100.0	-13.6

Source: fDi Markets (as of Nov. 4th, 2020)

Chart 1-24: Number of Greenfield Investments in Japan by Industry

(# of project, %)

Ranking	Change in Ranking	Sector	2019	Share	YoY
1	→	Software & IT services	71	31.0	-6.6
2	↗	Business services	23	10.0	15.0
3	↘	Real estate	18	7.9	-37.9
4	↗	Industrial equipment	14	6.1	16.7
5	↗	Renewable energy	14	6.1	7.7
-	-	Total	229	100.0	-13.6

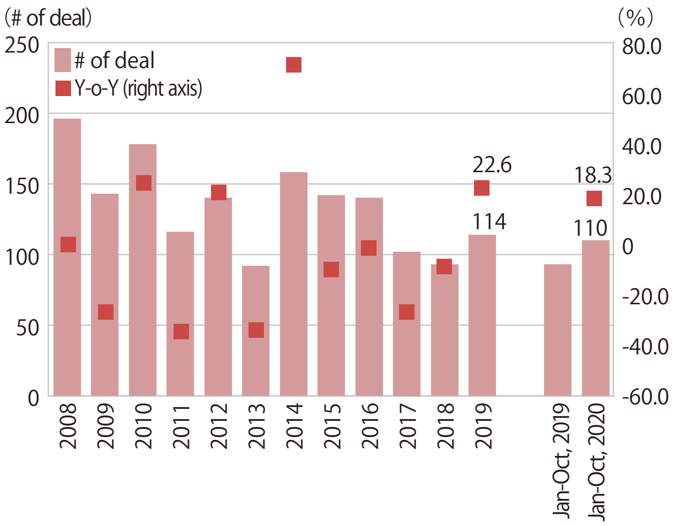
Note: Industrial categories are as defined by the database.
Source: fDi markets (as of Nov. 4th, 2020)

■ **More than 100 M&A deals to Japan recorded in 2019**

In 2019, the number of M&A deals to Japan increased 22.6% from the previous year to 114, exceeding 100 for the first time in two years (Chart 1-25). The number of deals increased from the previous year for the first time in five years since 2014, but when compared to the number of deals in the same year (158 deals), the number in 2019 is only about two-thirds. By investor country, the US accounted for the largest number at 31, followed by Hong Kong (19) and China (10).

In 2019, the total value of M&A deals for which the transaction values are disclosed fell 65.1% from the previous year to $7.8 billion (Chart 1-26). In 2018, the value increased due to large-scale deals such as the acquisition of Toshiba Memory.

Chart 1-25: Number of M&A Deals in Japan



Source: "Thomson One" (as of Nov. 4th, 2020)

■ **Close monitoring required for FDI flow after 2020**

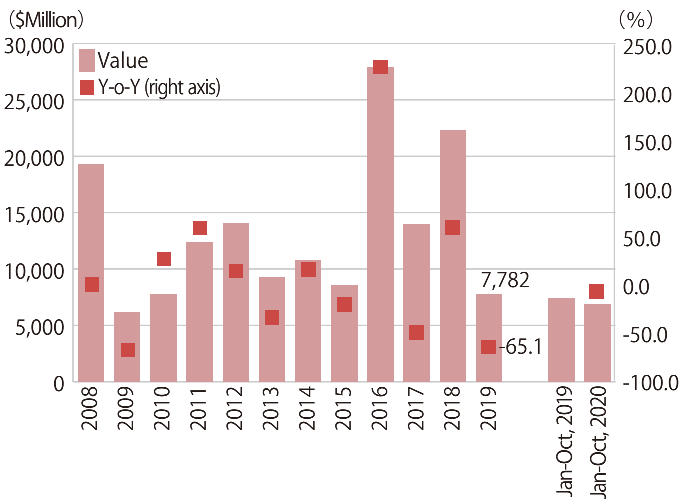
As mentioned earlier, UNCTAD expects global inward FDI in 2020 to be 30-40% lower than the previous year. In view of the impact of COVID-19 on the global economy as a whole, the outlook of equity capital, which is strongly linked to new foreign investment in Japan, and that of reinvestment of earnings retained by foreign companies, is uncertain and needs to be monitored closely.

In terms of FDI in Japan up to September 2020, equity capital is 610 billion yen, up 13.6% year-on-year, and has been steady, compared to the average for the same period between 2014 and 2019 (380 billion yen) (Chart 1-27). The number of greenfield investment projects up to September 2020, however, is 137, at the low level in the past few years. In terms of the number of M&A deals in Japan, 110 deals have been made, an increase from the same period last year, but the value of the deals is $6.9 billion, a decrease of 7.3% from the previous year.

In addition, 1,066 listed companies in Japan have revised their sales downward (as of 31 August 2020), and according to a survey of foreign companies in Japan conducted by JETRO, 79.8% responded that their sales were down in July 2020 compared to the same period last year. Depending on the future performance of foreign companies in Japan, the reinvestment of earnings could be affected.

