JETRO
Japan External Trade Organization

2015 JETRO Global Trade and Investment Report

New efforts aimed at developing global business

Overview

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Overseas Research Department, JETRO

Chapter 1

The world economy, trade and direct investment

Moderate pace of growth in world economy

Moderate pace of recovery in both advanced and emerging/developing economies

The global economy has been moderately recovering, both in the advanced and emerging/developing economies. According to the projections made by the IMF in July 2015, the world's real GDP growth in 2014 was 3.4%, and since 2012 for 3 years consecutively, it has remained at the 3% level. Even for 2015, the growth is mostly expected to remain at a similar 3.3% level. The effect of the increase in US interest rates expected later in the year on emerging and developing economies, the trends in the European economy such as the debt problem of Greece and deflationary concerns, and stagnation in China's economic growth, are some of the risks that will continue in the future.

Figure I-1: Trends in GDP growth rate/contribution ratio by country/region

(%)

	2013		2014		2015 (forecast)		2016 (forecast)	
	Percent change	Contribution ratio	Percent change	Contribution ratio	Percent change	Contribution ratio	Percent change	Contribution ratio
World	**3.4**	**100.0**	**3.4**	**100.0**	**3.3**	**100.0**	**3.8**	**100.0**
Advanced economies	**1.4**	**18.4**	**1.8**	**23.2**	**2.1**	**27.4**	**2.4**	**26.9**
United States	2.2	10.7	2.4	11.5	2.5	12.2	3.0	12.6
EU	0.1	0.6	1.4	7.2	1.8	9.6	1.9	8.7
Germany	0.2	0.2	1.6	1.7	1.6	1.7	1.7	1.5
United Kingdom	1.7	1.2	2.9	2.0	2.4	1.7	2.2	1.4
France	0.7	0.5	0.2	0.1	1.2	0.9	1.5	0.9
Italy	- 1.7	- 1.1	- 0.4	- 0.2	0.7	0.4	1.2	0.6
Spain	- 1.2	- 0.5	1.4	0.6	3.1	1.4	2.5	1.0
Japan	1.6	2.2	- 0.1	- 0.1	0.8	1.1	1.2	1.4
Emerging and developing economies	**5.0**	**81.4**	**4.6**	**76.1**	**4.2**	**72.4**	**4.7**	**71.0**
United States	7.0	56.9	6.8	57.2	6.6	59.0	6.4	51.3
China	7.7	34.2	7.4	34.2	6.8	33.6	6.3	28.0
India	6.9	12.9	7.3	14.1	7.5	15.5	7.5	14.0
ASEAN 5	5.1	7.6	4.6	7.0	4.7	7.4	5.1	7.1
Latin America	2.9	7.6	1.3	3.4	0.5	1.3	1.7	3.8
Brazil	2.7	2.5	0.1	0.1	- 1.5	- 1.4	0.7	0.5
Mexico	1.4	0.8	2.1	1.2	2.4	1.4	3.0	1.6
Emerging and developing Europe	2.9	2.8	2.8	2.7	2.9	2.9	2.9	2.5
Turkey	4.1	1.7	2.9	1.2	3.1	1.3	3.6	1.3
Russia/Commonwealth of Independent States	2.2	3.1	1.0	1.4	- 2.2	- 3.1	1.2	1.4
Russia	1.3	1.3	0.6	0.6	- 3.4	- 3.4	0.2	0.2
Middle East and North Africa	2.4	5.5	2.7	6.1	2.6	6.0	3.8	7.6
Sub-Saharan Africa	5.2	4.6	5.0	4.5	4.4	4.1	5.1	4.2
South Africa	2.2	0.4	1.5	0.3	2.0	0.4	2.1	0.4

Notes: 1) The definitions of advanced/emerging and developing countries follow the World Economic Outlook (IMF). The EU has both advanced and developing/emerging economies. ASEAN 5 refers to Indonesia, Malaysia, the Philippines, Thailand, and Vietnam. The Middle East and North Africa includes Afghanistan and Pakistan.

2) The percent changes and contribution ratios of the EU and Turkey are based on the figures released in April.

3) The contribution rate is calculated using the weighted PPP (purchasing power parity) of 2014 released in April.

Source: "WEO, April/July 2015" (IMF).

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Middle East, Africa, and Central and South America highly dependent on the export of resources

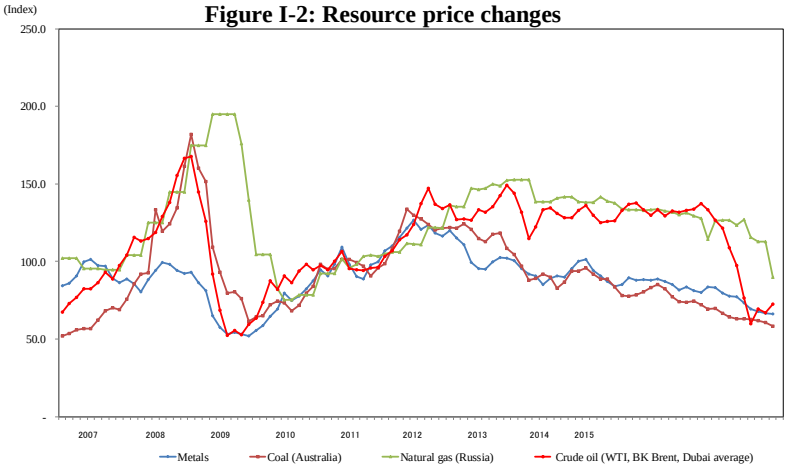
Continuous downward trend in resource prices

The downward trend continues in the prices of natural resources such as crude oil, coal, and metals. The price of crude oil has greatly declined since September 2014. In the first half of 2015, the WTI crude oil price fell to the $40 to $45 level, and in July 2015 is hovering at the $40 to $50 level.

Parts of Middle East, Africa, and Latin America are highly dependent on the export of resources

In the GDP of some countries of the Middle East, Africa, and Latin America, the ratio of export of resources comprises a large percentage of GDP. In these countries, the decline in resource prices is the main cause behind the economic slowdowns. On the other hand, many of the advanced economies and Asian countries are net importers, and it is expected that the tide will turn in the favor of giving a boost to their economies.

Figure I-2: Resource price changes



Note: 2010 = 100.
Source: "IFS May 2015" (IMF)

Figure I-3: The ratio of export of energy & mineral/GDP of key exporting countries

(%)

Net Exporter		Year	Total	Crude oil	Gas	Coal	Minerals	GDP ($100 Million)
Advanced economies	Norway	2014	16.5	8.6	7.9	- 0.0	- 0.0	5,002
	Australia	2014	8.0	- 0.6	1.2	2.4	5.0	14,442
	Canada	2014	4.8	3.7	0.6	0.2	0.3	17,887
Middle East Africa	Oman	2014	51.1	44.8	6.8	- 0.0	- 0.4	778
	Qatar	2014	51.0	10.2	41.0	- 0.0	- 0.2	2,100
	Kuwait	2013	47.1	45.0	2.1	- 0.0	- 0.0	1,758
	Saudi Arabia	2013	40.4	39.5	1.1	- 0.0	- 0.2	7,443
	Algeria	2014	22.6	11.4	11.2	- 0.0	- 0.0	2,141
	Nigeria	2013	14.7	14.4	0.4	- 0.0	0.0	5,218
Russia/Commonwealth of Independent States	Kazakhstan	2014	27.8	25.2	1.4	0.3	1.0	2,123
	Azerbaijan	2014	25.3	24.8	0.4	- 0.0	0.0	741
	United States	2013	12.5	8.3	3.6	0.5	0.1	20,791
Latin America	Venezuela	2013	34.4	34.3	- 0.0	0.0	0.1	2,184
	Bolivia	2014	24.9	1.7	17.5	- 0.0	5.8	344
	Ecuador	2014	12.4	12.9	- 0.7	- 0.0	0.2	1,008
	Colombia	2013	9.1	7.3	0.1	1.7	- 0.0	3,784
	Peru	2013	5.0	- 1.4	0.8	- 0.0	5.7	2,024
	Chile	2014	3.9	- 2.3	- 0.7	- 0.3	7.4	2,580
	Mexico	2014	2.5	2.8	- 0.6	- 0.1	0.3	12,827
	Brazil	2014	0.7	0.0	- 0.4	- 0.1	1.2	23,530
Asia	Brunei	2014	64.4	29.0	35.4	- 0.0	- 0.0	151
	Mongolia	2014	39.1	5.3	- 0.2	7.1	26.9	120
	Malaysia	2013	6.3	1.0	6.0	- 0.6	- 0.1	3,132
	Indonesia	2013	4.4	- 0.4	1.6	2.5	0.7	9,125

Notes: The HS code of crude oil is 2709, natural gas is HS2711, coal is HS2701, and minerals are HS26.
Sources: UN Comtrade, WEO

Figure I-4: The ratio of import of energy & mineral/GDP of key importing countries

(%)

Net Importer		Year	Total	Crude oil	Gas	Coal	Minerals	GDP ($100 Million)
Advanced economies	South Korea	2013	- 12.6	- 7.6	- 2.8	- 1.0	- 1.3	13,045
	Greece	2014	- 6.7	- 6.3	- 0.5	- 0.0	0.0	2,380
	Japan	2014	- 5.7	- 2.8	- 1.8	- 0.4	- 0.7	46,163
	Finland	2014	- 4.6	- 3.1	- 0.5	- 0.2	- 0.8	2,712
	Portugal	2014	- 4.4	- 3.5	- 1.0	- 0.1	0.2	2,300
	Spain	2014	- 4.1	- 3.0	- 0.8	- 0.1	- 0.2	14,069
	Germany	2014	- 2.9	- 1.7	- 0.8	- 0.1	- 0.3	38,595
	France	2014	- 2.1	- 1.4	- 0.6	- 0.1	- 0.1	28,469
	United States	2014	- 1.3	- 1.4	0.0	0.0	0.0	174,189
	United Kingdom	2014	- 0.6	- 0.2	- 0.1	- 0.1	- 0.1	29,451
East Europe	Bulgaria	2014	- 11.0	- 6.3	- 2.2	- 0.3	- 2.1	558
	United States	2014	- 6.0	- 3.1	- 2.6	- 0.1	- 0.1	1,371
	Poland	2014	- 3.6	- 3.1	- 0.2	- 0.0	- 0.2	5,466
Asia	Thailand	2014	- 11.0	- 8.8	- 1.8	- 0.4	- 0.0	3,738
	India	2014	- 8.6	- 6.6	- 0.8	- 0.8	- 0.3	20,495
	China	2014	- 3.9	- 2.2	- 0.3	- 0.2	- 1.3	103,804
	Pakistan	2014	- 2.3	- 2.2	- 0.0	- 0.2	0.0	2,501
	Sri Lanka	2014	- 2.2	- 1.8	- 0.3	- 0.2	0.0	746
	Philippines	2014	- 1.3	- 1.9	- 0.2	- 0.1	0.9	2,849
Middle East Africa	Jordan	2014	- 7.5	- 6.5	- 0.8	- 0.2	0.0	358
	Turkey	2014	n.a.	n.a.	- 0.3	- 0.1	0.0	8,061
	South Africa	2014	- 0.0	- 4.6	- 0.1	1.4	3.3	3,501

Notes: The crude oil trade balance of Turkey is not mentioned because of statistical constraints. The HS code of crude oil is 2709, natural gas is HS2711, coal is HS2701, and minerals are HS26.
Sources: UN Comtrade, WEO

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Risk tolerance indicators of emerging/developing economies

Risk tolerance uneven among emerging/developing economies

With improvements in the employment and income environment, the US is now at a stage where it is looking into increasing interest rates. In May 2015, FRB Chair Yellen stated it will be appropriate at some point this year to take the initial step to raise the federal funds rate target if the economy continues to improve. The degree of tolerance of emerging/developing economies against the expected increase in the US interest rates is an issue. There are also countries that need to be careful because of the increasing size of their current account deficits, with the ratio of foreign exchange reserves that are small compared to their short-term foreign debt balances. But in general, emerging/developing economies are building foreign exchange reserves, and they are boosting their risk tolerance.

Figure I-5: Risk tolerances of emerging/developing economies

		Current account/GDP (%)			Foreign exchange reserves ÷ Monthly average import value (multiple)			Foreign exchange reserves ÷ Short term external debt balance (multiple)		
		1995	2005	2014	1995	2005	2014	1995	2005	2014
Asia (Emerging economies)	China	0.2	5.8	2.0	6.9	14.9	23.6	3.3	13.4	4.9
	Indonesia	- 2.8	0.5	- 3.0	4.1	5.3	7.3	0.5	1.9	1.9
	Thailand	- 8.1	- 4.3	3.8	6.1	5.2	8.0	0.8	4.6	7.9
	Malaysia	- 9.7	14.4	4.6	3.7	7.3	6.6	3.0	4.5	3.1
	Philippines	- 2.4	1.9	4.4	2.8	4.1	12.9	1.6	1.6	6.5
	Vietnam	- 12.7	- 1.0	5.4	n.a.	3.0	2.8	1.7	4.3	2.3
	India	- 1.6	- 1.2	- 1.4	6.4	11.1	7.9	2.4	4.2	2.7
	Pakistan	- 2.7	- 1.3	- 1.2	1.9	4.8	3.1	0.6	10.1	5.3
	Bangladesh	- 2.0	0.0	- 0.1	4.3	2.6	6.3 (2013)	13.3	3.2	3.7
Latin America	Brazil	- 2.3	1.6	- 3.9	11.1	8.2	18.2	1.6	2.0	3.2
	United States	- 0.5	- 1.0	- 2.1	2.7	3.8	5.7	0.6	3.4	3.7
	Argentina	- 1.7	2.0	- 0.9	8.7	11.4	5.4	0.7	3.9	3.4
	Colombia	- 4.2	- 1.4	- 5.0	7.2	8.4	8.7	1.4	3.8	4.1
	Peru	- 8.9	1.5	- 4.1	10.7	11.3	17.2	1.9	1.8	2.8
Central and Eastern Europe	Poland	0.6	- 2.6	- 1.2	6.1	4.9	5.2	7.4	2.6	3.0
	Romania	- 4.4	- 8.6	- 0.5	2.0	5.9	6.1	1.4	1.9	2.4
	Hungary	- 3.5	- 7.1	4.2	9.3	3.4	4.8	3.8	1.3	3.0
Russia Commonwealth of Independent States	Russia	2.2	11.1	3.1	2.6	15.4	12.1	0.7	3.9	7.1
	Kazakhstan	- 1.3	- 1.8	1.6	3.8	4.1	5.1 (2013)	5.3	1.2	4.6
	Ukraine	- 3.0	2.8	- 4.0	0.8	6.3	1.5	5.5	4.4	1.5
Middle East and North Africa	Turkey	- 2.4	- 4.4	- 5.7	4.2	5.2	5.3	1.4	1.4	1.2
	Saudi Arabia	- 3.7	27.4	14.1	3.8	31.3	53.7	1.5	11.3	15.3
	Egypt	0.6	3.3	- 0.8	16.7	12.6	2.4	6.6	3.6	1.9
	Morocco	- 3.2	1.8	- 5.8	4.4	9.4	4.9 (2013)	1.7	10.3	6.4
Sub-Saharan Africa	Nigeria	- 2.4	22.2	2.2	2.2	15.9	12.2 (2013)	1.3	14.8	3.8
	South Africa	- 1.6	- 3.1	- 5.4	1.2	3.6	5.3	0.3	2.5	2.8
	Kenya	- 3.8	- 1.2	- 9.2	1.4	3.5	4.8 (2013)	0.6	3.5	3.5

Notes: Foreign exchange reserves include gold (the figure for Vietnam does not include gold due to statistical constraints). Part of the data of 2014 for foreign currency reserves/monthly average import value is of 2013.
Sources: "WEO April 2015" (IMF), "Key Indicators" (ADB), "International Credit Balance Statistics" (BIS), "IFS June 2015" (IMF)

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Weak world trade growth

■ World trade rose only slightly in 2014

World trade (merchandise trade, nominal exports basis) in 2014 slightly rose by 0.8% from the previous year, amounting to $18.7 trillion (JETRO estimate). Actual exports (volume basis) which does not include the effect of price changes, grew by only 2.5%. World trade growth has slowed since 2012. According to forecasts by WTO, world trade in 2015 is expected to increase by 3.3% (in real terms), and increase by 4.0% in 2016. This slowdown is expected to continue.

■ Dramatic fall in resource prices since the second half of 2014

Export prices in 2014 declined by 1.7% from the previous year, and consequently reduced exports. The huge drop in export prices was largely due to changes in resource prices. Particularly, there was a significant drop in energy prices since the second half of 2014. Prices of crude oil, iron ore and coal fell drastically by 7.5%, 49.2% and 17.1% respectively.

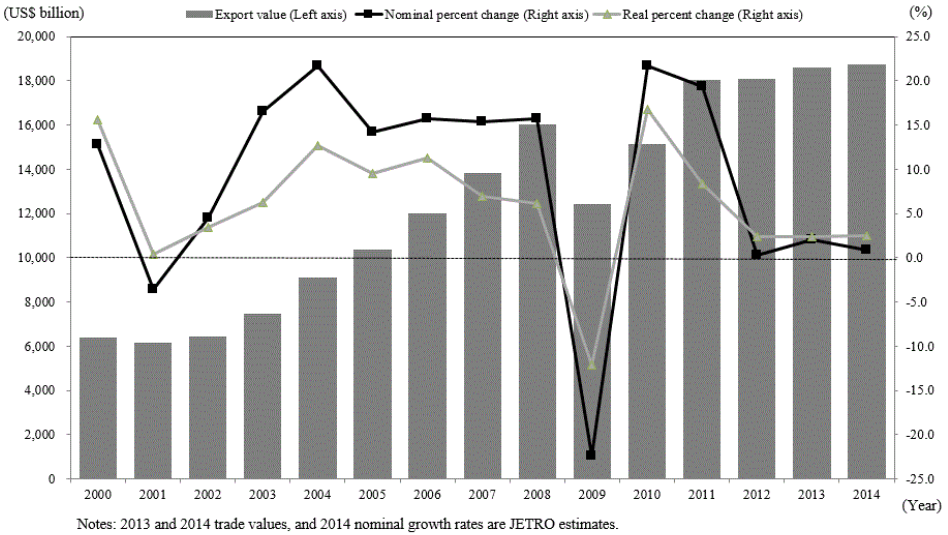
Figure I-6: World trade related indicators

(Unit: US$ 100 million, %)

			2010	2011	2012	2013	2014
World merchandise trade (export basis)			151,249	180,524	180,993	185,896	187,461
Nominal growth rate			21.7	19.4	0.3	2.7	0.8
Real growth rate			16.8	8.3	2.4	3.0	2.5
Price growth rate			4.9	11.1	-2.1	-0.3	-1.7
BEC (Categories Economic Broad)	Material growth rate (export basis)		35.4	29.2	-0.4	-1.4	-6.3
	Intermediate good growth rate (export basis)		24.7	19.8	-0.4	3.5	0.3
		Processed goods	25.9	24.7	-0.7	3.0	-0.8
		Parts and accessories	22.5	11.2	0.1	4.5	2.4
	Finished goods growth rate (export basis)		15.9	14.1	1.1	3.4	3.9
		Capital goods	19.1	14.4	1.2	1.0	2.0
		Consumer goods	13.6	13.8	1.1	5.3	5.3
World real GDP growth rate			5.4	4.2	3.4	3.4	3.4
Industrial production index growth rate (developed countries)			7.8	2.1	0.6	0.6	2.3
Crude oil	Crude price (US$/barrel)		79.0	104.0	105.0	104.1	96.2
Natural gas	Natural gas price (US$/1 million BTU)		8.2	10.6	12.0	11.2	10.5
Change ratio of dollar's nominal effective exchange rate			-2.5	-5.7	3.8	2.2	2.5

Note: 1) Trade values in 2013 and 2014 and nominal growth rate in 2014 are estimated by JETRO.
2) Real growth rate = nominal growth rate – price growth rate.
3) Real GDP growth rate is purchase power parity (PPP) basis. Data during 2010 and 2012 was announced in April. Data during 2013 and 2014 was revised in July.
4) The classifications of advanced and emerging/developing countries follow those of the IFS.
5) The definitions of materials, intermediate goods and finished goods are based on the HS2007 version of BEC (the United Nations) and RIETITID2013 (the Research Institute of Economy, Trade and Industry).
6) Crude oil prices are the average of Dubai, Brent and WTI.
7) Natural gas prices are Russian market prices.
8) Negative figures of change of ratio of nominal effective exchange rate indicate depreciation.
Source: "IFS, May 2015" (IMF), "WEO, April 2015" (IMF), "WEO, July 2015" (IMF), data from the WTO and the British Petroleum, Trade statistics of respective country and region

Figure I-7: Trends in world trade (exports basis)



Notes: 2013 and 2014 trade values, and 2014 nominal growth rates are JETRO estimates.
Sources: "IFS, May 2015 (IMF)", Statistics from individual countries/regions

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Slowdown in world trade due to weak world economy and intermediate goods and capital goods transactions

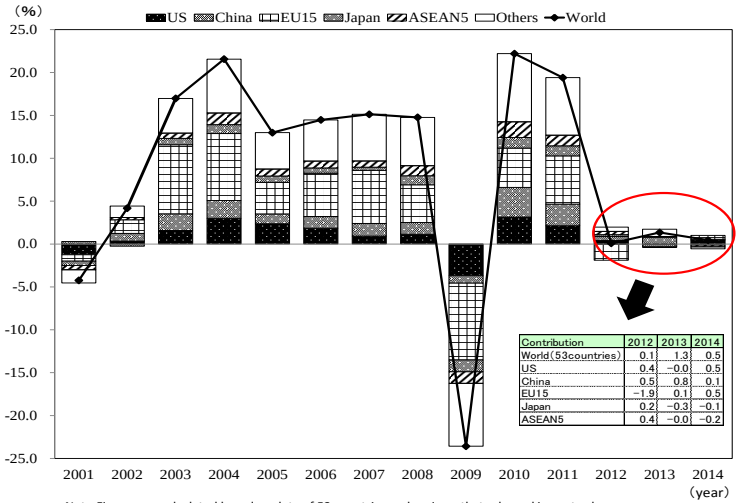
Slowdown in world demand

The growth rate of the world economy since 2012 is at the 3% level, and the slowdown in the global demand is affecting trade. China's import growth rate has slowed, with a 4.4% increase in 2012, 7.3% increase in 2013, and 0.7% increase in 2014. The value of China's imports in the first quarter of 2015 also declined, by 21.4% from the same period of the previous year to $372.9 billion, due to the fall in prices of natural resources. There were huge falls in the imports of resources such as mineral fuels (down 39.5%) and iron ore (down 44.3%). On the other hand, with the economic recovery, US imports recovered from a decrease of 0.3% in 2013 to an increase of 3.5% in 2014. However, the imports of the US in the first quarter of 2015 also fell, by 2.0% to $538.8 billion, due to the fall in imports of mineral fuels.

Slowdown in intermediate goods/capital goods transactions

Looking at trade trends by product type in recent years, growth of consumer goods (an increase of 5.3% in 2014) was strong while on the other hand, the growth rate of intermediate goods (an increase of 0.3% in 2014) and capital goods (an increase of 2.0% in 2014) was slow. It is possible that the expansion of local procurement and production caused a slowdown in imports of intermediate goods and capital goods. Also looking at the growth rate of the value of imports of China (which is a key importing country) by product type, growth of consumer goods (an increase of 15.0% in 2014) was strong, while on the other hand, growth of import of materials (a decrease of 2.1% in 2014), processed goods (an increase of 4.9% in 2014) and parts (a decrease of 0.5% in 2014), and capital goods (an increase of 1.3% in 2014) were slow.

Figure I-8: Contribution rates of change to world import value by country and region



Note:Figures are calculated based on data of 53 countries and regions that released import values.
Source:Trade statistics of respective country and region.

Figure I-9: Growth rate of the value of China's imports by product type

(%)

	Share		Percent change				
	2010	2014	2010	2011	2012	2013	2014
Materials	25.3	27.4	52.8	39.9	4.4	3.5	-2.1
Processed goods	25.6	24.4	29.8	20.3	-0.0	3.2	4.9
Parts	26.3	25.1	31.9	10.9	5.4	11.9	-0.5
Capital goods	17.1	14.8	34.4	15.8	-0.1	0.9	1.3
Consumer goods	5.7	8.4	49.3	36.6	15.0	9.8	15.0

Notes: Each share indicates the percentage of the total amount based on the BEC classification. The total value of China's imports and the total value as per BEC classification do not match.
Sources: Statistics from individual countries/regions

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Trends by country in world trade

US, Germany and China - driving world exports

The value of exports of advanced economies increased by 0.9% from the previous year to $11.0202 trillion. The US saw particularly large growth, with passenger cars and pharmaceuticals leading its exports, as its value of exports increased by 2.7% from the previous year to $1.6205 trillion. Among destinations, exports to NAFTA was a driving force. Crude oil to Canada and general machinery such as truck engines and machine parts to Mexico also drove exports.

The value of EU exports increased only 1.4% to $6.1651 trillion, mainly because of weakness in export to non-EU areas such as Russia, where it banned imports from Europe and the US. Exports in Germany, which is EU's largest exporting country, increased by 3.8% to $1.5702 trillion, in a weak euro environment. Exports of passenger cars and pharmaceuticals were favorable.

The export value of emerging/developing economies increased by only 0.8% to $7.7259 trillion. The value of China's exports increased by 6.0% to $2.3432 trillion, with mobile phones and steel etc. leading it. Exports in Mexico (main growth in transport equipment), Vietnam (main growth in mobile phones and sewn products) and the Philippines (main growth in integrated circuits) were strong.

Drastic fall in the export value of resource-rich countries

Resource-rich countries mainly pushed down world exports in 2014. Due to the fall in natural resource prices, the value of exports of Russia (5.4% decrease), Australia (5.0% decrease), and Brazil (7.1% decrease) fell drastically below that of the previous year. Even for Thailand, which is ASEAN's largest exporting country, the value of exports increased by only 0.2%, because of the weakness in automobiles which are its key product.

Figure I-10: Value of world trade by country/region (2014)

(US$ million, %)

	Exports				Imports			
	Value	Growth rate	Share	Contribution	Value	Growth rate	Share	Contribution
NAFTA	2,493,532	3.2	13.3	0.4	3,210,855	3.2	16.8	0.5
United States	1,620,532	2.7	8.6	0.2	2,347,685	3.5	12.3	0.4
Canada	475,343	3.7	2.5	0.1	463,192	0.3	2.4	0.0
Mexico	397,658	4.6	2.1	0.1	399,977	4.9	2.1	0.1
EU-28	6,165,079	1.4	32.9	0.4	6,070,453	1.9	31.7	0.6
Germany	1,507,216	3.8	8.0	0.3	1,215,915	2.0	6.3	0.1
Netherlands	671,901	0.0	3.6	0.0	587,716	-0.4	3.1	-0.0
France	582,408	0.2	3.1	0.0	677,974	-0.5	3.5	-0.0
Italy	528,639	2.0	2.8	0.1	471,968	-1.6	2.5	-0.0
United Kingdom	513,556	-6.2	2.7	-0.2	689,782	5.4	3.6	0.2
Belgium	471,615	0.6	2.5	0.0	452,749	0.2	2.4	0.0
Spain	324,684	2.2	1.7	0.0	358,434	5.2	1.9	0.1
Austria	177,962	1.6	0.9	0.0	181,944	-0.8	0.9	-0.0
Japan	694,270	-3.5	3.7	-0.1	817,103	-2.6	4.3	-0.1
East Asia	4,469,222	4.2	23.8	1.0	3,955,660	0.3	20.6	0.1
China	2,343,222	6.0	12.5	0.7	1,963,105	0.7	10.2	0.1
South Korea	572,665	2.3	3.1	0.1	525,515	1.9	2.7	0.1
Taiwan	295,555	2.9	1.6	0.0	272,783	1.3	1.4	0.0
ASEAN 6	1,257,781	2.1	6.7	0.1	1,194,257	-1.3	6.2	-0.1
Singapore	409,789	-0.1	2.2	-0.0	366,268	-1.8	1.9	-0.0
Malaysia	234,251	2.5	1.2	0.0	208,964	1.4	1.1	0.0
Thailand	225,464	0.2	1.2	0.0	228,274	-8.6	1.2	-0.1
Indonesia	176,292	-3.4	0.9	-0.0	178,179	-4.5	0.9	-0.0
Vietnam	150,186	13.7	0.8	0.1	148,049	12.1	0.8	0.1
Philippines	61,798	14.5	0.3	0.0	64,524	4.4	0.3	0.0
Russia	497,834	-5.4	2.7	-0.2	286,669	-9.1	1.5	-0.2
India	321,979	2.2	1.7	0.0	461,401	-1.4	2.4	-0.0
Australia	240,052	-5.0	1.3	-0.1	227,659	-1.9	1.2	-0.0
Brazil	225,101	-7.1	1.2	-0.1	229,060	-4.4	1.2	-0.1
Turkey	157,595	3.6	0.8	0.0	241,780	-4.0	1.3	-0.1
South Africa	91,013	6.6	0.5	0.0	99,871	-1.0	0.5	-0.0
World (estimate)	18,746,149	0.8	100.0	0.8	19,163,322	0.8	100.0	0.8
Advanced economies	11,020,222	0.9	58.8	0.5	11,606,041	1.2	60.6	0.7
Emerging and developing economies	7,725,928	0.8	41.2	0.3	7,557,281	0.2	39.4	0.1

Notes: 1) Export/import value and growth rate of world/EU-28/developed and emerging/developing economies are JETRO estimates.
2) EU-28 includes internal trade.
3) ASEAN 6 in this chart is these six countries: Singapore, Thailand, Malaysia, Indonesia, Philippines, and Vietnam.
4) East Asia in this chart are the following 9 countries/regions: China, South Korea, Taiwan, and ASEAN 6.
5) Definitions for advanced economies and emerging and developing economies follow the Direction of Trade Statistics (IMF).

Sources: Statistics from individual countries/regions

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Trends by product in world trade

■ **Steady rise in the export of machinery and equipment**

The export value of general machinery in 2014 increased by 3.2% from the previous year to $2.1389 trillion. Particularly, the export of semiconductor production equipment increased greatly by 11.0% to $46.9 billion, because of recovery in the silicon cycle. Exports from countries such as the US, Netherlands, South Korea, Japan, and so on, were driven. The export value of electric equipment increased by 3.1% to $2.3661 trillion. IT related products such as mobile phones led this product's export. The export value of mobile phones from countries such as China, the US and Vietnam rose by 7.8% to $243.3 billion. The export value of transport equipment increased by 3.0% to $1.8806 trillion, driven by countries such as the US, Germany, and Mexico.

■ **Pharmaceuticals - Driving force behind chemical exports**

The export value of chemicals in 2014 increased by 2.0% from the previous year to $2.4269 trillion. The export value of pharmaceuticals and medical supplies increased by 6.8% to $519.2 billion, pushing up exports. Products such as vaccines for human use and immune serums led the exports. Exports from European countries such as Germany and Switzerland to the US were expanded.

■ **Large drop in the export of resources (iron ore, precious metals, coal, petroleum, etc.)**

In 2014, lower natural resource prices caused the export value of resources such as iron ore, precious metals, coal and petroleum to fall far below the previous year. The export value of iron ore declined by 16.0% from the previous year; precious metals, coal and crude oil decreased by 31.4%, 13.1% and 6.8% respectively.

Figure I-11: World trade by product (export basis) (2014)

(US$ million, %)

	Value	Growth rate	Share	Contribution
Total	18,746,149	0.8	100.0	0.8
Machinery and equipment	7,013,600	3.0	37.4	1.1
General machinery	2,138,875	3.2	11.4	0.4
Mining and construction machines	97,077	-4.4	0.5	-0.0
Machine tools	38,896	8.0	0.2	0.0
Semiconductor manufacturing equipment	46,920	11.0	0.3	0.0
Electrical equipment	2,366,070	3.1	12.6	0.4
IT equipment	516,476	5.6	2.8	0.1
Mobile phones	243,269	7.8	1.3	0.1
Electronic parts such as semiconductors	620,032	1.8	3.3	0.1
Transport equipment	1,880,593	3.0	10.0	0.3
Automobiles	847,305	4.0	4.5	0.2
Passenger vehicles	695,825	4.5	3.7	0.2
Automobile parts	414,698	2.6	2.2	0.1
Precision equipment	628,061	2.0	3.4	0.1
Chemicals	2,426,878	2.0	12.9	0.3
Pharmaceuticals & medical supplies	519,169	6.8	2.8	0.2
Food	1,287,257	3.1	6.9	0.2
Other raw materials and products	6,562,150	-2.8	35.0	-1.0
Iron ore	119,317	-16.0	0.6	-0.1
Precious metals	225,916	-31.4	1.2	-0.6
Mineral fuels, etc.	2,915,327	-5.7	15.6	-0.9
Mineral fuels	2,745,756	-5.6	14.6	-0.9
Coal	100,408	-13.1	0.5	-0.1
LNG	154,172	2.4	0.8	0.0
Crude oil	1,372,866	-6.8	7.3	-0.5
Textiles and textile products	818,092	3.9	4.4	0.2
Base metals and base metal products	1,253,440	3.2	6.7	0.2
Steel	719,418	3.9	3.8	0.1
IT related products (Total)	2,526,206	3.1	13.5	0.4
Parts	1,208,244	2.4	6.4	0.2
Final products	1,317,962	3.6	7.0	0.2
Materials	2,313,445	-6.3	12.3	-0.8
Intermediate goods	8,574,181	0.3	45.7	0.1
Processed goods	5,598,253	-0.8	29.9	-0.2
Parts	2,975,929	2.4	15.9	0.4
Final goods	6,939,607	3.9	37.0	1.4
Capital goods	2,905,650	2.0	15.5	0.3
Consumer goods	4,033,957	5.3	21.5	1.1

Notes: Total value for 2014 and total growth rate follow JETRO estimates.
Sources: Statistics from individual countries/regions.

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Exports of IT related products solid

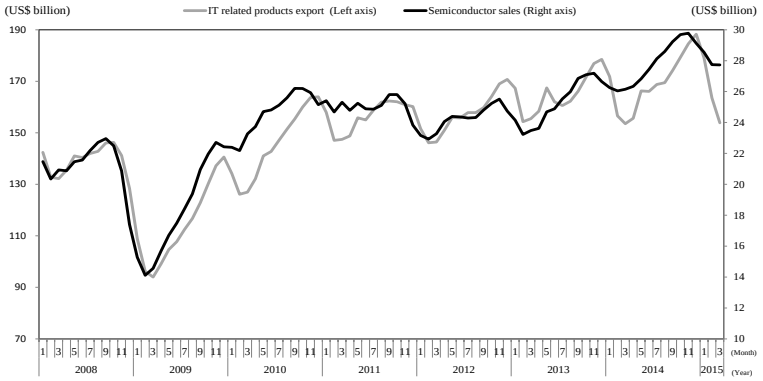
■ **The recovery of the silicon cycle has led to strong trade in IT related products**

The export value of IT related products in 2014 increased by 3.1% from the previous year to $2.5262 trillion. According to World Semiconductor Trade Statistics, with the silicon cycle picking up, semiconductor sales in 2014 increased by 9.9% from the previous year to $335.8 billion. Along with the growth in the sales of semiconductors due to recovery in the silicon cycle, exports of IT related products also increased.

■ **Exports of IT related products such as mobile phones was expanded in the first quarter of 2015**

For the key 22 countries/regions where data till the first quarter of 2015 was available, the export value declined by 6.8% from the same period of the previous year to $2.6943 trillion (import value fell 12.2% to $2.6691 trillion). Due to the slowdown in emerging economies and downward trend in natural resource prices, dollar appreciation and other factors, the export value of many products declined. On the other hand, the export value of mobile phones (a increase of 9.5%) and electronic parts such as semiconductors (a increase of 3.1%) continuously expanded.

Figure I-12: Changes in semiconductor sales and IT related products export



Notes: 1) Moving average of the latter 3 months is calculated. 2) The IT related products export is the total of 22 countries/regions where data is available from November 2007 till March 2015. The data on semiconductor sales is the total of he United States, Europe, Japan, and Asia Pacific.
Sources: World Semiconductor Trade Statistics, Statistics from individual countries/regions

Figure I-13: Changes in world trade by quarter of 22 key countries/regions (by key product)

(Million USD, %)

	Share of 22 countries/regions in 2014	2014 I	2014 II	2014 III	2014 IV	2015 I
Total	64.7	2,889,425 (0.7)	3,059,597 (2.4)	3,103,927 (3.9)	3,084,120 (- 0.6)	2,694,299 (- 6.8)
General machinery	75.2	382,533 (2.8)	405,882 (4.1)	404,007 (4.9)	415,640 (1.5)	363,052 (- 5.1)
Electrical equipment	81.9	434,865 (- 1.0)	475,983 (2.3)	499,830 (4.5)	527,835 (5.4)	441,758 (1.6)
Mobile phones	75.9	38,356 (8.7)	39,690 (2.3)	43,156 (6.0)	63,546 (27.4)	42,010 (9.5)
Electronic parts such as semiconductors	94.0	130,929 (- 6.3)	146,519 (2.7)	154,340 (6.4)	150,947 (4.1)	135,025 (3.1)
Transport equipment	77.5	345,803 (2.8)	374,705 (4.4)	360,656 (5.3)	375,970 (0.2)	345,086 (- 0.2)
Precision equipment	80.3	119,166 (- 0.6)	127,480 (3.2)	128,441 (4.1)	129,553 (- 0.6)	115,719 (- 2.9)
Chemicals	64.9	389,095 (2.1)	402,318 (3.5)	402,230 (4.8)	380,974 (- 1.3)	361,363 (- 7.1)
Food	54.8	166,819 (2.2)	180,553 (7.3)	178,831 (3.9)	179,214 (- 0.9)	155,785 (- 6.6)
Steel	66.2	112,808 (0.8)	122,298 (6.6)	122,009 (10.9)	119,166 (6.2)	107,802 (- 4.4)
Iron ore (imports)	93.2	39,244 (17.0)	36,284 (- 1.5)	31,640 (- 14.0)	27,242 (- 30.0)	22,966 (- 41.5)
Mineral fuels (imports)	76.4	549,575 (- 0.3)	521,812 (- 1.9)	520,760 (- 3.3)	448,811 (- 16.8)	322,597 (- 41.3)
LNG (imports)	93.5	43,206 (8.8)	38,172 (2.8)	37,913 (4.6)	38,576 (1.5)	34,903 (- 19.2)
Crude oil (imports)	79.6	314,309 (- 1.2)	296,351 (- 2.2)	305,717 (- 3.5)	251,163 (- 18.9)	161,216 (- 48.7)

Notes: 1) The above figures are based on the data available at the end of June 2015. 2) The key 22 countries/regions are Japan, Germany, China, United States, France, United Kingdom, South Korea, Canada, Hong Kong, Singapore, Russia, Taiwan, Australia, India, Switzerland, Brazil, Malaysia, Thailand, Philippines, Mexico, Argentina and Republic of South Africa. 3) Figures inside ( ) show the growth rates compared to the same period of the previous year. 4) Iron ore, mineral fuels, LNG and crude oil are import basis and others are export basis. 5) The world export value that forms the basis for calculating the share, is the total of approximately 180 countries and also includes the estimates of those countries whose customs statistics were not obtained. The world import value is the total of 53 countries whose statistics could be obtained.

Sources: Statistics from individual countries/regions

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Japan's trade deficit shrinking since middle of 2014

Gradual increase in export volume

Japan's export volume growth rate reversed to a slight increase of 0.6% for the first time in four years. The export value declined by 3.5% from the previous year to $694.3 billion, and imports declined by 2.6% to $817.1 billion (on a yen basis, exports increased by 4.8% to ¥73.0930 trillion, and imports increased by 5.7% to ¥85.9091 trillion). The trade balance marked a deficit (of $122.8 billion) for the fourth consecutive year, but the deficit has been shrinking since the middle of 2014. In March 2015, Japan posted a surplus for the first time in 33 months, and from April onwards, although Japan was again in the red, the deficit was small. The trade deficit in the first half of 2015 was $14.6 billion, a great reduction from the same period of the previous year (a $74.0 billion deficit).