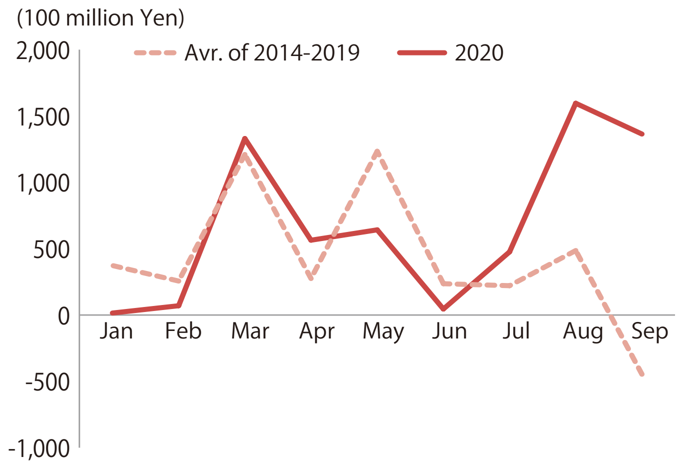
On the other hand, the above JETRO survey found that many companies continue to have high expectations of the size of the Japanese market and its growth potential. As the spread of COVID-19 is contained and socio-economic activities around the world increase, it is expected that investment of foreign companies to Japan will further increase.

Chart 1-26: Values of M&A Deals in Japan



Source: "Thomson One" (as of Nov. 4th, 2020)

Chart 1-27: FDI Flow to Japan: Equity Capital



Source: "Balance of Payments" (MoF, BoJ)

2) FDI Stock in Japan

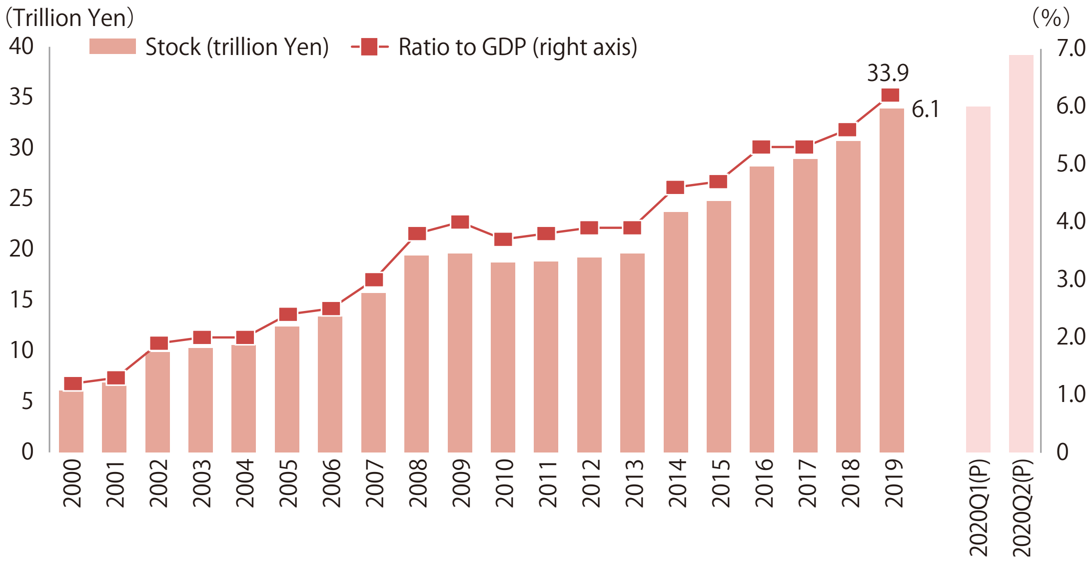
■ FDI stock in Japan increased to 33.9 trillion yen at the end of 2019

The FDI stock in Japan at the end of 2019 reached a new high of 33.9 trillion yen, up 10.4% from the previous year (Chart 1-28). The ratio of the balance to GDP increased from 5.6% in the previous year to 6.1%, exceeding 6% for the first time. Looking at the balance at the end of 2019 by type of capital, equity capital is the largest at 54.7%, followed by reinvestment of earnings at 23.0% and debt instrument at 22.3%.

By region, Europe accounts for 43.4% of the total stock and is the largest, followed by North America (24.1%) and Asia (22.1%) (Chart 1-29). Europe continues to be the largest, but the proportion declined from the previous year (50.2%). On the other hand, the proportion increased in North America (21.4% of the total at the end of 2018) and Asia (19.0%), where the flow in 2019 was strong. The stock of Asia exceeded 20% of the overall for the first time.