Figure I-14: Japan's trade (2010 － June 2015)

(Unit: Million USD, 100 million yen, %)

		2010	2011	2012	2013	2014	2015						
							Jan-Jun	Jan	Feb	Mar	Apr	May	Jun
Dollar-based	Total exports	767,025	820,793	801,335	719,205	694,270	315,126	51,573	50,270	57,767	54,635	48,036	52,844
	(growth rate)	32.1	7.0	−2.4	−10.3	−3.5	−7.7	2.7	−10.9	−7.4	−7.8	−12.5	−9.3
	Total imports	691,447	853,070	888,584	838,889	817,103	329,757	61,339	53,964	55,947	55,125	49,894	53,486
	(growth rate)	25.2	23.4	4.2	−5.6	−2.6	−20.6	−20.3	−16.0	−26.9	−18.1	−21.9	−19.5
	Trade balance	75,578	−32,277	−87,250	−119,684	−122,832	−14,630	−9,766	−3,694	1,820	−490	−1,858	−642
	(year-to-year difference)	47,043	−107,854	−54,973	−32,435	−3,148	59,394	17,002	4,143	16,001	7,596	7,103	7,549
Yen-based	Total exports	67,400	65,546	637,476	697,742	730,930	378,079	61,434	59,414	69,268	65,502	57,403	65,057
	(growth rate)	24.4	−2.7	−2.7	9.5	4.8	7.9	17.0	2.5	8.5	8.0	2.4	9.5
	Total imports	60,765	68,111	706,886	812,425	859,091	395,378	73,172	63,699	67,042	66,095	59,609	65,762
	(growth rate)	18.0	12.1	3.8	14.9	5.7	−7.4	−9.1	−3.6	−14.4	−4.1	−8.6	−2.9
	Trade balance	6,635	−2,565	−69,411	−114,684	−128,161	−17,299	−11,738	−4,285	2,227	−593	−2,206	−705
	(year-to-year difference)	3,963	−9,199	−43,763	−45,273	−13,477	58,983	16,213	3,777	16,728	7,663	6,967	7,636
Export volume index		100.0	96.2	91.6	90.2	90.7	89.9	86.3	85.7	98.9	94.6	82.8	91.1
(growth rate)		24.2	−3.8	−4.8	−1.5	0.6	1.6	11.1	−2.1	3.2	1.8	−3.8	0.0
Import volume index		100.0	102.6	105.0	105.3	106.0	101.9	109.0	99.8	102.9	103.6	94.9	101.1
(growth rate)		13.9	2.6	2.4	0.3	0.6	−3.4	−6.3	4.5	−10.3	0.1	−5.3	−1.4
Crude oil import price		79.2	108.7	114.8	110.5	105.1	57.9	63.4	49.5	54.8	56.2	59.4	64.0
(dollar/barrel, growth rate)		30.5	37.3	5.6	−3.7	−4.9	−47.7	−44.2	−55.4	−50.3	−48.7	−45.6	−41.8
LNG import price		10.6	14.4	16.3	15.7	15.9	11.2	14.7	13.1	12.0	10.0	8.7	8.5
(dollar/million BTU, growth rate)		20.7	35.1	13.4	−3.5	1.0	−31.1	−9.5	−19.8	−26.0	−39.4	−46.1	−46.5
Exchange rate (yen/dollar)		87.8	79.8	79.8	97.6	105.8	120.2	118.2	118.6	120.4	119.6	120.7	123.8
(yen appreciation, %)		6.6	10.0	0.0	−18.3	−7.8	−14.8	−12.1	−13.9	−15.1	−14.2	−15.7	−17.5

Note: 1) Yen-based values were converted to dollar-based values by JETRO. 2) Volume index is 2010 basis. 3) Exchange rate is interbank average rate.
4) Growth rate is year-to-year comparison. 5) Figures of imports in June are nine-digit provisional.
Source: "Trade Statistics" (Ministry of Finance), "Foreign Exchange Rate" (Bank of Japan)

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Reduction in current account surplus, and large drop in service balance deficit

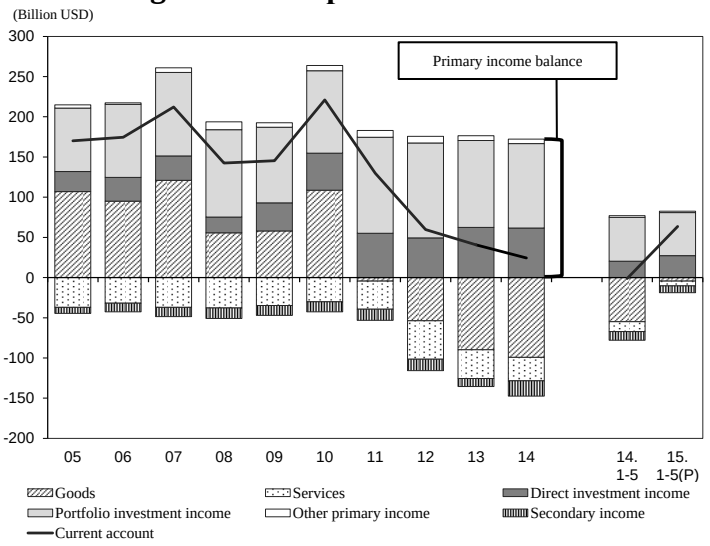
■ Increase in surplus of intellectual property right royalties, and large reduction in travel service deficit

In 2014, Japan's current account showed a surplus of $24.4 billion, a reduction from 2013 ($40.7 billion). The main reason for the reduction in surplus was the deficit in the trade balance. The primary income balance that includes direct investment and portfolio investment income was $172.1 billion. With this, the surplus was maintained and the current account surplus was propped up. Within this, the balance on direct investment income was $61.6 billion. The service balance has been constantly in deficit; it was $29.2 billion in 2014, a reduction from 2013 ($35.7 billion deficit). Intellectual property right royalties (including royalties between subsidiaries and parent companies) showed a growth in surplus (2013: $13.7 billion → 2014: $15.9 billion), and travel services saw a large reduction in deficit ($6.8 billion deficit → $500 million deficit), due to the increase in credit from Asia.

■ Profits from overseas operations increasing further

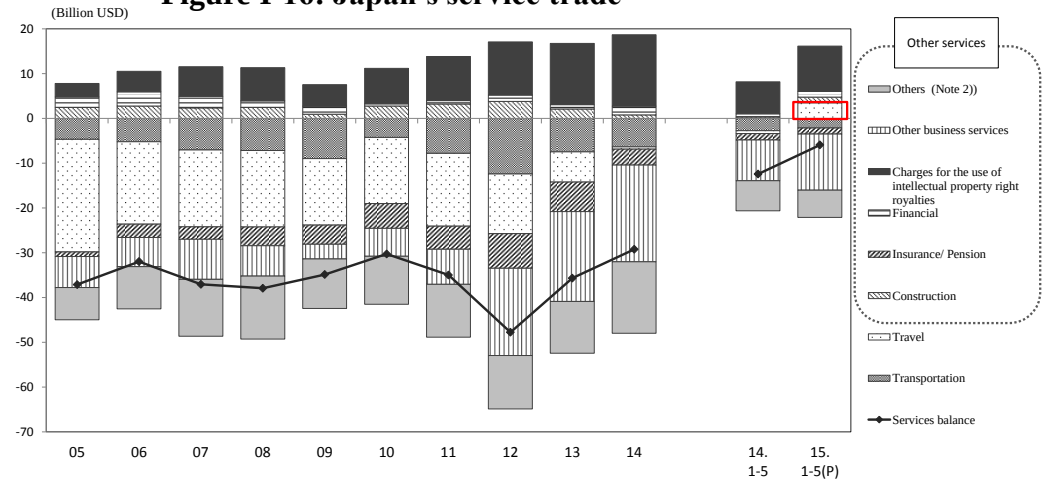
Profits from overseas operations of Japanese firms, assumed to consist of credit on direct investment income and credit on intellectual property rights, have been increasing recently, reaching nearly 20% of total export value.

Figure I-15: Japan's current account



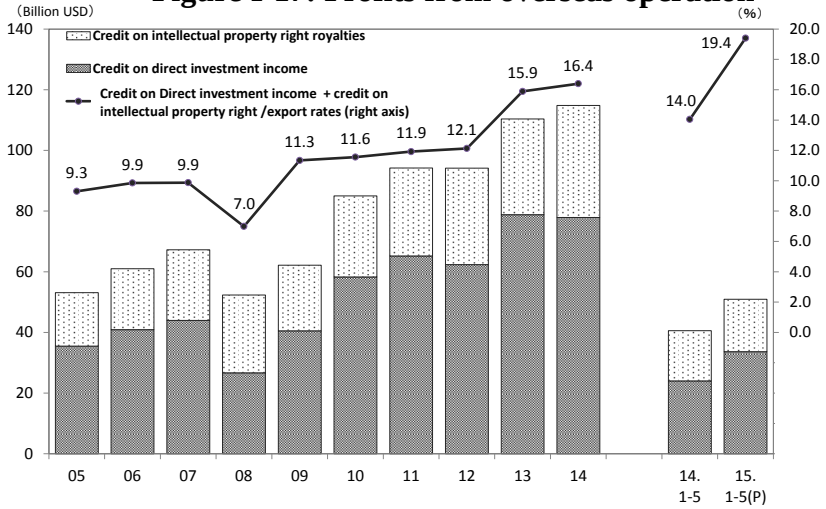
Sources: "Balance of Payments" (Bank of Japan, Ministry of Finance, "Foreign Exchange Rates" [Bank of Japan])

Figure I-16: Japan's service trade



Notes: 1) Yen-based values are converted to dollar-based values by JETRO. 2) "Other" includes manufacturing services on physical inputs owned by others, maintenance and repairs, communications, computers and information, personal, cultural and recreational, and government services.
Sources: "Balance of Payments" (Bank of Japan, Ministry of Finance), "Foreign Exchange Rates" (Bank of Japan)

Figure I-17: Profits from overseas operation



Note: Charges for the use of intellectual property consists of patent royalties (including royalty trades between parent companies and subsidiaries), franchise costs, usage fees of software, music and video, and so on. In Japan the returns are said to be mainly from trading between parent companies and their subsidiaries. Source: "Balance of Payments" (MOF, BOJ)

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Trade deficit in mineral fuels shrunk

US emerges as largest export partner country for second consecutive year

The exports by country in 2014 indicate that the US has been the largest export partner country for the past two years with $129.4 billion. In the first half of 2015, while exports stagnated to main partners such as China and the EU, exports to the US remained unchanged. On the other hand, China, which lost its position to the US as the largest export partner country in 2013, witnessed a decline of 2.1% from the previous year to $127.1 billion, and this decline is continuing further in 2015.

Trade deficit shrunk due to narrowing of deficit in mineral fuels

Trade balances by product indicate that with the fall in the price of crude oil, the deficit in mineral fuels shrunk (2013: $265.3 billion deficit → 2014: $246.9 billion deficit). In the first half of 2015, this trend strengthened, and the deficit in mineral fuels reduced by approximately 40% from the previous year (2014 first half: $131.3 billion deficit → 2015 first half: $75.0 billion deficit).

Figure I-18: Japan's exports & imports by country/region

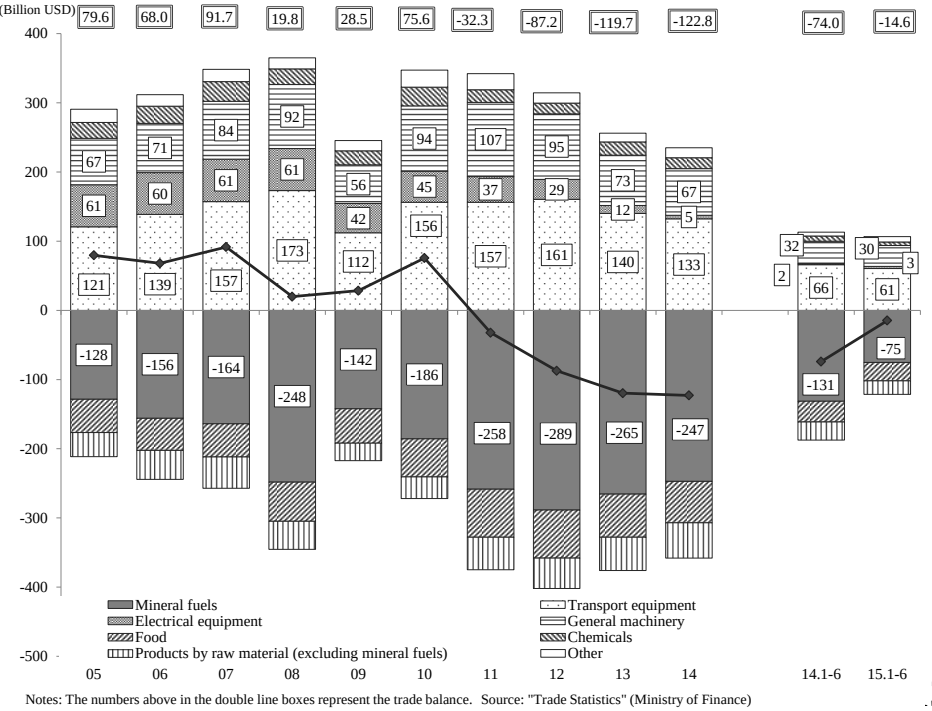
(Million USD, %)

	2012	2013	2014	YoY change	2015 Jan-Jun	YoY change
Total exports	801,335	719,205	694,270	-3.5	315,126	-7.7
United States	140,624	133,199	129,441	-2.8	62,816	-0.2
EU	81,742	72,173	72,082	-0.1	32,421	-10.1
China	144,686	129,851	127,105	-2.1	53,928	-12.6
ASEAN	129,788	111,671	105,241	-5.8	48,907	-5.1
Total imports	888,584	838,889	817,103	-2.6	329,757	-20.6
United States	76,460	70,322	71,751	2.0	34,408	-4.0
EU	83,520	78,995	77,749	-1.6	33,723	-14.9
China	189,019	182,192	182,071	-0.1	78,692	-12.7
ASEAN	129,603	118,644	116,499	-1.8	50,601	-15.0

Notes: 1) Yen-based values are converted to dollar-based values by JETRO.
2) From the EU in 2012, there were 27 countries, and since 2013 there are 28 countries.

Source: "Trade Statistics" (Ministry of Finance)

Figure I-19: Trade balance by product



Notes: The numbers above in the double line boxes represent the trade balance. Source: "Trade Statistics" (Ministry of Finance)

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General machinery contributed to increase in export volume

Improvement in general machinery and chemical products

The export volume in 2014 showed an upward movement in general machinery (an increase of 2.9% from the previous year) and chemicals (an increase of 2.7%), however, the pace was sluggish for transport equipment (a decline of 1.9%) and electric equipment (a decline of 0.3%), and there was only a moderate increase in the overall export volume. The upward movement of general machinery and chemicals continued in the first half of 2015, but transport equipment and electric equipment were stagnant. There was a decrease in the import volume of mineral fuels (a decline of 3.0%) and food (a decline of 1.9%), and at the start of 2015, general machinery and electric equipment also declined.

Companies focus on profitability

The correlation between the export price index (contract currency basis) and exchange fluctuations indicates that industries such as transportation machinery and general machinery see smaller changes in export prices than in exchange fluctuations. This shows that companies focus on profitability during a period of weaker yen.

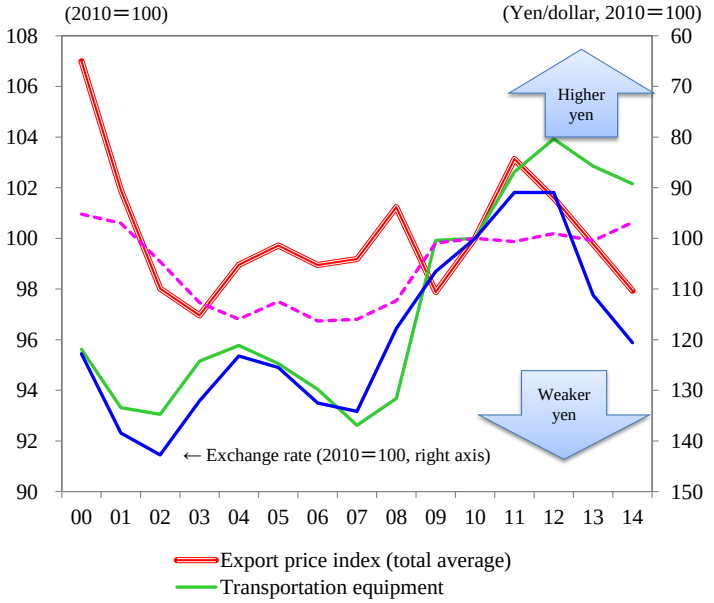
Figure I-20: Changes in volume index by product (year-on year changes)

(%)

		2012	2013	2014	2015 Jan-Jun	Jan	Feb	Mar	Apr	May	Jun
Exports	Total exports	-4.8	-1.5	0.6	1.6	11.1	-2.1	3.2	1.8	-3.8	0.0
	Transport equipment	3.5	-2.1	-1.9	-0.6	9.4	-2.8	2.7	-2.9	-7.3	-2.5
	Electrical equipment	-7.2	-5.5	-0.3	-0.4	8.1	-2.9	-0.2	-0.6	-5.9	0.0
	Chemicals	-4.7	4.3	2.7	2.4	9.7	-7.1	5.2	5.3	0.5	1.1
	General machinery	-9.8	-4.5	2.9	0.4	10.9	-5.6	4.6	-1.4	-3.7	-1.1
	Steel	0.6	-0.8	0.0	-2.9	1.2	-2.7	-3.1	2.9	-6.1	-9.1
Imports	Total imports	2.4	0.3	0.6	-3.4	-6.3	4.5	-10.3	0.1	-5.3	-1.4
	Mineral fuels	5.4	-0.7	-3.0	-2.5	-1.8	-2.9	-8.3	6.7	0.1	-7.0
	Food	0.7	-2.4	-1.9	-0.9	-6.8	5.7	-2.0	4.0	-7.6	2.7
	Electrical equipment	-2.7	0.2	4.6	-3.2	-7.4	8.2	-9.2	-2.3	-3.5	-2.5
	General machinery	0.8	4.0	5.5	-12.4	-15.1	1.4	-24.2	-11.4	-15.1	-6.4
	Chemicals	0.4	3.4	4.2	-1.0	-0.7	10.0	-1.4	-2.7	-8.7	-0.3

Sources: "Trade Statistics" (Ministry of Finance)

Figure I-21: Export price index (contract currency basis) and exchange rate



Note: General machinery consists of general-purpose, production & business oriented machinery.
Source: "Corporate Goods Price Index", "Foreign Exchange Rate" (BOJ)

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Increase in export volume of semiconductor manufacturing related products

In 2014, almost half of products saw increased export volume

The exports by product indicate that in 2014, the export volume of almost half of the products had increased. The total amount of the exports of the products that saw an increased export volume was equal to about 50% of the total export value. In the export value, the largest amount is from general machinery, and comprised 20% of the total amount of the exports of the products that saw increased export volume. What is distinctive is that among the main products in general machinery that witnessed an increase in export volume, products related to semiconductor manufacturing such as semiconductor devices and integrated circuit manufacturing equipment occupy the top ranks, and the volume figures also indicate the strength of the semiconductor market. Also, products such as machine tools like machining centers and production equipment like industrial robots saw increased activity in keeping with the expansion of production capacity. Among the partner countries, besides the US (e.g., construction/mining machines, machine tools), China (e.g., manufacturing equipment for semiconductors, vehicle engine), the boom in exports to Vietnam which is an emerging economy in Asia is noteworthy.

Figure I-22: Products with increased export volume

(Million USD, %)

	2014			January to May, 2015		
	No. of items	Export value	Share	No. of items	Export value	Share
Total exports	4,614	694,270	–	4,490	262,282	–
Items with increased volume	2,376	350,778	100.0	2,366	144,368	100.0
General machinery	253	72,673	20.7	234	26,230	18.2
Electrical equipment	146	68,953	19.7	130	19,802	13.7
Transport equipment	73	56,141	16.0	74	26,414	18.3
Precision equipment	101	26,524	7.6	99	6,424	4.4
Chemicals	449	53,511	15.3	461	19,090	13.2
Steel	146	19,854	5.7	139	8,512	5.9

Notes: 1) HS6 digit-level. Items which have been exported during the relevant period, and whose export volume data is complete. 2) Share means the percentage of the total export of the items with increased volume. 3) The product categories are as follows: general equipment (HS84), eectrical equipment (HS85), transport equipment (HS86 to HS89), precision equipment (HS90 to HS91), chemicals (HS23 to HS40), steel (HS72 to HS73).

Sources: "Trade Statistics" (Ministry of Finance)

Figure I-23: Main products with increased export volume (general machinery)

2014

Product	Export volume		Volume increased by	Export partner with increasing volume (top 3)		
		Unit		First	Second	Third
Machines for manufacturing equipment of semiconductor devices, IC	7,143	units	914	China	Ireland	South Korea
Mechanical shovels (with 360 degree revolving superstructure)	124,126	units	10,911	United States	Netherlands	Vietnam
Other machinery	942,068	units	366	Saudi Arabia	South Korea	South Africa
Machining centers	52,562	units	32,752	Hong Kong	China	Vietnam
Parts & accessories of manufacturing equipment of semiconductor devices	15,563	tons	1,194	South Korea	Ireland	United States
Vehicular engines (over 1000 cc)	239	10,000 units	17	China	UAE	France
Parts for turbojets and turbo propellers	1,949	tons	7	United States	Hungary	Singapore
Ball bearings	87,389	10,000 units	10,199	Hong Kong	China	United States
Lathe (numeric control method)	13,359	units	551	Netherlands	Vietnam	Taiwan
Parts for water heaters, dryers, distillation devices and so on	67,272	tons	3,407	China	Germany	Italy
Outboard motors for marine engines	557,872	units	31,041	United States	China	Ecuador
Industrial robots	92,232	units	23,320	China	Hong Kong	Netherlands
Other machinery and parts	13,976	tons	743	United States	China	UK
Gas pumps, air compressors	189	10,000 units	3	Poland	UK	Czech Republic
Front-end shovel loaders	22,745	units	3,443	United States	Egypt	Vietnam

January to May, 2015

Product	Export volume		Volume increased by	Export partner with increasing volume (top 3)		
		Unit		First	Second	Third
Parts and accessories of printer	78,374	tons	1,836	Mexico	Singapore	UAE
Mechanical shovels (with 360 degree revolving superstructure)	55,076	units	3,427	Vietnam	United States	Netherlands
Machining centers	28,973	units	14,444	Vietnam	China	South Korea
Other machinery	514,640	units	119,773	Thailand	South Africa	United States
Parts & accessories of manufacturing equipment of semiconductor devices	7,070	tons	951	China	South Korea	Hong Kong
Parts of turbojets and turbo propellers	828	tons	38	Singapore	United States	Norway
Vehicular engines (over 1000 cc)	98	10,000 units	2	China	South Korea	Thailand
Lathe (numeric control method)	5,404	units	367	United States	Belgium	South Korea
Industrial robots	51,193	units	15,217	China	Luxembourg	South Korea
Other machinery and parts	6,143	tons	999	Indonesia	United States	China
Gas pumps, air compressors	80	10,000 units	1	United States	South Korea	Hong Kong
Parts of gas turbine	3,694	tons	811	Iraq	Uzbekistan	Canada
Transmission shafts and cranks	15,901	10,000 units	77	Thailand	Philippines	Mexico
Injection-moulding machines for rubber or plastic	5,348	units	232	Vietnam	United States	Luxembourg
Front-end shovel loaders	9,058	tons	395	Egypt	Canada	Philippines

Note: 1) Top 15 products with largest export volume, among those with a year-to-year increase. 2) The export volume increase is in comparison to the same period of the previous year. 3) Products with yellow background are those whose export increased both in 2014 and between January and June 2015.

Sources: "Trade Statistics" (Ministry of Finance)

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16.3% decrease in world FDI

Divestment from US affected world FDI

According to UNCTAD, in 2014 the global inward FDI (balance of payments basis, net, flow) declined by 16.3% from the previous year to $1.2283 trillion. FDI in advanced economies (39 countries/regions) declined by 28.4% ($498.8 billion), mainly because of the downturn in Europe and the US. The contribution ratio of the advanced economies reached minus 13.5%. There was a huge impact by the large scale divestment by the Vodafone from the US. On the other hand, FDI in emerging/developing economies declined by 5.3% to $729.5 billion. With the huge drop in the amount of FDI to the US, in 2014 China emerged as the largest recipient of FDI.

Figure I-24: FDI for major countries/regions (BOP basis, net flows)

(Million USD, %)

	Inward FDI				Outward FDI			
	Value	Percent change	Share	Contribution	Value	Percent change	Share	Contribution
United States	92,397	-60.0	7.5	-9.4	336,943	2.6	24.9	0.7
Canada	53,864	-23.7	4.4	-1.1	52,620	4.1	3.9	0.2
EU28	257,567	-22.7	21.0	-5.1	280,124	-1.8	20.7	-0.4
United Kingdom	72,241	51.5	5.9	1.7	-59,628	-	-	-
Netherlands	30,253	-5.6	2.5	-0.1	40,809	-28.3	3.0	-1.2
Spain	22,904	-45.1	1.9	-1.3	30,688	18.8	2.3	0.4
Finland	18,625	-	1.5	-	574	-	0.0	-
France	15,191	-64.6	1.2	-1.9	42,869	71.5	3.2	1.4
Switzerland	21,914	-	1.8	-	16,798	64.1	1.2	0.5
Australia	51,854	-4.4	4.2	-0.2	-351	-	-	-
Japan	2,090	-9.3	0.2	-0.0	113,629	-16.3	8.4	-1.7
East Asia	377,325	10.8	30.7	2.5	382,004	31.0	28.2	6.9
China	128,500	3.7	10.5	0.3	116,000	14.9	8.6	1.1
Hong Kong	103,254	39.0	8.4	2.0	142,700	76.7	10.5	4.7
South Korea	9,899	-22.5	0.8	-0.2	30,558	7.8	2.3	0.2
Taiwan	2,839	-21.1	0.2	-0.1	12,697	-11.1	0.9	-0.1
ASEAN	132,833	5.4	10.8	0.5	80,048	19.2	5.9	1.0
Singapore	67,523	4.2	5.5	0.2	40,660	41.1	3.0	0.9
Indonesia	22,580	20.0	1.8	0.3	7,077	6.5	0.5	0.0
Thailand	12,566	-10.3	1.0	-0.1	7,692	-36.5	0.6	-0.3
Malaysia	10,799	-10.9	0.9	-0.1	16,445	16.6	1.2	0.2
Vietnam	9,200	3.4	0.7	0.0	1,150	-41.2	0.1	-0.1
India	34,417	22.0	2.8	0.4	9,848	486.7	0.7	0.6
Latin America	159,405	-14.4	13.0	-1.8	23,326	-18.1	1.7	-0.4
Brazil	62,495	-2.3	5.1	-0.1	-3,540	-	-	-
Chile	22,949	38.4	1.9	0.4	12,999	70.6	1.0	0.4
Mexico	22,795	-48.9	1.9	-1.5	5,201	-60.4	0.4	-0.6
CIS	42,137	-55.1	3.4	-3.5	62,440	-31.4	4.6	-2.2
Russia	20,958	-69.7	1.7	-3.3	56,438	-34.8	4.2	-2.3
Middle East	43,046	-3.7	3.5	-0.1	38,326	-6.0	2.8	-0.2
Turkey	12,146	-1.7	1.0	-0.0	6,658	88.8	0.5	0.2
The United Arab Emirates	10,066	-4.0	0.8	-0.0	3,072	4.1	0.2	0.0
Africa	53,912	-0.1	4.4	-0.0	13,073	-18.0	1.0	-0.2
South Africa	5,712	-31.2	0.5	-0.2	6,938	4.3	0.5	0.0
Developed economies (39 countries/regions)	498,762	-28.4	40.6	-13.5	822,826	-1.3	60.8	-0.8
Emerging and developing economies	729,501	-5.3	59.4	-2.8	531,220	12.5	39.2	4.5
World	1,228,263	-16.3	100.0	-16.3	1,354,046	3.7	100.0	3.7

Notes: 1) The definition of developed 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 developed economies from the total.
2) Figures for East Asia are the total for China, South Korea, Taiwan, Hong Kong, and ASEAN.
3) Due to the difference in FDI data compilation, the figures for Japan (directional principle) in the table do not correspond to "Japan's FDI" (assets and liabilities principles).
4) "-" denotes figures that could not be calculated.

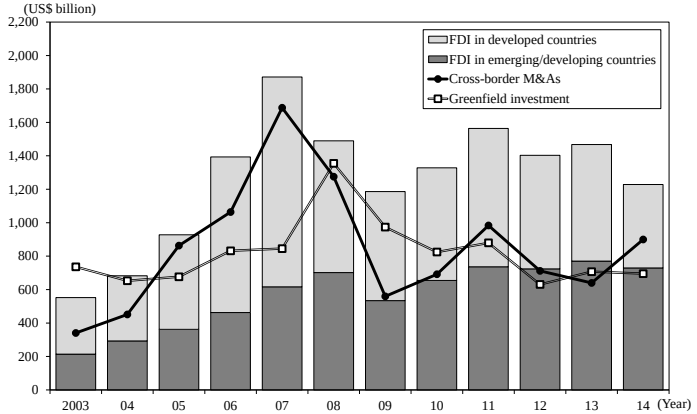
Figure I-25: Top 10 countries/regions for FDI (2014)

(Million USD)

	Inward FDI		Outward FDI	
1	China	128,500	United States	336,943
2	Hong Kong	103,254	Hong Kong	142,700
3	United States	92,397	China	116,000
4	United Kingdom	72,241	Japan	113,629
5	Singapore	67,523	Germany	112,227
6	Brazil	62,495	Russia	56,438
7	Canada	53,864	Canada	52,620
8	Australia	51,854	France	42,869
9	India	34,417	Netherlands	40,809
10	Netherlands	30,253	Singapore	40,660

Sources: UNCTAD

Figure I-26: Trends in global inward FDI



Note: FDI is inward basis.
Source: Data from the UNCTAD and Thomson Reuters.

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Changes in share by industries with global greenfield investment

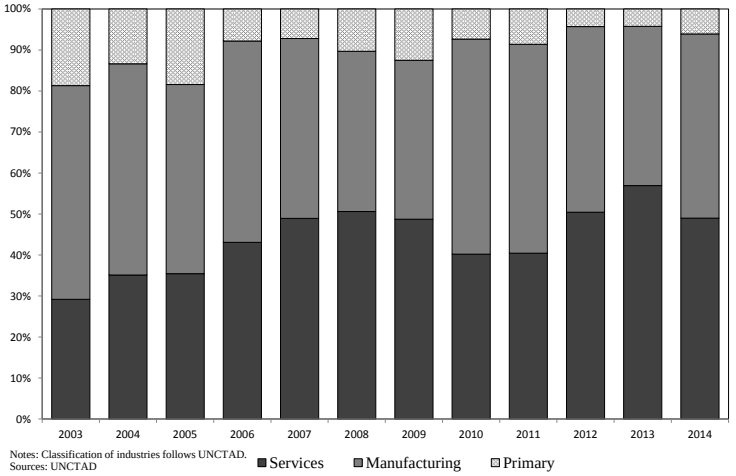
Continuous expansion in the share of service industries

The trends by industries with greenfield investment indicate that the share of service industries continues to increase, and in 2013 it reached a peak of 56.9%. In 2014, the real estate sector increased by 75.6% from the previous year to $81.7 billion, and among all industries it emerged as the largest investment sector. There were large scale investments by Indian and Chinese companies.

Changes in investment destinations by transport equipment industry

In the manufacturing industry, automobiles surged by 70.2% from the previous year ($51.1 billion). As investment destinations of transport equipment, the increase in the share of the US and Mexico in recent years is notable. During the period 2012 to 2014, there were large scale investments made in the US by German, Italian, Japanese and South Korean automobile manufactures. Also during the same period, investments were made in Mexico by American, German, South Korean, Italian and Japanese firms.

Figure I-27: Greenfield investment around world, share by industry



Notes: Classification of industries follows UNCTAD.
Sources: UNCTAD

Figure I-28: Greenfield investments by major industry (2014)

(Million USD)

Insudtry	Month	Investor	Country	Destination	Value
Real estate	July	Sobha (Sobha Developers)	India	UAE	4,000
	March	Shanghai Greenland Group	China	Malaysia	3,250
	December	Shanghai Greenland Group	China	South Korea	3,200
Coal, oil and natural gas	April	Total	France	Angola	16,000
	July	Mac Optic	Greece	Egypt	4,800
	March	China Gezhouba (CGGC)	China	Pakistan	3,500
Communications	November	Samsung	South Korea	Vietnam	3,000
	February	Smile Telecoms Holding	Mauritius	Nigeria	1,148
	September	China Mobile Communications Corporation	China	Pakistan	1,000
Automotive OEM	May	Volkswagen	Germany	China	2,402
	March	Fiat Chrysler Automobiles (Fiat)	Italy	Canada	2,380
	April	Shahed International	Malaysia	Saudi Arabia	2,000
Alternative/renewable energy	May	SkyPower	Canada	Nigeria	5,000
	June	Shanghai Electric	China	Morocco	2,000
	February	Sempra Energy (Sempra Energy Resources)	United States	Mexico	2,000

Source: FDI Markets (Financial Times)

Figure I-29: World greenfield investment in transport equipment industry, share by destination (based on number of cases)

(%)

	2003-05	2006-08	2009-11	2012-14
United States	12.0	9.6	14.9	18.8
China	16.6	13.4	14.2	13.0
Mexico	2.3	4.2	5.1	10.7
India	3.7	10.5	9.0	5.6
United Kingdom	2.7	2.2	3.5	4.2
Brazil	2.4	1.7	4.4	3.4
Germany	2.7	2.1	4.1	3.2
Russia	3.7	4.9	3.9	3.2
Thailand	3.1	3.1	4.1	3.1
Czech Republic	4.1	3.1	2.0	2.8
Indonesia	1.3	1.0	1.8	2.2

Notes: 1) Classification of industries follows UNCTAD
2) Total of automotive OEM and automotive components.
Source: FDI Markets (Financial Times)

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Japan's outward FDI remains at high level

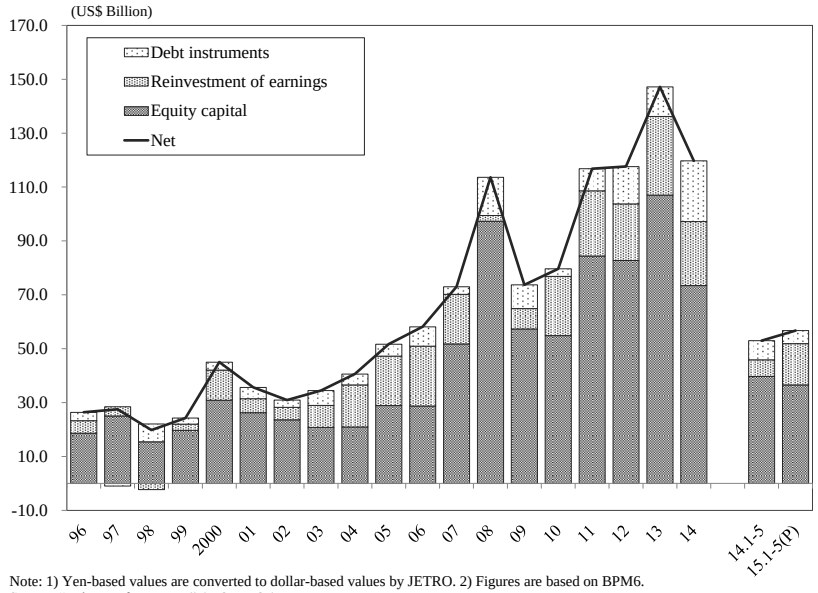
Outward FDI remained at more than $100 billion since 2011

Japan's outward FDI in 2014 declined by 18.6% from the previous year, to $119.7 billion. On a yen basis, Japan's outward FDI declined by 11.6% from the previous year to ¥12.7682 trillion. This is because there was a downturn in the equity capital (31.4% decrease) that makes up for 61.3% of Japan's outward FDI. In 2014, outward cross-border M&A deals (17.7% decrease) and greenfield investments (4.3% decrease) also declined. Although it did not reach the record high, $147.2 billion in 2013, Japan's outward FDI has surpassed $100 billion for four consecutive years. This indicates a positive disposition by Japanese firms toward exploring growing overseas markets.

Steady increase in outward FDI stock

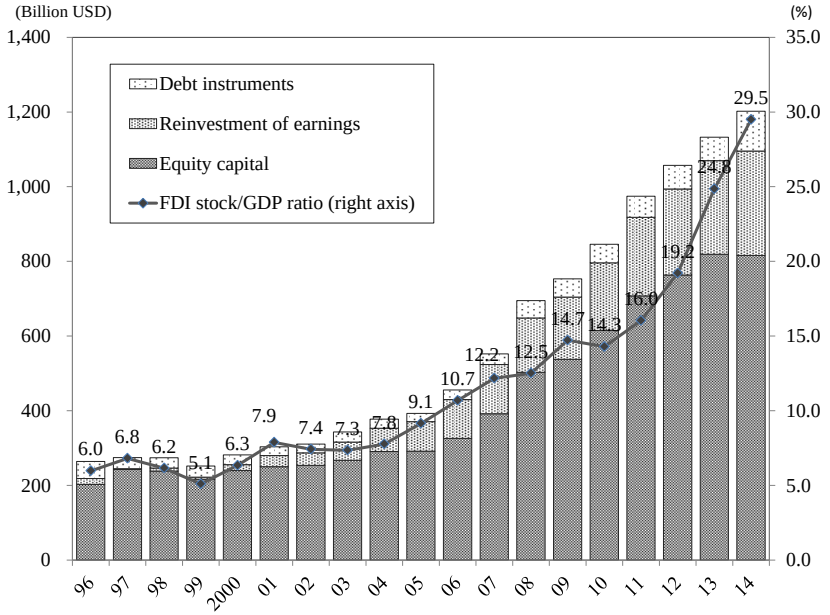
At the end of 2014, Japanese outward FDI stock increased by 6.1% from the previous year to $1.2015 trillion. Japan's FDI stock in the US, the EU, ASEAN and China was $383.6 billion, $274.3 billion, $159.4 billion and $104.4 billion respectively. Though the FDI stock in North America and Asia increased, the FDI stock in Europe tended to be flat. Long-term trends since 2000 indicate that there has been a remarkable increase in Asia's share. By industry, those such as the finance/insurance and wholesale/retail occupy a large share. In recent years, industries catering to domestic markets have been intensifying their activities for venturing into overseas markets, and it can be said that the activities of these industries are reflected in the outward FDI trend.

Figure I-30：Trends in Japan's outward FDI by type



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

Figure I-31: Trends in Japan's outward FDI stock



Note: 1) Figures are based on BPM6.
Sources: "International Investment Position of Japan" (Bank of Japan, Ministry of Finance), Cabinet Office Statistics

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US top investment destination for third consecutive year

Increase in US share to 35.2%

The US ($42.1 billion) continued to be Japan's top FDI destination for the third consecutive year. While Asia, Europe, and Latin America's shares dropped, the share of the US increased from 32.4% in 2013 to 35.2% in 2014. Particularly, large amounts were invested in food products ($14.9 billion), wholesale/retail sector ($7.1 billion) and finance/insurance sector ($4.6 billion). In food products, in the US there were large scale M&A activities by Japanese companies like Suntory Holdings (approximately $ 15.7 billion) and Mizkan Holdings (approximately $2.2 billion).

Rising gap between value of investment for ASEAN and China

In Asia, the difference in Japan's outward FDI value has widened threefold between ASEAN ($20.4 billion) and China ($6.7 billion). In 2013, the difference in the investment amount was 2.6 times, which further widened in 2014. China's share in Japanese outward FDI fell by half from 11.0% in 2012 to 5.6% in 2014.

Figure I-32: Japan's outward FDI by country/region (BOP basis, net flows)

(Million USD, %)

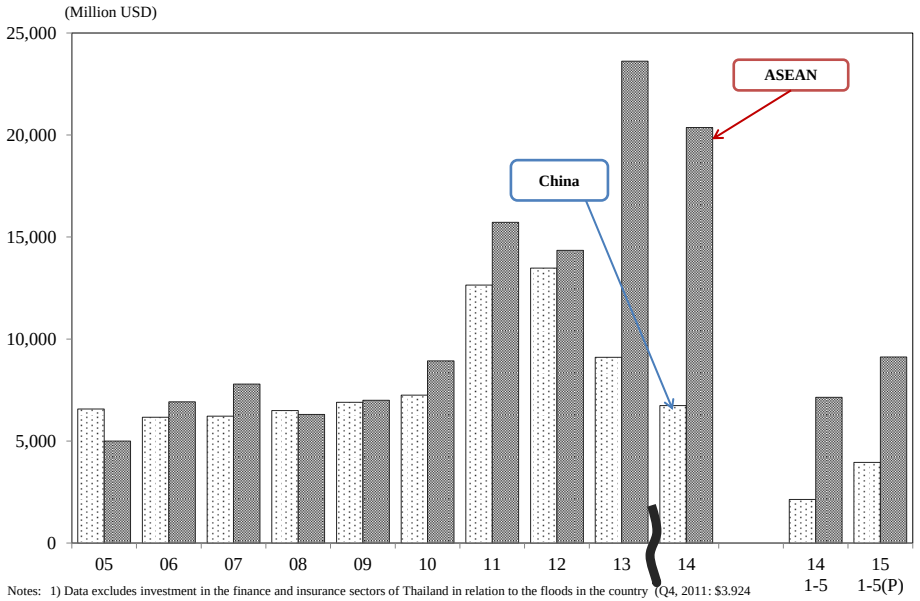
	2012	2013	2014	Share	January-May, 2015 (P)	Share	Percent change
Asia	33,477	40,470	35,391	29.6	13,160	23.2	10.8
China	13,479	9,104	6,742	5.6	3,959	7.0	84.9
ASEAN	10,675	23,619	20,368	17.0	9,120	16.1	27.7
Singapore	1,566	3,545	7,581	6.3	2,533	4.5	15.0
Thailand	547	10,174	5,175	4.3	1,682	3.0	-20.1
Indonesia	3,810	3,907	4,406	3.7	1,440	2.5	-24.9
Malaysia	1,308	1,265	972	0.8	2,132	3.8	11500.5
Philippines	731	1,242	478	0.4	408	0.7	245.4
Vietnam	2,570	3,266	1,347	1.1	660	1.2	-5.0
India	2,802	2,155	1,811	1.5	-2,971	-5.2	-
North America	35,768	46,505	43,854	36.6	18,058	31.8	-22.5
United States	31,974	43,703	42,113	35.2	17,685	31.2	-20.6
Latin America	10,454	10,197	7,095	5.9	5,489	9.7	108.7
Mexico	1,023	1,750	962	0.8	266	0.5	9.7
Brazil	4,113	4,037	3,317	2.8	1,791	3.2	8.0
Oceania	11,075	6,098	5,555	4.6	7,018	12.4	250.7
Australia	10,890	5,835	4,169	3.5	6,177	10.9	222.7
Europe	31,017	32,227	25,874	21.6	11,693	20.6	-7.2
EU	29,023	30,999	24,595	20.5	11,497	20.3	-3.2
World	122,355	135,049	119,726	100.0	56,734	100.0	7.1

Notes:

1) The yen-based value is converted to dollars by quarter, using the average quarterly Bank of Japan interbank figures.
2) Figures have been calculated based on the new standards set in the sixth edition of IMF Balance of Payments Manual since January 2014.
3) The figures for 2015 are provisional

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

Figure I-33: Japan's outward FDI - Comparison between ASEAN and China



Notes: 1) Data excludes investment in the finance and insurance sectors of Thailand in relation to the floods in the country (Q4, 2011: $3.924 billion, Q1, 2012: -$3.674 billion). Same as figure I-34.
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).