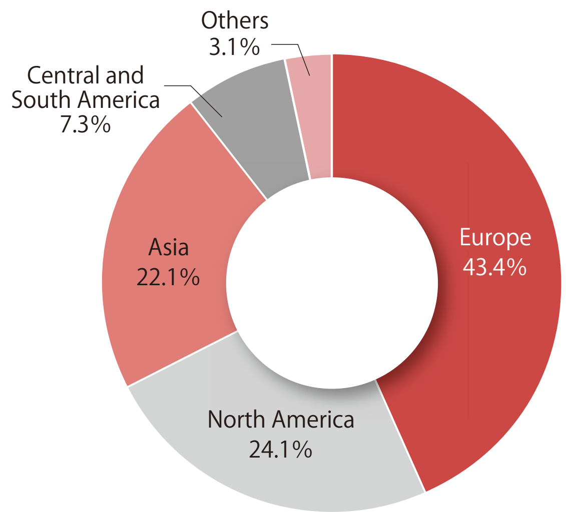
By country and region, the FDI stock of the US was 8.0 trillion yen, or 23.6% of the total, more than twice larger than France (4.0 trillion yen), which is the second largest (Chart 1-30). Among the top 10 countries and regions, six were European countries. The top 10 countries and regions account for 84.0% of the total.

Chart 1-28 Trends in FDI Stock in Japan



Source: "International Investment Position of Japan" (Ministry of Finance, Bank of Japan), "National Accounts of Japan" (Cabinet Office)

Chart 1-29 FDI Stock in Japan by Region



Source: "International Investment Position of Japan" (MoF, BoJ)

Chart 1-30 FDI Stock in Japan by Country and Region

(100 million Yen, %)

Rank	Country/Region	Stock	Share
1	US	79,801	23.6
2	France	39,284	11.6
3	Netherlands	39,067	11.5
4	Singapore	35,618	10.5
5	UK	24,960	7.4
6	Cayman Isl.	19,485	5.8
7	Switzerland	14,725	4.3
8	Hong Kong	12,365	3.7
9	Luxembourg	9,727	2.9
10	Germany	9,576	2.8
-	Others	54,103	16.0
-	Total	338,711	100.0

Source: "International Investment Position of Japan" (MoF, BoJ)

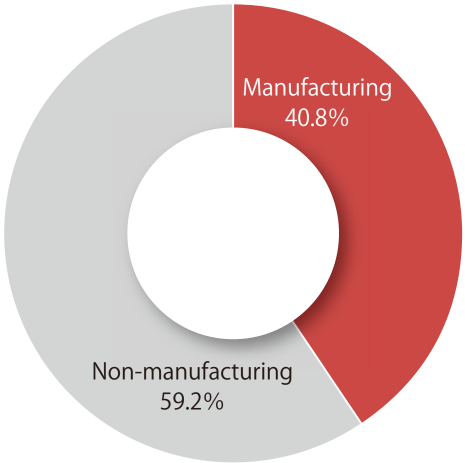
■ **FDI stock in the statistics by industry increased for the first time in three years**

The FDI stock in Japan in the statistics by industry at the end of 2019 rose 6.3% from the previous year to 24.1 trillion yen, the first increase in three years. Looking at the breakdown, the manufacturing industry accounted for 40.8%, while the non-manufacturing industry accounted for 59.2% (Chart 1-31).

Looking at detailed industries, the stock of finance and insurance, which had a strong flow in 2019, was 9.5 trillion yen, accounting for 39.4% of the total (Chart 1-32). This was followed by manufacturing, including transportation equipment (¥3.6 trillion, 14.9% of the total), electrical machinery and equipment (¥2.7 trillion, 11.1%), and chemicals and pharmaceuticals (¥2.0 trillion, 8.4%). The top 10 industries accounted for the majority (92.9%) of the total.

The Japanese government has set a goal of raising the FDI stock in Japan to 35 trillion yen by the end of 2020. The estimated balance at the end of the second quarter of 2020 increased to 39.2 trillion yen at the end of the same period, reflecting an inflow of debt instrument in June of the same year. As there are concerns about the impact of COVID-19 on investment in the future, fluctuations in FDI stock in Japan will be closely watched.

Chart 1-31 FDI Stock in Japan by Industry



Source: "International Investment Position of Japan" (MoF, BoJ)

Chart 1-32 FDI Stock in Japan: Top 10 Industries

(100 million Yen, %)

Rank	Industry	Stock	Share
1	Finance&insurance	94,995	39.4
2	Transportation equipment	35,990	14.9
3	Electric machinery	26,638	11.1
4	Chemicals&pharmaceuticals	20,161	8.4
5	Communications	15,550	6.5
6	Services	12,712	5.3
7	General machinery	5,247	2.2
8	Real estate	5,121	2.1
9	Transportation	4,079	1.7
10	Glass&ceramics	3,371	1.4
-	Others	17,056	7.1
-	Total	240,920	100.0

Source: "International Investment Position of Japan" (MoF, BoJ)