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Progressive shift in Japan's outward FDI to ASEAN

Growing trend of investing more in ASEAN than China

Due to the shift in Japan's outward FDI to ASEAN, since 2013, many industries have tended to invest a larger amount in ASEAN than in China. In 2014, the ratio of investment amount in ASEAN to China in the food and service industries increased. Among ASEAN countries, Singapore, Thailand and Indonesia received large investments.

Figure I-34: Trends in Japan's outward FDI by industry-Comparison between ASEAN and China

(Unit: %)

	2010	2011	2012	2013	2014	2015 Jan-Mar
Food	13.9	4.5	3.8	0.0	4.1	9.3
Chemicals and pharmaceuticals	0.4	0.2	1.4	1.9	2.0	1.3
Iron, non-ferrous, and metals	0.9	0.9	1.5	1.2	1.7	1.5
General machinery	0.2	0.9	0.4	0.5	0.7	0.3
Electric machinery	3.6	1.2	-	2.0	7.5	1.4
Transportation equipment	1.3	1.5	0.9	1.9	2.9	1.5
Wholesale and retail	0.9	0.6	0.8	1.3	1.5	0.8
Service	0.4	1.3	0.6	1.1	3.5	6.0
All industries	1.2	1.2	1.1	2.6	3.0	2.3(Jan-May)

1) Index = Japan's FDI value in ASEAN/Japan's FDI value in China. Figures greater than one indicate that the investment in ASEAN exceeds that in China. Shaded cells are greater than one.

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

3) All industries are cumulative total from January to May (P)

4) "-" indicates unreckonable due to net outflow

5) The table lists industries with large shares of Japan's outward FDI in 2014. Mining was excluded since no investment in China was recorded in 2014.

6) The service industry includes accommodation, restaurants, entertainment and other related sectors.

Source: "Balance of Payments" (MOF, BOJ)

Figure I-35: Examples of new investments in China and ASEAN by Japanese companies (2014)

Country	Month announced	Company	Value	Overview
China	January	Nippon Electric Glass Co., Ltd.	Registered capital: approximately ¥25 billion	Establishment of new bases for manufacturing plate glass used in slim panel display and new sales offices. Planned capital investment of approximately ¥70 billion for the first and second term.
	August	Nissan Motor Co., Ltd.	500 million Chinese yuan	Establishment of new design centers for the "Venucia" brand and advanced processing technology centers. First stage of construction expected to be completed in 2015.
	September	H2O Retailing Corporation	Total project cost of 3 billion Chinese yuan	Opening of the first overseas full-scale department store in the city of Ningbo. Store expected to open in 2018.
Singapore	May	Hitachi, Ltd.	Capital amount: 22.41 million Singapore dollars	Establishment of Hitachi Infrastructure Systems (Asia) Pte. Ltd in Singapore, and expansion of functions as the regional headquarters in South East Asia for infrastructure systems business.
	August	TOKYU HANDS INC.	-	Opening of the company's second direct-managed overseas store after Shanghai in China.
	November	Tokyo Gas Co., Ltd.	Capital amount: approximately ¥200 million	Establishment of the Tokyo Gas Asia Pte. Ltd., as the regional headquarters for business and investment activities in South East Asia.
Thailand	March	Mitsubishi Motors Corporation	-	As a part of strengthening R&D, setting up new test courses in the vicinity of production factories. These will be the first overseas test courses. Target for completion - March 2015.
	March	Isuzu Motors Ltd.	Capital amount: 100 million Thai bhat	Establishment of a wholly owned company for the development of trucks for emerging economies. The new company will develop commercial vehicles for emerging economies.
	November	Mazda Motor Corporation	-	Construction of a new engine factory, and commencing assembly from the fourth quarter of 2015. Initial annual production capacity of 30,000 units in the first year. This will be the company's fourth base, after Japan, China and Mexico.
Malaysia	May	Daihatsu Motor Co., Ltd	Approximately ¥15 billion	Construction of a new engine production factory. Annual production capacity of 14,000 units, and operations expected to commence mid-2016.
Indonesia	March	Sumitomo Mitsui Banking Corporation	-	40% ownership interest of PT Bank Tabungan Pensiunan Nasional tbk (BTPN) by acquiring additional outstanding common stock.
	May	Sumitomo Life Insurance Company	Total acquired amount: 4.2 trillion Indonesian rupiah	Acquisition of approximately 40% of the total number of shares outstanding of PT BNI Life Insurance, a subsidiary of a state-owned commercial bank in Indonesia
	October	Nippon Life Insurance Company	Investment amount: 4.87 trillion Indonesian rupiah	Acquisition of shares of local life insurance company - Sequis Life.
Philippines	March	Mitsubishi Motors Corporation	-	Acquisition of old factory site belonging to Ford (United States), and commencing production from January 2015.

Source: Press releases from respective companies

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Increase in Outward M&A deals targeting Asian companies

Booming outward cross-border M&As

Japan's outward cross-border M&As in 2014 declined by 17.7% from the previous year to $52.7 billion. Though reduced, they have continued to be active for four consecutive years, exceeding $50 billion. Regardless of the weakening of the yen, there has been no major change in proactive stance of Japanese companies for M&A. The main investment destinations are the US ($29 billion), Germany ($4.2 billion) and the United Kingdom ($2.1 billion). Since 2000, the US has consistently been the top investment destination, and its share in Japan's outward M&As in 2014 reached 55.1%. By industry, there was an increase in the transaction value in food products. This was in the background of major deals in that sector.

More than 100 deals in East Asia for five consecutive years

The number of outward cross-border M&A deals by Japanese companies increased from 424 in 2013 to 446 in 2014. In recent years, there has been a remarkable increase in M&A deals targeting Asia. The total number of deals in East Asia (China, South Korea, Taiwan, Hong Kong, ASEAN) rose to 156 in 2014, exceeding 100 in each of the past five years. There were many M&As in East Asia, targeting China (25), Singapore (21), Malaysia (18), Thailand (17), South Korea (15) and Taiwan (15).

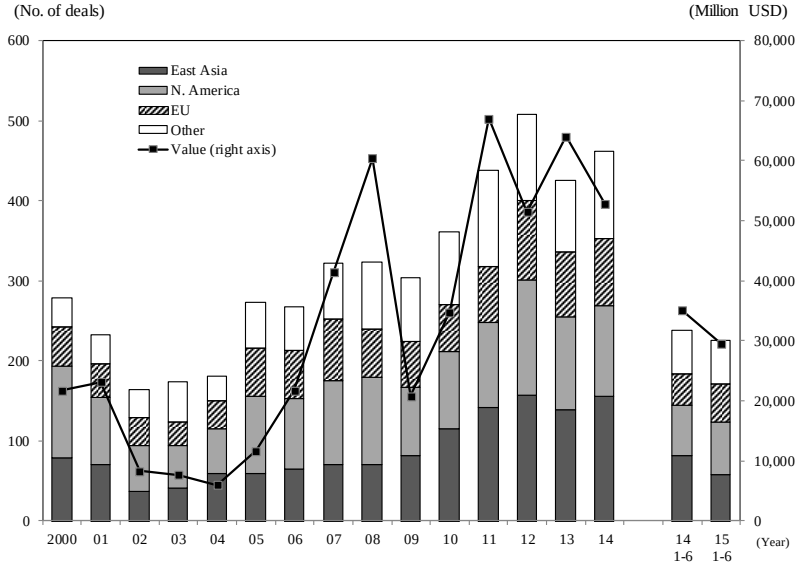
Figure I-36: Top deals for Japan's outward M&A (2014 to June 2015)

	Date of completion	Acquiring company	Industry	Acquired company	Country	Industry	Value (Million USD)	Ownership (%) after transaction
1	Apr-14	Suntory Holdings Ltd.	Beverage	Beam Inc	United States	Beverage	15,688	100.0
2	May-15	Japan Post	Transportation	Toll Holdings Ltd	Australia	Transportation	6,021	100.0
3	Feb-15	The Dai-ichi Life Insurance Co.	Insurance	Protective Life Corp	United States	Insurance	5,708	100.0
4	Jan-14	LIXIL Corporation, Development Bank of Japan	Housing equipment	Grohe AG	Germany	Housing equipment	3,960	87.5
5	Jan-15	Otsuka Pharmaceutical	Pharmaceuticals	Avanir Pharmaceuticals	USA	Pharmaceuticals	3,154	100.0
6	May-15	Canon Inc.	Precision equipment	Axis AB	Sweden	Precision equipment	2,373	84.0
7	Jul-14	Mizkan Holdings	Food products	Conopco Inc-N America Pasta	USA	Food products	2,150	100.0
8	Nov-14	Mitsubishi Corporation	Trading	Cermaq ASA	Norway	Food products (Salmon farming and processing)	1,727	100.0
9	Feb-14	Nippon Steel & Sumitomo Metal, and other companies	Metal and metal products	ThyssenKrupp USA	United States	Metal and metal products (steel)	1,550	100.0
10	Jun-15	Brother Industries, Ltd.	Office machines	Domino Printing Sciences	UK	General machinery	1,478	100.0

Notes: 1) Figures are as of July 2, 2015. 2) The deals are ranked for the transaction value each time.

Source: Thomson Reuters

Figure I-37: Changes in number of deals and value of Japan's outward M&A



Notes: (1) Figures for East Asia are the total for China, South Korea, Taiwan, Hong Kong, and ASEAN.
(2) EU is comprised of 28 member states.

Source: Thomson Reuters

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Japanese companies strengthen domestic production

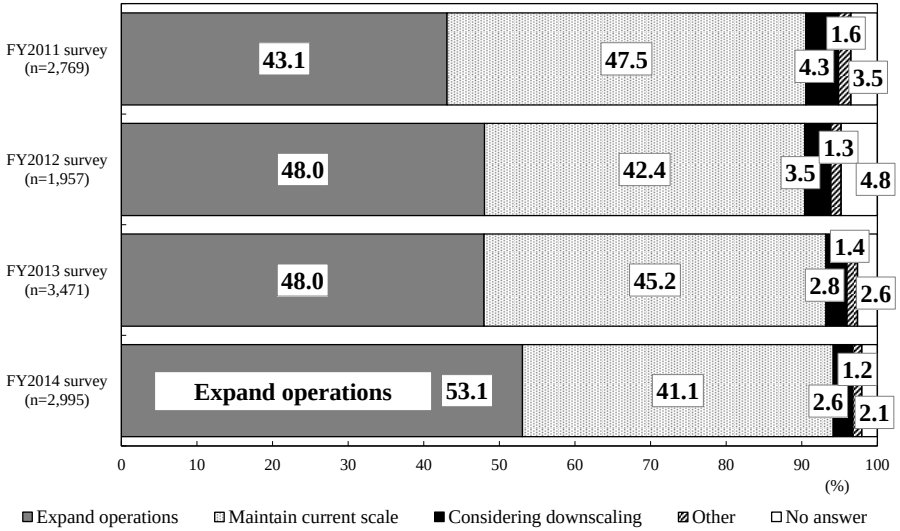
■ **More than 50% of Japanese companies keen to expand domestic business**

The weakening yen has encouraged a portion of Japanese firms to enhance their domestic production. According to the "Survey on Overseas Business Operations of Japanese Companies" (2,995 companies responded) conducted by JETRO from December 2014 to January 2015, when companies were questioned about their policies for developing domestic business in the future, 53.1% responded that they were planning to expand business, as responses for expansion of domestic business exceeded 50% for the first time since FY2011 (a comparable year).

■ **Signs of increase in the domestic production ratio of air conditioners**

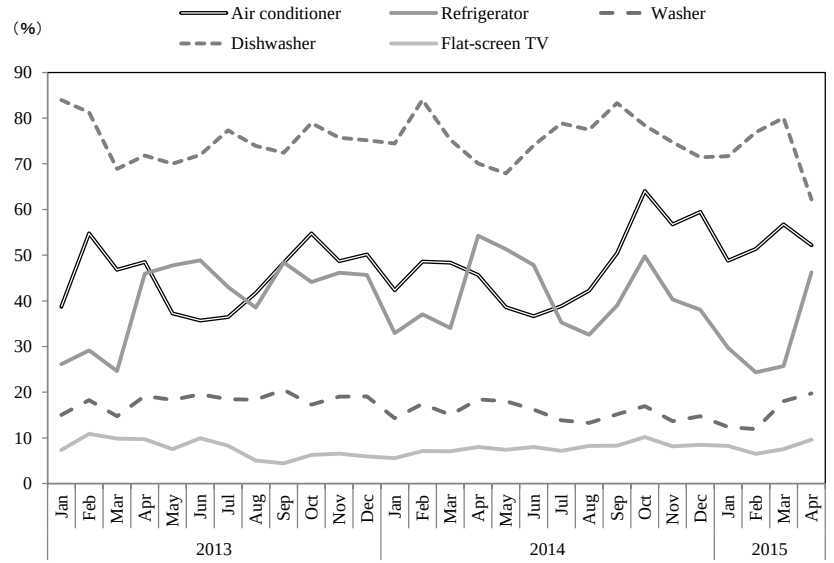
Trends in the domestic production ratio of general home appliances have shown an increase in that of air conditioners since September 2014. Manufacturing companies are having to deal with a weak yen and surging personnel costs in China, which is a major manufacturing base. In China, the base monthly salary on a yen basis for factory workers has almost doubled, from ¥24,698 in 2010 to ¥48,279 in 2014.

Figure I-38: Future domestic business expansion policy



Source: "FY2014 Survey on the International Operations of Japanese Firms" (JETRO)

Figure I-39: Trends in domestic production ratio of major home appliances



Note: Domestic production ratio = domestic production volume/domestic production volume + imported production volume × 100
Source: "Current Survey of Production" (METI), "Trade Statistics" (MOF)

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Trend in overseas sales of Japanese companies

■ **Percentage of overseas sales of Japanese companies approaching 60%**

According to the overseas sales figures tabulated on the basis of the financial statements and securities reports of Japanese companies (196 companies) when the fiscal term is from December 2014 to March 2015, the share of overseas sales of Japanese companies was 56.7%. The share is approaching 60%. The share from overseas sales was approximately 30% in FY2000, but from FY2010 it has significantly increased. In particular, the Americas have seen a remarkable gain, from 18.6% in FY2012 to 23.3% in FY2014, bolstered by the recovery of the US economy. From a long term perspective, the share of the Asia Pacific region has greatly increased. The share of this region in FY2014 was 18.6%, which has roughly tripled when compared to its share in FY2000.

■ **Largest percent of sales of transport equipment in Americas, and of other industries in Asia Pacific**

By industry, the share of the manufacturing sector in overseas sales in FY2014 was 57.5%, greatly exceeding the non-manufacturing sector. In the manufacturing sector, the share of transport equipment, at 60.5%, was particularly higher than other industries. By region, the share of the Americas, at 28.5%, was huge. The share of machinery/electrical products in overseas sales was 53.1% . The share of Europe (13.7%) was higher. The share of the non-manufacturing sector in overseas sales was lower than the manufacturing sector's, but has increased from 21.5% in 2000 to 38.4%.

Figure I-40: Japan firms' sales share by region

(Unit: %)

Fiscal year (number of companies)	Domestic	Overseas	Americas	Europe	Asia-Pacific	Others
2000 (547)	71.4	28.6	13.4	5.6	5.8	3.8
2001 (581)	68.5	31.5	14.7	6.1	6.3	4.4
2002 (592)	67.2	32.8	14.9	6.6	6.8	4.5
2003 (624)	66.5	33.5	14.1	7.0	7.7	4.8
2004 (669)	65.4	34.6	13.6	7.4	8.5	5.1
2005 (724)	64.9	35.1	13.8	6.9	9.5	4.9
2006 (751)	62.3	37.7	14.5	7.7	10.3	5.1
2007 (781)	60.8	39.2	14.2	9.1	10.7	5.2
2008 (817)	62.6	37.4	12.7	8.6	10.8	5.3
2009 (844)	63.3	36.7	12.4	7.5	11.3	5.4
2010 (320)	54.0	46.0	18.1	8.1	15.2	4.7
2011 (236)	53.1	46.9	17.7	8.9	15.0	5.3
2012 (221)	51.3	48.7	18.6	7.8	17.2	5.1
2013 (211)	45.6	54.4	21.5	9.2	18.2	5.5
2014 (196)	43.3	56.7	23.3	9.3	18.6	5.6

Figure I-41: Share of Japanese firms' sales by industry and region (2014)

(%)

Industry (number of companies)	Domestic	Overseas	Americas	Europe	Asia-Pacific	Other
Manufacturing (159)	42.5	57.5	23.8	9.5	18.7	5.5
Transport machinery (49)	39.5	60.5	28.5	8.3	17.3	6.3
Machinery & electric appliances (62)	46.9	53.1	14.2	13.7	20.9	4.3
Food products/ life style goods/ pharmaceuticals/ bio (17)	56.5	43.5	11.9	9.4	21.7	0.6
Materials (31)	56.7	43.3	8.6	6.3	25.4	3.0
Non-manufacturing (37)	61.6	38.4	9.9	3.5	17.4	7.7

Note: 1) Companies surveyed: The fiscal term is from December to March, and geographical segment information is released. 2) Figures for 2014 totaled companies with financial statements released by June 1, 2015. For companies, however, that have both their financial statements and securities reports publicized by the above day and have their information on the security reports in database "SPEEDA", sales data of the report was used. 3) Sales include transactions between internal segments. 4) Percentage = each regional sales/entire regional sales.
5) Surveyed companies include listed subsidiaries, which were double-counted.
6) Companies which combine multiple regional sales such as "Americas and Europe" and "Europe and Africa", were excluded.
7)The definition of the industries is based on SPEEDA.
Source: Data from SPEEDA

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Japan's inward FDI increases for three consecutive years. Asia gains importance.

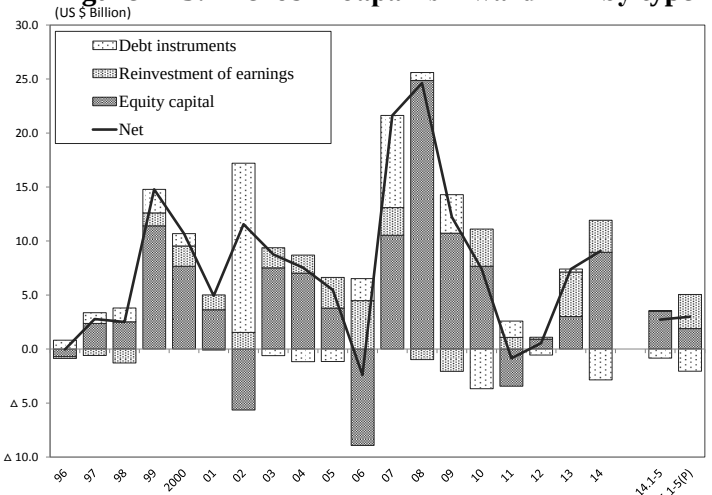
Increased Asian presence in investment

In 2014, Japan's inward FDI increased for the third consecutive year, by 22.5% from the year before, to $9.1 billion. Japan's inward FDI from Asia mainly came from Hong Kong, Singapore and Taiwan. Even among the investment partner countries of 2014, there was an increased Asian presence, with the Asian countries among the top, led by Hong Kong (second position).

Japan's inward FDI stock exceeds ¥20 trillion for first time

The inward FDI stock in Japan reached ¥23.3439 trillion at the end of 2014, exceeding ¥20 trillion for the first time. Asia's share of inward FDI stock increased from 14.4% at the end of 2013, to 15.5% at the end of 2014.

Figure I-43: Trends in Japan's inward FDI by type



Note: 1) Yen-based values are converted to dollar-based values by JETRO. 2) Figures are based on BPM6.
3) Cumulative total for 2015 is preliminary.
Source: "Balance of Payments" (MOF, BOJ)

Figure I-42: Japan's inward FDI by country

(Million USD, %)

	2012	2013	2014	2015 Jan-May(P)	YoY change
Asia	2,895	867	5,402	1,762	49.0
China	72	140	596	-326	-
Hong Kong	872	172	1,909	929	97.4
Taiwan	366	186	1,034	181	-31.2
South Korea	559	48	144	94	362.3
ASEAN	1,003	317	1,716	895	97.2
Singapore	978	325	1,431	876	141.9
North America	-61	1,414	4,363	880	-62.9
United States	-110	1,378	4,328	841	-64.6
Latin America	-1,955	-1,363	235	224	534.0
Oceania	125	376	557	-396	-
Europe	893	1,061	-2,194	399	-
EU	-3,005	1,401	-2,094	669	-
World	1,761	2,358	9,078	3,000	10.1

Notes: 1) The yen-based value is converted to dollars by quarter, using the average quarterly Bank of Japan interbank rate.
2) Because the BOP related statistics have been revised, there is no strict continuity in the data before 2013 and after 2014.
3) The cumulative total for 2015 is a preliminary figure.
Source: "Balance of Payment Statistics" (Ministry of Finance, Bank of Japan).

Figure I-44: Share of inward FDI stock in Japan by region

(Unit: %)

	The end of 2000	The end of 2010	The end of 2011	The end of 2012	The end of 2013	The end of 2014
World	100.0	100.0	100.0	100.0	100.0	100.0
Asia	7.8	10.8	11.8	13.5	14.4	15.5
North America	32.3	34.4	32.2	30.8	31.6	29.4
Europe	51.6	42.9	45.1	46.1	46.3	46.8
Latin America	7.0	11.0	10.0	8.6	6.7	6.0
Oceania	1.1	0.6	0.6	0.8	0.9	1.8
Middle East and Africa	0.2	0.2	0.3	0.1	0.1	0.4
Inward FDI stock / GDP	1.2	3.9	4.0	4.0	4.1	4.8
Inward FDI stock (100 million yen)	60,958	187,353	188,238	192,273	195,510	233,439

Note: 1) Inward FDI stock by region is based on BPM5 until the end of 2013, and is based on BPM6 at the end of 2014. 2) Inward FDI stock and inward FDI stock / GDP are based on BPM6 over the entire period.
Source: "International Investment Position" (MOF, BOJ), Data from the Cabinet office

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Collaboration with Asian companies also in picture

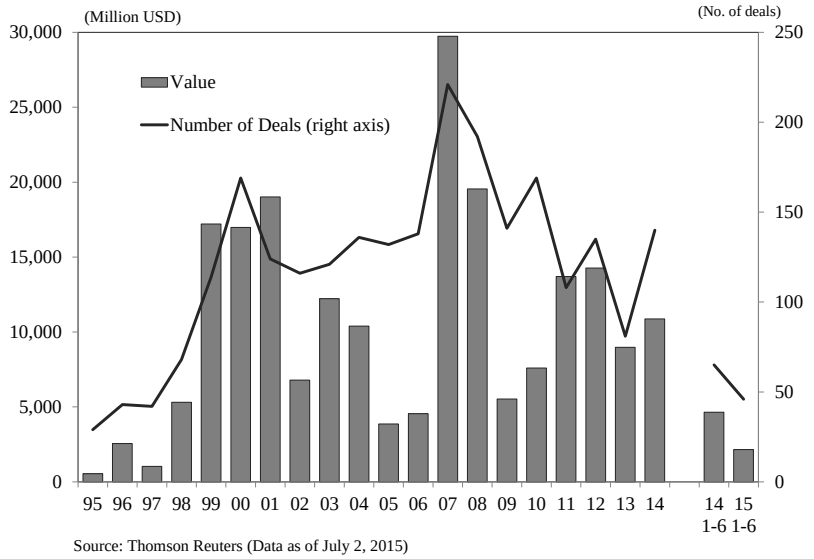
Collaborating with Asian companies through M&As

M&A deals in Japan for 2014 increased for the first time in two years, by 17.4% from the previous year to $10.5 billion. Singapore and Hong Kong were two countries from Asia whose M&A in Japan increased significantly. The focus has shifted from conventional sectors such as real estate to various other industries such as chemicals and pharmaceuticals and banking. The strategic affiliation between the major Singaporean paint maker Wuthelam Group and Nippon Paint, the capital and business alliance between Charoen Pokphand Group, one of the largest conglomerates in Thailand, and Itochu Corporation are examples of transactions aimed at cooperation with large Asian companies.

Venturing also into manufacturing and R&D sectors

The number of greenfield investments also rose in 2014. Many investments take full advantage of Japan's high technological skills, such as enhanced production of next-generation memory and establishment of production bases of high-function fibers for aviation engines, as well as leading companies' research and development bases.

Figure I-45: Changes in the value of M&As in Japan



Source: Thomson Reuters (Data as of July 2, 2015)

Figure I-46: Operations of leading foreign companies since 2014

	Company	Year/Month	Overview
M&A	KKR (US)	2014/Mar	Kohlberg Kravis Roberts & Co, the US investment firm, acquired Panasonic Healthcare Co., Ltd., a subsidiary of the Panasonic Corporation.
	Wuthelam group (Singapore)	2014/Dec	The Nippon Paint Co., Ltd announced strategic partnership with Singaporean paint maker Wuthelam group. Investment from Wuthelam allowed Nippon Paint to achieve the majority of the paint business in Asia conducted in a joint venture with Wuthelam. That raised the 2014 world share ranking of the Nippon Paint from 10th to 4th.
	Charoen Pokphand (CP) Group (Thailand)	2014/Sep	The Itochu Corporation and the Charoen Pokphand Group (CP Group), one of the largest conglomerates in Thailand, announced a capital and business alliance. The CP Group and Itochu are mutually sponsored. The CP Group, with a large network in Asia, is seeking to take advantage of its relationship with Itochu, with substantial earnings power in non-resources areas, to expand their business overseas mainly in Asia.
	Baring Private Equity Asia (Hong Kong)	2014/Dec	Baring Private Equity Asia, one of the leading Asian investment companies which is based in Hong Kong, acquired Bushu Pharmaceuticals Ltd., a leading contract manufacturer for pharmaceuticals.
	CTBC Bank Co., Ltd. (Taiwan)	2014/Jun	CTBC Bank Co., Ltd. (CTBC Bank), a leading Taiwanese bank, acquired Tokyo Star Bank. This is the first acquisition made by a foreign bank.
Production	Micron Technology, Inc. (US)	2014/Nov	Micron invested at the 100 billion yen level in plant of ex-Elpida Memory, which became its wholly owned subsidiary company in 2013. It decided to increase production of state-of-the-art memory designed for smartphones, and also plans to manufacture next-generation memory.
	SanDisk (US)	2014/Sep	A factory for NAND flash memory, jointly built with Toshiba, was partially completed and started manufacturing. A new factory is under construction to produce next-generation memory.
	General Electric Company (US), Safran S.A. (France)	2014/Sep	A joint venture company with Nippon Carbon Co., Ltd. announced the construction of a new factory to produce high-function fiber for airplanes. The special material, which is only available from two Japanese manufacturers in the world, will be supplied to General Electric Company and Safran S.A. as parts for the jointly-developed next-generation airplane engine.
R&D	Apple Inc. (US)	2015/Mar	Apple plans to build a technical development center in a next-generation smart city, which is under construction in Yokohama, Kanagawa. The operation will start in fiscal 2016.
	Nokia (Finland)	2015/May	An R&D center was established in Kawasaki, Kanagawa. The center will enhance the research and development of fifth-generation (5G) and cloud products for practical use. The results of the research will be introduced to the R&D centers in other countries.
	Johnson & Johnson (US)	2014/Aug	"Tokyo Science Center" was established in the International Strategic Zone in Kawasaki, Kanagawa. The center, equipped with a surgery simulation system, is expected to be utilized by Asian countries as a research and training facility for healthcare providers.
	BASF (Germany)	2014/Feb	The battery material research and development center was established in Amagasaki Research Incubation Center in Hyogo. The laboratory is the first development base in the Asia-Pacific region specializing in lithium ion batteries, which conducts basic research, develops the products and provides customer support.

Note: The dates show when M&As have been completed.
Source: Press release of each company, press report from various news sources

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Chapter 2

Trends in development of world trade rules

271 FTAs in force around world

271 FTAs in force around world

The number of free trade agreement (FTA) in force reached 271, including 17 new agreements in 2014 (as of July 2015). The number of new FTAs entering into force each year has recorded double digits for twelve consecutive years since 2003. Among these, a record-high 11 cross-regional FTAs (such as the one between Vietnam and Chile) entered into force in 2014.

FTA coverage ratio of Americas remains at high level

The FTA coverage ratio for Japan (the percentage share of the trade value with FTA partners as of July 2015 over total trade value) recorded 22.3%, exceeding the 20% mark for the first time. The FTA that entered into force in January 2015 with Australia, Japan's fifth largest trading partner, raised the FTA coverage ratio by 4.1 points. The FTA coverage ratio of the US, EU and China were 40.1%, 28.7% and 18.7%, respectively. The FTA coverage ratio of the Americas was in general high with Chile, Peru, Mexico and Canada achieving 90.9%, 90.6%, 81.0% and 71.8%, respectively. Particularly, the percentage (share) of Mexico and Canada covered under the North American Free Trade Agreement (NAFTA) was high, and in both countries the trade within the NAFTA region accounted for nearly 70% of two-way trade. In Asia, the FTA coverage ratios for Singapore and South Korea were 77.2% and 41.1%, respectively.

Figure II-1: Number of the FTAs which are in force by region and year (as of July 2015)

(Unit: case)

	Asia/ Pacific	Americas	Europe	Middle East/ Africa	Russia/ CIS	Cross-regional	Total
1955-59			1	1			2
60-64		1	1	1			3
65-69							0
70-74		1	1			2	4
75-79	2					1	3
80-84	2	1					3
85-89		2		1		2	5
90-94	4	1	5	1	6	1	18
95-99		5	3	9	16	6	39
2000-04	9	7	5	7	3	19	50
05-09	20	7	4	3	2	36	72
2010-	14	10	8		2	36	70
2010	5	1	6			1	13
2011	3	1				10	14
2012		6	1		1	6	14
2013	3	2				7	12
2014	2					11	13
2015	1		1		1	1	4
Total	**51**	**35**	**28**	**23**	**29**	**103**	**271**

Note: The total includes two FTAs with unknown conclusion years.
Source: WTO, data from each government and organization

Figure II-2: FTA coverage ratio of major countries/region (2014)

(Unit: %)

	FTA cover ratio			FTA partner countries/regions (two-way trade)					
	Two-way trade	Export	Import	1st		2nd		3rd	
Japan	22.3	20.7	23.7	ASEAN	14.7	Australia	4.1	India	1.0
US	40.1	47.1	35.3	NAFTA	30.1	South Korea	2.9	DR-CAFTA	1.5
Canada	71.8	79.8	64.1	NAFTA	68.6	South Korea	1.1	EFTA	1.0
Mexico	81.0	92.5	69.6	NAFTA	67.1	EU	8.1	Japan	2.5
Chile	90.9	89.5	92.4	China	22.4	US	15.8	EU	14.9
Peru	90.6	93.0	88.5	China	19.7	US	18.5	EU	14.1
Colombia	63.8	62.1	65.2	US	27.2	EU	15.2	Mexico	5.2
Brazil	14.9	16.5	13.5	Mercosur	9.6	CAN	3.1	Chile	2.0
EU28 Total trade	75.6	77.2	74.1	EU	64.7	Switzerland	2.6	EEA	1.7
EU28 Extra-resional trade	28.7	31.4	26.0	Switzerland	7.0	Turkey	3.8	EEA	3.7
China	18.7	15.3	22.8	ASEAN	11.1	Republic of China	4.6	Switzerland	1.0
South Korea	41.1	43.1	39.0	ASEAN	12.6	US	10.5	EU	10.4
ASEAN	59.9	58.7	61.1	ASEAN	24.0	China	15.9	Japan	8.8
Singapore	77.2	73.2	79.5	ASEAN	24.0	China	12.0	US	8.7
India	17.2	19.9	15.3	ASEAN	9.8	South Korea	2.4	Japan	2.0
Australia	44.1	43.8	44.5	ASEAN	15.0	Japan	12.5	US	7.3
New Zealand	48.9	51.1	46.9	China	18.7	Australia	14.2	ASEAN	13.2

Note: 1) FTA coverage ratio means the ratio of trade with countries and regions in which the subject country has established FTAs (as of July 2015), out of the subject country's total trade. The figures are based on trade statistics in 2014.
2) Abbreviations: The Central America-Dominican Republic Free Trade Agreement (CAFTA-DR), the Andean Community (CAN), the European Free Trade Association (EFTA) and the European Economic Area (EEA).
3) China's figures exclude those of Hong Kong (8.7%) and Macau (0.1%).
4) ASEAN's figures were based on the total trade value with each member country although some have not yet issued FTAs.
5) Figures for Canada, Singapore and New Zealand were calculated by export statistics, which exclude re-exported trade.
Source: Materials and trade statistics from each country's government, "DOT, May 2015" (IMF)

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Mega FTAs becoming pillars of trade policies for key advanced countries

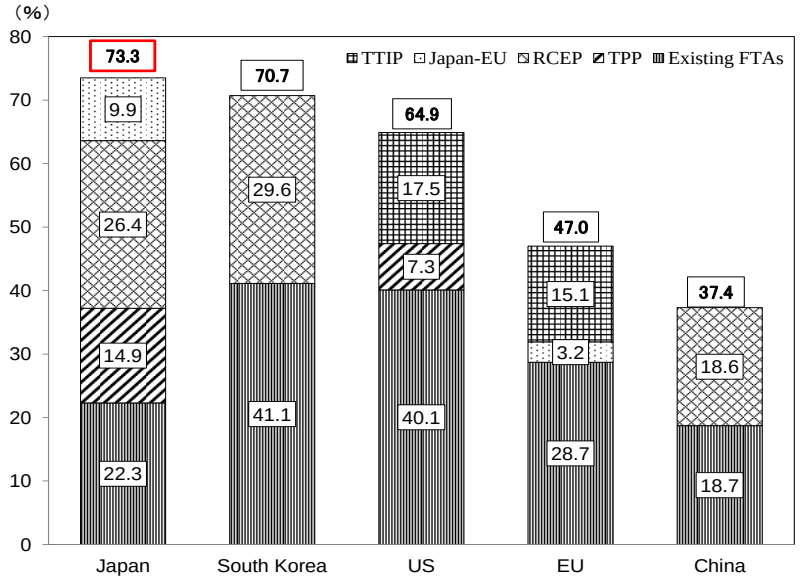
■ **Bringing new trade rules into Asia-Pacific region through TPP**

A Trade Promotion Authority (TPA) bill was enacted in the US on June 29, 2015. It is expected that this new legislation will push the Trans Pacific Partnership (TPP) negotiations forward, which consists of twelve Asia-Pacific countries, including Japan and the US. The participating countries of TPP account for 36.6% of the global GDP and 11.3% of the world population. The conclusion of the TPP would bring the Asia-Pacific region a high-level and comprehensive liberalization as well as trade rules. Its impact on the trade in goods can be seen in examples such as, cumulative rules of origin allowing for the inclusion of Japan and Asian countries in NAFTA's supply chain or the progressive build-up of Vietnam's textile industry. Also, this would accelerate the negotiations of other mega-FTAs including the Regional Comprehensive Economic Partnership (RCEP) and the Trans-Atlantic Trade and Investment Partnership (TTIP) between the EU and the US.

■ **Mega FTA to raise Japan's FTA coverage ratio to 70% or more**

Japan's FTA coverage ratio would reach 73.3% if the trade values with participant countries of the mega-FTAs under negotiation were added up, such as the TPP, RCEP and Japan-EU EPA, and would surpass the FTA coverage rate of South Korea, the US and the EU. Japan, the US and the EU are aiming for the creation of new trade rules through the TPP, Japan-EU/EPA and TTIP. In the Japan-EU/EPA and TTIP, there are ongoing discussions on standards/certifications and regulatory cooperation which were not there in any past trade agreements.

Figure II-3: Mega FTA coverage ratio by major countries (2014)



Note: Ratios are based on two-way trade as of the end of 2014. The EU's figures exclude those of its inter-regional trade. China's figures exclude those of Hong Kong and Macau. Japan's figures exclude double-counted numbers by TPP and RCEP. The China-Japan-South Korea FTA is not categorized but included in RCEP.
Source: Trade statistics of each country

Figure II-4: Comparison of negotiations areas between mega FTAs and WTO agreements

		TPP	Japan-EU	TTIP	RCEP	WTO
Negotiating areas	Trade in goods	○	○	○	○	○
	Trade remedies, subsidies	○	○	○		○
	Trade facilitation	○	○	○	○	○
	Technical barriers to trade (TBT)	○	○	○		○
	Sanitary and phytosanitary standards (SPS)	○	○	○		○
	Trade in services	○	○	○	○	○
	Protection and liberalization of investment	○	○	○	○	△2
	Intellectual property	○	○	○	○	○
	Competition, state companies	○	○	○	○	
	E-commerce	○	○	○	△1	
	Government procurement	○	○	○		△3
	Environment	○	○	○		
	Labor	○	○	○		
	Conflict resolution	○	○	○	○	○
	Cross-cutting issues	○	○	○		
	Standards and conformance, regulatory cooperation		○	○		

Note: 1) △1 indicates that the area is not explicitly stated as the category of negotiation but is included in other negotiating areas. 2) △2 indicates that the area is only under negotiation in TRIM. 3) △3 indicates that the area is under negotiation in plurilateral agreements.
Source: Websites of WTO, USTR, EU, Japan's Cabinet Office, data from METI

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Japan's FTA coverage ratio increases to 22.3%

TPP accounts for a large share in the exports of transportation equipment, and likewise RCEP in the imports of textile products

Australia accounts for 4.5% of Japan's transportation equipment export in value. Amongst the countries/regions that have free trade agreements with Japan, this figure of 4.5% is the second behind that of ASEAN's share of 8.1%, and is the highest for any single country. Immediately after the FTA enters into force, import duties for items equivalent to approximately 75% of the value of automobile exports to Australia from Japan will be eliminated, and the remaining tariffs will be eliminated in the third year. Also, import duties on automobile parts will be eliminated either immediately or within the next three years. In the mega FTAs that are currently under negotiations, the countries participating in TPP negotiations account for 44.8% of the export value of transportation equipment. Countries participating in RCEP negotiations account for 88.4% of the import value of textile products.

Figure II-5: Share of Japan's FTA partners and key target countries in Japan's trade value (2014)

(%)

By product		World (US$ million)	In force							Subtotal	Signed or under negotiation											Total
			Mexico	Chile	ASEAN	Switzerland	India	Peru	Australia		Mongolia	South Korea	Canada	Colombia	Turkey	GCC	China-South Korea	RCEP	China	EU	TPP	USA	
Exports	Transportation equipment	161,727	1.9	0.4	8.1	0.3	0.3	0.3	4.5	15.8	0.2	0.7	2.9	0.4	0.2	9.2	8.8	22.5	8.1	9.8	44.8	30.8	78.9
	General machinery	132,572	1.7	0.2	16.4	0.1	1.8	0.1	1.2	21.5	0.0	6.3	0.8	0.1	0.7	2.6	24.6	44.2	18.3	14.1	32.2	22.1	86.6
	Electrical equipment	103,752	1.5	0.0	18.3	0.1	0.8	0.0	0.4	21.2	0.0	6.7	0.6	0.0	0.1	1.2	31.2	50.7	24.5	10.6	26.7	14.7	79.6
	Chemicals	91,741	0.6	0.2	13.1	0.6	1.5	0.1	1.0	17.2	0.0	14.9	0.5	0.2	0.3	1.5	39.1	54.7	24.2	9.9	19.8	11.7	80.5
	Steel products	46,515	3.4	0.2	26.5	0.0	3.3	0.2	0.9	34.4	0.0	16.1	0.7	0.6	0.4	4.6	34.3	65.0	18.2	2.6	23.1	8.6	86.3
	Total export value	690,824	1.5	0.2	15.2	0.4	1.2	0.1	2.1	20.7	0.0	7.5	1.2	0.2	0.3	3.6	25.8	44.5	18.3	10.4	30.9	18.6	81.1
Imports	Mineral fuels	261,937	0.1	0.0	13.4	0.0	1.0	0.1	11.3	26.1	0.0	2.4	0.5	0.1	0.0	52.6	2.8	28.7	0.4	0.4	21.9	1.2	83.7
	Machinery & equipment	221,446	0.9	0.0	14.1	1.5	0.2	0.0	0.1	16.8	0.0	5.2	0.4	0.0	0.0	0.0	46.9	61.4	41.8	14.4	21.0	13.4	91.9
	Chemicals	75,888	0.3	0.2	14.3	3.6	1.4	0.0	0.6	20.3	0.0	5.6	1.4	0.0	0.0	1.0	24.5	41.3	18.9	28.4	25.3	16.4	92.5
	Food products	64,407	1.5	2.9	13.9	1.1	1.2	0.4	5.7	26.7	0.0	3.0	4.0	0.6	0.4	0.0	17.0	39.9	14.0	13.4	43.0	22.4	86.6
	Textile products	38,648	0.1	0.0	18.0	0.1	1.2	0.1	0.1	19.6	0.0	1.4	0.1	0.0	0.4	0.0	69.0	88.4	67.6	5.4	10.6	1.3	95.8
	Total import value	812,954	0.5	1.0	14.3	0.9	0.9	0.2	5.9	23.7	0.0	4.1	1.4	0.1	0.1	17.2	26.4	47.8	22.3	9.5	25.1	8.8	87.5
Exports + Imports		1,503,779	1.0	0.7	14.7	0.7	1.0	0.2	4.1	22.3	0.0	5.7	1.3	0.1	0.2	11.0	26.1	46.3	20.5	9.9	27.8	13.3	84.6

Notes: (1) The HS codes of merchandise classification are: Transportation equipment: HS86-89, general machinery: HS84, electrical equipment: HS85, chemicals: HS28 to 40, steel products: HS72-73, mineral fuels: HS2701-2705, HS2708-2713, HS2715, machinery and equipment: HS84-91, food products: HS01-11, HS16-24, textile products: HS50-63, (2) Gulf Cooperation Council (GCC): Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates. (3) Any duplicates among certain FTAs excluded from total.

Source: "Trade Statistics" (Ministry of Finance)

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Three FTAs newly enter into force since 2014 in Asia-Pacific

Three FTAs entered into force in Asia-Pacific

Three FTAs have newly entered into force since 2014 in the Asia-Pacific region. Of the three, the South Korea-Australia FTA and Japan-Australia FTA are formed by economic powerhouses. In addition, the region has seen the signing of the South Korea-New Zealand, China-Australia, China-South Korea, and South Korea-Vietnam FTAs since 2014.

China-South Korea FTA signed

When the China-South Korea FTA, signed in June 2015, comes into effect, China will, on a tariff line base, eliminate import duties by 71.3% within 10 years and by 90.7% within 20 years, while South Korea will eliminate import duties by 79.2% within 10 years and by 92.2% within 20 years. For the services and investment chapters, the two countries will launch additional negotiations within two years after the FTA enters into force. They are planning to adopt a so-called "negative list", for which all service sectors except those specified in the list are liberalized.

Figure II-6: FTAs which have entered into force in Asia-Pacific region (2014 – July 2015)

	Enforcement date	Agreement details
Singapore-Taiwan	2014/Mar	In Taiwan, tariffs will be eliminated or reduced for 99.5% of items. According to the announcement, tariffs will be eliminated for 83% of total product categories, immediately when the agreement enters into force.Singapore will completely eliminate tariffs once the agreement goes into effect. In Singapore, however, the products subject to general tariffs are limited to six items such as beer and medicated liquor.
South Korea-Australia	2014/Dec	Based on tariff lines, South Korea and Australia will eliminate import tariffs by 90.8% and 100%, respectively, within eight years after the FTA enters into force. South Korea will gradually eliminate the tariff for beef imported from Australia, in 15 years. Australia will eliminate the tariffs for as many as 20 automobile items imported from South Korea including medium-sized gasoline powered vehicles (1,500-3,000 cc) and small-sized gasoline powered vehicles (1,000-1,500 cc), once the agreement goes into effect.
Japan-Australia	2015/Jan	Australia will eliminate tariffs for about 75% of the trade value of imported vehicles from Japan upon the agreement entering into force, with the remaining tariffs eliminated in the third year. The tariffs for automobile parts will be eliminated within three years. Japan will eliminate tariffs for almost all products related to mining and manufacturing including mineral fuels in ten years. Rice is excluded from the elimination of Japan's tariffs, while wheat, dairy products and sugar will be reviewed in the future.

Source: Articles from Trade Daily (JETRO), data from METI

Figure II-7: Import duty liberalization rate of China-South Korea FTA

Type of concession		South Korea				China			
		No. of products		Value of imports from China		No. of products		Value of imports from South Korea	
			Percentage		Percentage		Percentage		Percentage
General products	To be eliminated immediately	6,108	49.9	418.5	51.8	1,649	20.1	733.7	44.0
	To be eliminated within 5 years	1,433	11.7	31.0	3.8	1,679	20.5	58.3	3.5
	To be eliminated within 10 years	2,149	17.6	173.3	21.5	2,518	30.7	312.5	18.7
	Total (A)	9,690	79.2	622.8	77.1	5,846	71.3	1,104.5	66.2
Sensitive products	To be eliminated within 15 years	1,106	9.0	79.5	9.8	1,108	13.5	219.2	13.1
	To be eliminated within 20 years	476	3.9	34.1	4.2	474	5.8	93.8	5.6
	Total (B)	1,582	12.9	113.6	14.0	1,582	19.3	312.9	18.7
Total items with eliminated duties (A+B)		11,272	92.2	736.4	91.2	7,428	90.7	1,417.4	85.0

Source: Articles from JETRO Daily (JETRO)

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ASEAN Economic Community (AEC) expected to develop further at end of 2015

ASEAN makes further progress in liberalizing tariffs

In 2015, tariffs were further eliminated in ASEAN. Among the 10 ASEAN countries, the six countries of Singapore, Thailand, Indonesia, Malaysia, the Philippines and Brunei have eliminated regional tariffs on almost all products since 2010. CLMV (Cambodia, Laos, Myanmar, Vietnam) have also eliminated tariffs on about 90% of items since 2015. Tariffs on the remaining items will be eliminated in 2018 with a few exceptions.

Focus in future will be on trade in goods, negotiations on trade in services

In areas other than tariffs, the requirement of FOB values to be stated in certificates of origin was removed in 2014 under given conditions. The liberalization and facilitation of areas such as services, investment and non-tariff measures that include the introduction of a self-certification system, the ASEAN Single Window and mutual certification of standards are expected. Among the negotiations in the services sector, particular focus will be on the relaxation of restrictions on foreign investment in the services sector which is imposed by most ASEAN countries.

Figure II-8: Focus area of AEC

		Contents
Trade in goods	Tariff	Among the 10 ASEAN states, six states (Singapore, Thailand, Indonesia, Malaysia, the Philippines and Brunei) have eliminated tariffs of almost all items within the region since 2010. CLMV (Cambodia, Laos, Myanmar and Vietnam) have also eliminated tariffs on about 90% of items since 2015. Tariffs of remaining items will be eliminated in 2018 with a few exceptions.
	Non-tariff	○In 2014, the requierments of FOB values to be stated in certificates of origin (CO) was abolished under certain conditions. ○Negotiations are underway to introduce a self-certification system in CO procedures in ASEAN from 2016. ○Regarding the ASEAN Single Window, which aims at centralization/digitization of customs clearance procedures in ASEAN states, full-fledged implementation would commence following a pilot project for mutual exchange of CO (Form D) and customs clearance documents among a portion of states. ○Mutual certification and conformity standards of auto-related products, processed food, medical instruments, electronic equipment, pharmaceuticals and cosmetics, for which negotiations are underway, would be introduced in the future. ○ASEAN states are currently building ASEAN Trade Repository (ATR) centralizing trade-related information, which will help improve transparency.
Services		The ASEAN Blueprint stipulates a policy to permit ASEAN investors to invest foreign capital up to 70% in other ASEAN members. Though it is still uncertain how much liberalization will be achieved—for example, in some cases it might be limited to merely a promise to eventually liberalize a small portion of each service sector—it is probable that extensive restrictions on foreign capital into the service field, which is currently imposed in many ASEAN states, will be alleviated.
Investment		The ASEAN Comprehensive Investment Agreement (ACIA), which includes investment protection (prohibition of performance requirement, expropriation/compensation, and fair and equitable treatment, etc.) and investment liberalization in the manufacturing industry, became effective in March 2012. The revised protocol was signed in August 2014.
Movement of persons		Mutual recognition agreements (MRA) for professional service qualification are being promoted. To date, ASEAN concluded MRAs in eight fields (engineering, nursing care, architectural, surveyors, accounting, medical practitioners, dental practitioners and tourism experts). Operations commenced in engineering and construction services.

Source: Created based on materials of ASEAN.

Figure II-9: Status of tariff liberalization in AEC

(%)

	Percent of tariff lines with the tariff rate of zero percent	Percent of tariff lines with the tariff rate less than five percent
ASEAN6	99.2	99.4
Thailand	99.9	100.0
Indonesia	98.9	98.9
Malaysia	98.7	99.2
Philippines	98.6	99.4
Singapore	100.0	100.0
Brunei	99.3	99.3
CLMV	90.8	98.5
Vietnam	90.0	96.9
Cambodia	91.5	98.4
Laos	89.3	99.1
Myanmar	92.6	99.5
ASEAN	96.0	99.1

Source: Data from ASEAN Secretariat

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Removal from EU's GSP list affecting companies in Malaysia

Latin America: Mexico becoming regional hub of automobile exports

As the automobile industry thrives in Mexico, Mexico-based Japanese auto makers strive to increase their exports to both North and South America, taking advantage of the country's FTAs and other trade arrangements with many countries in the region.

EU: Malaysia and Thailand's exports to EU affected after being removed from EU's GSP beneficiary list

The EU is currently negotiating bilateral FTAs with Japan, the US, and ASEAN countries, among others. At the same time, the EU has removed some of its trading partners from the Generalized System of Preferences (GSP) beneficiary list, including Malaysia (January 2014) and Thailand (January 2015) . The number of GSP certificates of origin issued in Malaysia in 2014 (7,287 certificates, including the figures for countries other than those of the EU) and the export value ($674 million) under the GSP fell drastically compared to the same data in the previous year, which recorded 254,806 certificates issued and $30.416 billion in exports, respectively. EU's imports from Malaysia in 2014, on the other hand, increased by 7.4% from the previous year to $25.8916 billion, which implies that most of the firms in Malaysia are now exporting to the EU while paying the tariffs that were otherwise exempted under the GSP.

Figure II-10: Automobile exports to North and South America by Mexico-based auto makers

(Unit: # of Automobile, %)

	Year	North America		South America		Brazil		Argentina		Colombia		Chile		Peru		Total
		Unit	Share	Unit	Share	Unit	Share	Unit	Share	Unit	Share	Unit	Share	Unit	Share	
Japanese Manufacturers, Total	2010	303,755	69.1	93,757	21.3	36,233	8.2	16,142	3.7	11,475	2.6	14,894	3.4	5,377	1.2	439,647
	2011	296,198	59.5	151,297	30.4	64,484	13.0	12,238	2.5	24,456	4.9	29,731	6.0	8,789	1.8	497,449
	2012	329,105	58.5	159,183	28.3	84,811	15.1	6,623	1.2	21,753	3.9	20,914	3.7	13,252	2.4	562,736
	2013	372,425	67.6	117,818	21.4	60,284	10.9	10,118	1.8	15,953	2.9	13,095	2.4	6,895	1.3	551,092
	2014	638,439	79.9	93,503	11.7	34,105	4.3	4,768	0.6	22,438	2.8	9,235	1.2	10,470	1.3	799,117
Non-Japanese Manufacturers (GM, Ford, Fiat, Chrysler, VW), Total	2010	1,116,229	78.6	103,432	7.3	38,372	2.7	42,341	3.0	10,292	0.7	5,762	0.4	1,310	0.1	1,419,870
	2011	1,224,576	74.4	155,286	9.4	66,900	4.1	56,823	3.5	22,016	1.3	3,451	0.2	559	0.0	1,646,250
	2012	1,335,345	74.5	185,086	10.3	93,343	5.2	56,398	3.1	26,900	1.5	4,095	0.2	912	0.1	1,792,829
	2013	1,469,376	78.5	169,670	9.1	77,159	4.1	51,536	2.8	31,574	1.7	4,602	0.2	452	0.0	1,871,991
	2014	1,504,507	81.6	137,170	7.4	68,723	3.7	20,952	1.1	38,426	2.1	3,175	0.2	1,306	0.1	1,843,770
Total	2010	1,419,984	76.4	197,189	10.6	74,605	4.0	58,483	3.1	21,767	1.2	20,656	1.1	6,687	0.4	1,859,517
	2011	1,520,774	70.9	306,583	14.3	131,384	6.1	69,061	3.2	46,472	2.2	33,182	1.5	9,348	0.4	2,143,699
	2012	1,664,450	70.7	344,269	14.6	178,154	7.6	63,021	2.7	48,653	2.1	25,009	1.1	14,164	0.6	2,355,565
	2013	1,841,801	76.0	287,488	11.9	137,443	5.7	61,654	2.5	47,527	2.0	17,697	0.7	7,347	0.3	2,423,083
	2014	2,142,946	81.1	230,673	8.7	102,828	3.9	25,720	1.0	60,864	2.3	12,410	0.5	11,776	0.4	2,642,887

Source: AMIA

Figure II-11: Status of EU GSP beneficiaries

(As of April 2015)

Countries/regions removed from GSP list	Countries/regions covered
• **High-income countries/regions (8)** Saudi Arabia, Kuwait, Bahrain, Qatar, United Arab Emirates, Oman, Brunei, and Macau • **Middle and low-income countries/regions (18)** China, Ecuador, Thailand, Turkmenistan, Argentina, Brazil, Cuba, Uruguay, Venezuela, Russia, Kazakhstan, Malaysia, among others • **Other privileges such as FTA accorded to the following countries/regions** Six Mediterranean countries (Algeria, Egypt, etc.), CARIFORUM countries, countries covered under the market access rules of economic partnership agreement (Ghana, Cameroon, etc.), countries from Eastern and Southern parts of Africa, Papua New Guinea, Mexico, Colombia, Costa Rica, Guatemala, El Salvador, Honduras, Nicaragua, Panama, Peru, South Africa • **Overseas department/overseas territories (OCT) (33)**	**Countries/regions covered under GSP (40)** Georgia, India, Indonesia, Iran, Iraq, Mongolia, Nigeria, Pakistan, Panama, Peru, Philippines, Sri Lanka, Syria, Ukraine, Uzbekistan, Vietnam, among others **Except for weapons, all products ("EBA") are tax-free for the following countries/regions (49)** Least developed countries (LDC) (33 African countries, 10 Asian countries, five Pacific island countries, Haiti) ※ Maldives has been excluded from January 2015

Source: European Commission

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Japan's FTA utilization rate rising gradually

Rising trend observed in Japan's FTA utilization ratio

For the first time, the Ministry of Finance of Japan announced Japan's FTA trade value in imports in May 2015. The trade value and rate of utilization of almost all Japanese FTAs are on the rise. In 2014, the utilization rate which accounts for all the countries/regions which have FTAs with Japan was 16.8%. In particular, the utilization rate of Japan's FTAs with Thailand, Vietnam, the Philippines, India, Mexico and Chile exceeded the 20% mark.

Utilization rate of US-South Korea FTA expected to rise from January 2016

NAFTA members continue to outclass all others who have FTAs with US in terms of US import value in 2014. The utilization rate of the US-South Korea FTA was 23.0% which was low compared to other FTAs. One of the reasons being cited is the continuation of the 2.5% tariff on the import of passenger cars from South Korea even after four years of the FTA coming into effect. The utilization rate is expected to increase after January 2016 when the tariff for these products will be eliminated.

Figure II-12: Status of Japan's FTA utilization (based on import value)

(Unit: 100 million yen, %)

		Value of utilized FTAs			Utilization rate		
		2012	2013	2014	2012	2013	2014
ASEAN	Thailand	4,898	5,615	6,247	26.0	26.1	27.2
	Indonesia	2,378	3,125	3,414	9.2	11.1	12.6
	Singapore	421	476	474	6.0	6.5	5.7
	Vietnam	2,724	3,854	4,847	22.6	27.7	29.7
	Malaysia	2,356	2,635	2,998	9.0	9.1	9.7
	Philippines	1,758	2,192	2,418	23.6	24.3	22.5
	Myanmar	7	11	33	1.3	1.4	3.7
	Cambodia	13	42	105	4.0	7.4	12.9
	Laos	7	10	9	7.2	9.2	7.7
	Brunei	0	0	1	0.0	0.0	0.0
	AJCEP	2,716	4,130	5,207	3.5	4.8	5.5
Other Asian region	India	1,042	1,367	1,565	18.7	19.8	21.2
Europe	Switzerland	333	401	476	5.1	5.6	6.2
Latin America	Mexico	684	834	1,052	19.5	20.3	23.2
	Peru	79	116	134	3.5	4.6	7.2
	Chile	1,576	1,567	1,851	21.2	20.2	21.5
Total		**18,275**	**22,244**	**25,624**	**14.2**	**15.5**	**16.8**

Note: 1) Overall import value of AJCEP excludes that of Indonesia, which has not signed the agreement.
2) According to one estimate that total imports are divided by tariff revenue, almost 80% of Japan's imports are estimated to be duty free.
Source: "Trade Statistics" (MOF)

Figure II-13: FTA unitization rate of US (based on import value)

(Million USD, %)

Partner countries/regions	Year of entry into force	Import value from FTA partner					FTA utilization rate				
		2010	2011	2012	2013	2014	2010	2011	2012	2013	2014
Israel	Aug-85	2,726	2,659	2,952	2,953	2,910	13.0	11.5	13.3	12.9	12.6
NAFTA	Jan-94	260,387	289,472	310,424	317,322	332,131	51.3	50.1	51.6	51.8	51.9
Canada		141,737	155,739	169,037	172,541	171,280	51.1	49.4	52.1	51.9	49.5
Mexico		118,650	133,733	141,387	144,781	160,851	51.6	50.9	50.9	51.6	54.7
Jordan	Dec-01	606	870	1,012	1,067	1,200	62.2	82.0	87.5	89.1	88.4
Singapore	Jan-04	1,010	1,040	971	1,613	1,425	5.8	5.4	4.8	9.0	8.7
Chile	Jan-04	4,277	5,598	5,653	6,130	4,929	61.0	61.7	60.4	59.0	51.9
Australia	Jan-05	2,656	2,931	3,341	3,413	4,560	30.9	28.6	34.9	36.8	42.7
Morocco	Jan-06	163	202	165	188	242	23.8	20.3	17.7	19.2	24.4
Bahrain	Aug-06	274	326	425	418	540	65.2	62.9	60.6	65.7	56.0
Oman	Jan-09	336	1,384	551	582	600	43.5	62.7	40.7	56.9	61.5
Dominican Republic/ Central American countries (DR-CAFTA)	From March 2006 till January 2009 (in serial order)	10,347	11,807	12,482	11,697	12,101	43.0	41.3	40.4	38.8	42.6
Peru	Feb-09	2,132	2,786	2,415	2,558	2,955	40.7	42.2	37.6	31.5	48.6
South Korea	Mar-12	-	-	10,963	15,008	16,010	-	-	24.3	24.1	23.0
Colombia	May-12	-	-	3,497	4,921	3,588	-	-	25.5	22.8	19.7
Panama	Oct-12	-	-	4	34	36	-	-	6.2	7.6	9.0
Total		284,914	319,075	354,855	367,904	383,227	48.0	46.9	46.5	46.0	46.3

Notes: (1) DR-CAFTA: Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Dominican Republic. (2) For the FTAs that came into effect in 2012, the total import value is taken from the month after the month when the FTA came into effect (for South Korea from April, Colombia from June, Panama from November).
Source: International Trade Commission (ITC)

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Different rules applied in each FTA in Asia

Pay attention to different rules applied in each FTA in Asia

In Asia, a number of FTAs are in force today, and the utilization of these FTAs by Japanese firms is also becoming more apparent. In such a scenario, one needs to pay attention to the fact that the rules tend to differ among FTAs in the region. For instances, in the rules of origin, in most FTAs, companies can select either change in tariff classification criteria (CTC) or value-added content criteria, but not in the ASEAN-China FTA (only value-added content criteria), nor ASEAN-India FTA (both CTC and value-added content criteria must be met). The de minimis rule, which is an exception to the CTC, is not available in the ASEAN-India FTA. The requirement to state FOB values on the certificates of origin (COs), which was becoming a serious issues for Japanese firms, is no longer applied except when using value-added content criteria in the ASEAN-Japan FTA or AFTA and the ASEAN-South Korea FTA. However, FOB values still need to be stated on the COs of the ASEAN-China FTA and ASEAN-India FTA.

Figure II-14: Comparison of rules of origin in key FTAs of Asia

	Main rules of origin	De minimis	Mentioning of FOB values in certificate of origin	Origin verification procedure
AFTA	Selection type (value-added criteria 40% or more OR change in tariff classification criteria)	Applicable	Removed (however, to be mentioned when using value-added criteria. For Cambodia and Myanmar, there is a two-year grace period.)	Third party verification system (Plans to introduce self-verification system in the future)
ASEAN/Japan	Selection type (value-added criteria 40% or more OR change in tariff classification criteria)	Applicable	Removed (However, to be mentioned when using value-added criteria. For Cambodia and Myanmar, there is a 2 year grace period.)	Third party verification system
ASEAN/China	Value-added criteria 40% or more	Applicable	To be mentioned	Third party verification system
ASEAN/South Korea	Selection type (value-added criteria 40% or more OR change in tariff classification criteria)	Applicable	Removed (however, to be mentioned when using RVC. For Cambodia and Myanmar, there is a two-year grace period.)	Third party verification system
ASEAN/Australia/ New Zealand	Selection type (value-added criteria 40% or more OR change in tariff classification criteria)	Applicable	Basic agreement to remove	Third party verification system
ASEAN/India	Combined type (value-added criteria 35% or more and change in tariff classification criteria)	Not applicable	To be mentioned	Third party verification system

Sources: Government data/agreement of each country

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Service sectors becoming important in merchandise trade

Services largely contributing to exports in manufacturing industry

In global merchandise trade, service sectors provide respectable value added. For example, over 30% of Japan's merchandise export is comprised of the value added by services industry, and among these, the share of transport, distribution and business services such as R&D are particularly huge. The wholesale, retail, and transportation services which are important factors for the manufacturing industry, have a high value added ratio of 18.3% in Japan's exports and around 17% in world exports, which indicates that those services have become a critical factor for the export of goods. If the service-related restrictions loosen, it will definitely have a positive impact not only on the service sector, but also on the operations of the manufacturing industry.

Strict restrictions on foreign entry by some countries in distribution industry

The restrictions in the distribution industry are lax compared to other industries, however there are some countries which have a high restriction index. Japan's services industry is expanding overseas and its share in the investment deals is also increasing. It is expected that the global liberalization of services will contribute to the overseas expansion of Japanese companies.

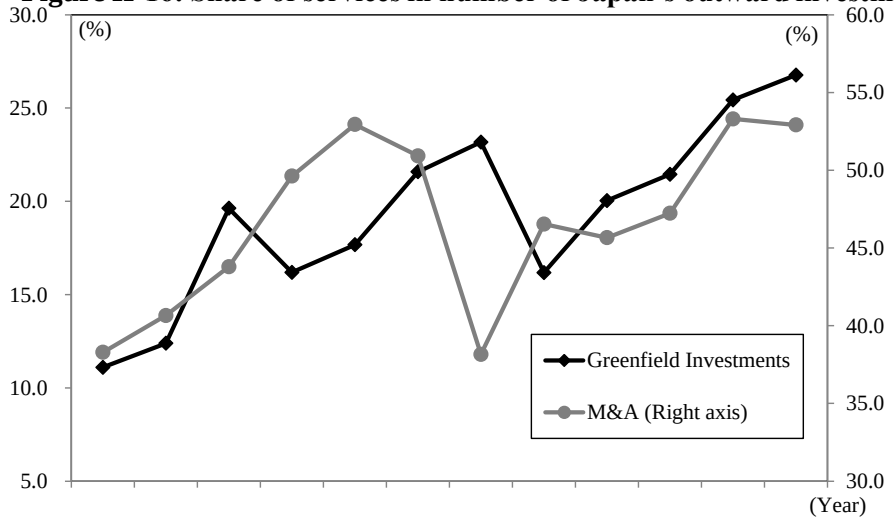
Figure II-15: Breakdown of value added in Japan's commodity exports (2011)

(Unit: %)

Business type	ratio
Total	100.0
Agriculture, hunting, forestry and fishing	0.7
Mining and quarrying	5.9
Total Manufactures	57.9
Electricity, gas and water supply	2.3
Service industry	33.2
Construction	0.7
Distribution service	15.6
Wholesale and retail trade, repairs	14.5
Transport and storage, post and telecommunication	4.8
Transport and storage	3.8
Financial intermediation	2.2
Real estate, renting and business activities	8.7
R&D and other business activities	5.7
Community, social and personal services	1.1

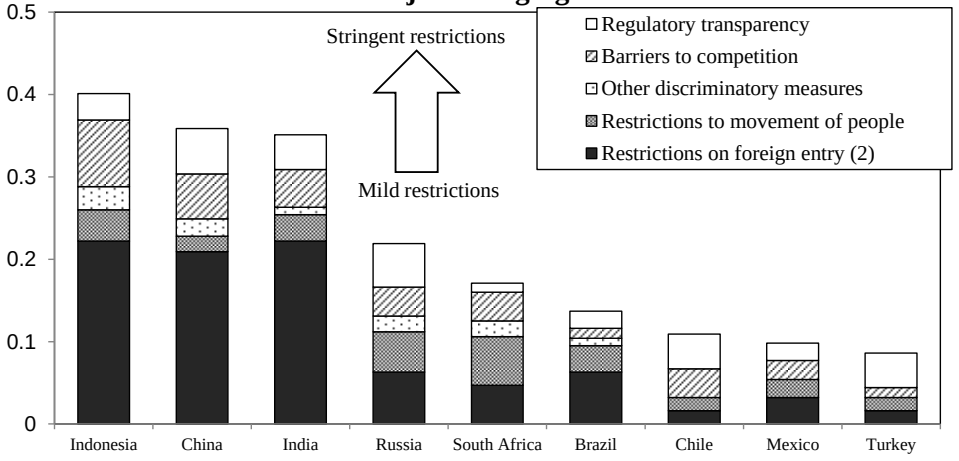
Source: "OECD-WTO Trade in Value Added" (TiVA).

Figure II-16: Share of services in number of Japan's outward investment



Notes: The definition of service industry for M&As follows Thomson Reuters.
Among the industries classified by FT, the total value of financail seivices, software/IT, transportation, communications, business services, real estate, warehousing and storage, hotels/tourism, and leisure/entertainment is considered as greenfield investments in services .
Sources: Thomson Reuters and FDI Markets (FT)

Figure II-17: Breakdown of service trade restrictions on distribution services in major emerging countries



Note: 1) The definitions of the distribution industry follow those of warehouses, wholesale, retail and franchises in WTO classification.
2) A 100% foreign entry can be counted as a regulation even if authorized, because "restrictions on foreign entry" includes requirements of M&A screening, nationality requirements of executives, land possession restrictions and so on, in addition to foreign capital ratio control.
Source: "Service Trade Restrictiveness Index" (OECD).

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Restrictions on foreign investment in distribution and logistics services in emerging economies: East Asia

■ Strong restrictions in distribution and logistics services in Asia

In general, Asian countries adopt relatively strict restrictions on foreign entry in wholesale, retail and logistics services. When compared to other regions, restriction on foreign investment are especially stringent and complex in Asia.

Figure II-18: Restriction on foreign investment in distribution and logistics services in emerging economies

	Wholesale	Retail	Logistics		
			Domestic transportation	Warehousing	Customs services/Others
China	○100% foreign equity and franchise operations are allowed in principle.		○100% foreign equity is allowed for freight transport by road. ○The proportion of foreign equity is restricted to up to 49% for freight transport by railway.	○ Air freight transport warehousing and storage is limited to equity joint venture, however 100% foreign equity is allowed in international shipping and road freight transport warehousing and storage.	○ 100% foreign capital investment is allowed in international freight transportation agency. Foreign companies must apply for a license from the China Air Transport Association. However, as the foreign company cannot obtain the qualification for a license, in fact joint venture is required.
Thailand	○Wholesale services with a "minimum capital of less than 100 million baht per store" are subject to foreign ownership restrictions under the Foreign Business Act. However, the Foreign Business Act defines companies with less than 50% foreign ownership as Thai companies and therefore less than 50% foreign ownership is allowed. As an exception, foreign ownership is allowed based on the Foreign Business Committee's approval with the chief's permission. ○In some business operations, 100% foreign ownership is allowed if a company obtains permission from the Thailand Board of Investment (BOI) .	○"Retail services with minimum capitals of less than 100 million baht and minimum capitals of less than 20 million baht per store" and "food sales" are subject to foreign ownership restrictions under the Foreign Business Act. However, the Foreign Business Act defines companies with less than 50% foreign ownership as Thai companies and therefore less than 50% foreign ownership is allowed. As an exception, foreign ownership is allowed based on the Foreign Business Committee's approval with the chief's permission.	○"Domestics land, water and air transportation" is subject to regulation, in which foreign ownership is limited to less than 50%. As an exception, foreign ownership is allowed based on the Foreign Business Committee's approval with the chief's permission. ○For some businesses, 100% foreign ownership is also allowed on the condition that approval is obtained from the BOI. ○The Land Transport Act specifies the conditions that foreign ownership be 49% or less and a half of board members be Thais.	○ "Warehousing" is subject to regulation, in which foreign ownership is limited to less than 50%. As an exception, foreign ownership is allowed based on the Foreign Business Committee's approval with the chief's permission. ○ 100% foreign capital in "Logistics Center" which has fulfilled the conditions such as capital of 10 million Baht or more, introduction of the latest computer systems etc., is allowed, when approval is obtained from the BOI.	○ "Customs services" and "Consigned forwarding" is subject to regulation, in which foreign ownership is limited to less than 50%. As an exception, foreign ownership is allowed based on the Foreign Business Committee's approval with the chief's permission.
Malaysia	○100% foreign ownership is allowed. ○Companies are required to obtain open approved permits (APs) in order to import and sell new completely assembled vehicles. However, new APs are not issued today.	○Foreign investment in stores with floor spaces that are less than 3000㎡, grocery shops, and pharmacies is not permitted. ○There are requirements for a minimum of 30% Bumiputera stake in hypermarkets and supermarkets. ○A minimum capital of 20 million ringgit for department stores and a million ringgit for specialised stores is required for 100% foreign ownership to be allowed.	○Foreign ownership is limited to 49% for cargo and container transportation, with minimum capital of 250,000 and 500,000 ringgit respectively. Though 100% ownership is allowed for transportation of goods possessed by a company with a capital of 250,000 ringgit or more. ○Licenses for Malaysian domestic ships are granted only for those whose foreign ownership is 49% or less. For long-term permission, 30% Bumiputra stake is required.	○ 100% foreign equity is allowed in private bonded warehouses. Minimum capital necessary for storage of important goods is 150,000 Ringgit, and 100,000 Ringgit in other cases. ○ There is a requirement for a minimum of 30% of Bumiputera stake in general bonded warehouses. Minimum capital of 1 million Ringgit and 250,000 Ringgit is mandatory for important goods and for other goods, respectively. ○ 100% foreign equity is allowed in non-bonded warehouses.	○ 100% foreign capital investment is allowed in shipping agencies. ○ Foreign capital in customs is limited to 49% or less. The amount of minimum capital differs depending on the category. ○ 100% foreign capital investment is allowed in comprehensive international distribution. ○ Foreign capital in comprehensive transportation is limited to 40% or less.
Indonesia	○Up to 33% foreign ownership is allowed for distributor businesses, warehouse businesses, and cold storage businesses. Until April 2014, 100% foreign ownership was allowed.	○100% foreign ownership is allowed for minimarkets, supermarkets and department stores with floor spaces of larger than or equal to 400㎡,1200㎡,2000㎡respectively (foreign entry is prohibited for those of smaller scale). ○Foreign investment is prohibited in the retail for toy, cosmetics, footwear, electric appliance, mail-order and internet, food and beverage.	○In the fields of general cargo transportation, domestic marine transportation and freight forwarding and foreign ownership is limited to 49%.	○ Foreign equity is limited to 33% or less. However, foreign equity up to 67% is allowed in refrigerated storage and warehousing of particular regions.	○ Entry of foreign capital is prohibited in survey services (for example on surveys on freight, land/water/air transport facility and equipment, lease property or inventory/warehouse, damage/non-damage, volume, quality, etc.).
Philippines	○100% foreign ownership is allowed for import-export businesses. foreign ownership is restricted to up to 40% for domestic wholesale services in principle, but 100% foreign ownership is allowed if paid-in-capital is over $200,000. However,if the parent company's net assets apply to (1) above, it must be capitalized at $200 million or more and if the parent company's net assets apply to (2) above, it must be capitalized at $50 million or more and must have five or more stores or franchises worldwide and the capital of one of these stores must be $25 million or more.	○(1) 100% foreign ownership is allowed if $2.5 million or more of the minimum capital is invested and investment per store is $830,000 or more and (2) the minimum capital requirement is relaxed to $250,000 or more for businesses that handle luxury	○100% foreign ownership is allowed for cases in which capital is 200,000 dollars or more. This condition for the ownership ratio is interpreted as being limited to 40% or less among legal experts recently.	○ 100% foreign equity is allowed in companies approved by the Philippines Economic Zone Authority (PEZA). Regarding companies not approved by PEZA, there are no clear foreign capital restrictions, however for those companies involved in management and operations of public enterprises, its equity is limited to 40% or less.	○ Entry of foreign capital is prohibited in customs brokers. ○In stevedoring regarded as public managing and operations, foreign capital is limited to 40% or less.
Vietnam	○100% foreign equity is allowed in principle. However, certain items such as cigarettes, books, newspapers, magazines, video recording devices, precious metals, medicines, and sugar are not allowed to be handled by foreign companies.	○100% foreign equity is allowed. ○Official approval is necessary for carrying out additional stores. Approval for the second or more stores is measured based on the Economic Needs Test (ENT). However, the second or more stores with floor spaces less than 500m2 would be exempted from ENT.	○Foreign equity restrictions are set for each individual area in detail such as freight transport by land (51% or less foreign equity), freight transport by sea (49% or less foreign equity).	○ 100% foreign capital investment allowed.	○ A joint venture with foreign capital of 99% or less can be established for custom services. ○ A joint venture with foreign capital of 50% or less can be established for container handling services.

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Restrictions on foreign investment in distribution and logistics services in emerging economies: Other regions

Figure II-19: Restriction on foreign investment in distribution and logistics services in emerging economies (continued)

	Wholesale	Retail	Logistics		
			Domestic transportation	Warehousing	Customs services/Others
India	○ 100% foreign capital investment allowed.	○Single brand: 100% foreign ownership is allowed with individual permission from the government and under certain conditions. However, for foreign ownership exceeding 51%, procurement regulations are applied.	○100% ownership is allowed for marine and road transportation. ○Among air transportation, foreign ownership is limited to up to 49% for regular services and up to 74% for irregular services or charter flights.	○ 100% foreign capital investment allowed.	
	○Multiple brand: Up to 51% foreign ownership is allowed under certain conditions. Such conditions include the minimum investment amount of 100 million dollars, investing in back-end infrastructure, 30% of procurement amount coming from small-scale companies, and business operations in cities with 1 million people or more.		○Foreign ownership is prohibited for railway transportation, except in some cases such as high-speed railway, cargo lines and public-private projects, for which 100% ownership is allowed.		
Bangladesh	○ There are no clear provisions prohibiting entry of foreign capital, however prior consultation is necessary with the Board of Investment of Bangladesh, which screens on a case-by-case basis. Some companies which do not have a manufacturing function tend to have difficulty in registering with the Board of Investment.		○ Foreign capital up to 49% was allowed, however in April 2012, the Ministry of Commerce sent an official notice for suspending foreign capital in eight service industries (freight forwarders, import agency, courier, shipping company, marketing agency for airlines,railways, etc.) and all registrations of joint ventures. Thus, new licenses have been suspended in transport services.		
Sri Lanka	○ 100% foreign capital investment allowed. However, restrictions may be applied or licenses may have to be acquired, depending on the product. Further, in the case of a branch office, a minimum capital of US$200,000 is mandatory.	○ 100% foreign capital investment allowed. However, a minimum capital of US$1 million is required (in the case of branch offices US$2 million). There are some cases in which companies which have a domestic manufacturing function are exceptionally allowed to engage in certain retail business.	○ Foreign capital in freight forwarding and shipping agencies is limited to 40% or less. Licenses must be obtained from the Board of Investment (BOI) for investments exceeding 40%. ○ Licenses must be obtained from BOI and competent authorities for air transport and coastal shipping. ○ Foreign capital in freight forwarding and shipping agency through branch offices is prohibited.		
Pakistan	○ 100% foreign capital investment allowed.				
Brazil	○ 100% foreign capital investment allowed. However, certain minimum investment amount has to be satisfied for issuing permanent visas for resident employees.		○ In air and land freight transport, voting right of foreign investor should be less than 20%. Also, all board members must be Brazilians.	○ 100% foreign capital investment allowed. However, certain minimum investment amount has to be satisfied for issuing permanent visas for resident employees.	
			○Foreign capital in coastal shipping is limited to less than 50%. More than half of the board members should be Brazilians. Moreover, the ships must be registered in Brazil and operated by a domestic company which has obtained a license from the National Agency for Waterway Transportation.		
Peru	○ 100% foreign capital investment allowed.		○ Less than 49% foreign equity is allowed for domestic commercial air transport. However, up to 70% foreign equity is allowed after six months following permission.	○ 100% foreign capital investment allowed.	
			In addition, the majority of management must have Peruvian nationality or permanent residency. ○ In domestic marine transport, the proportion of foreign equity must be less than 49% and the company must own at least one ship of Peruvian nationality. In addition, the majority of management must have Peruvian nationality and must be residents. 80% or more of the ship's captain and crew must have Peruvian nationality.		
Mexico	○100% foreign equity is allowed. However, if a foreign company takes more than 49% of a stake in an existing company in a non-restricted industry and the investment exceeds a certain amount, the Foreign Investment National Commission's approval is required. 100% foreign equity is allowed.		○Domestic freight transport by land (excluding home delivery services) is a restricted industry and is reserved for Mexican nationals only or for Mexican corporations with an Exclusion of Foreigners Clause . ○Domestic air transport, air-taxi transport, and special air transport are restricted industries	○ 100% foreign capital investment allowed. However, even in non-restricted industries, approval must be obtained from the National Foreign Investment Commission, if the foreign capital is over 49% and exceeds the specified amount.	○ Entry of foreign capital in customs services industry is prohibited, except for handling the company's own freight. Also, registered customs specialist must be Mexican. ○ Excluding integrated harbor management, harbor services for piloting routes in home waters based on maritime laws and tourism services, foreign capital in domestic shipping and fuel/lubricant supply to ships/aero planes/railway equipment, is limited to 25% or less.
			For foreign equity participation, only up to 25% foreign equity is allowed. ○For port transport services such as towing, mooring, and chartering, shipping companies engaged in marine operations of ocean transportation, and provision of public railway services, companies with foreign equity participation that exceeds 49% need approval from the Foreign Investment Commission pursuant to Section 8 of the Foreign Investment Act.		
Chile	○ 100% foreign capital investment allowed.		○ 100% foreign equity is allowed if a certain minimum investment amount is satisfied.	○ 100% foreign equity is allowed if a certain minimum investment amount is satisfied.	
			However, in transportation by Chilean-registered vessels, the foreign equity should be less than 50%, and more than half of board members should be Chileans.		
Russia	○ 100% foreign capital investment allowed.		○ 100% foreign capital investment allowed.	○ 100% foreign capital investment allowed.	
			○ However, in principle, only Russian-registered vessels can be used in domestic sea transportation.		
Saudi Arabia	○ Foreign capital is limited to 75% or less. ○ A minimum capital of 20 million Riyals is mandatory.		○Foreign entry in land transportation (excluding local passenger railway services) is not allowed.	○ 100% foreign capital investment allowed.	
Turkey	○ 100% foreign capital investment allowed.		○ Foreign capital in domestic sea transport and port services is limited to 49% or less. Entry of foreign capital in domestic vessel services is not allowed. ○ In rail transportation, only Turkish Republic State Railways, can operate the basic rail services.	○ 100% foreign capital investment allowed. ○ Regardless of whether domestic or foreign, distributors and custom brokers must be separate.	○ 100% foreign capital investment allowed.
Egypt	○ 100% foreign capital investment allowed. However, foreign capital is not allowed in import agencies.		○ 100% foreign capital investment allowed.		
South Africa	○ 100% foreign capital investment allowed.				

Source: Reports from JETRO overseas offices. Regulations as of end of June 2015.

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Service trade liberalization in process

Further service trade liberalization by FTA

The number of FTAs with service chapters are increasing. Such FTAs incorporate a higher level of liberalization compared with ongoing foreign capital restrictions and the GATS. Even emerging and developing economies adopting comparatively strict restrictions in the services industry have liberalized to a certain extent through FTAs. Japan's FTAs with ASEAN countries also include several GATS plus commitments including maintenance and repairs. ASEAN members are currently negotiating on the ASEAN Framework Agreement on Services (AFAS) which will allow its internal investors to take 70% stake at most. APEC is scheduled to formulate an action plan by the end of 2015 for preferential liberalization of what are referred to as "manufacturing related services".

Ongoing negotiations on the Trade in Services Agreement (TiSA)

As of July 2015, 25 countries/regions (whose share of the global services trade value is 76.0%) are participating in TiSA negotiations which started from 2013. Each country seems to have submitted an offer which contains the highest liberalization standards they have committed among past FTAs.

Figure II-20: Examples of services trade liberalization through FTAs

Services	Current status	FTA counterparty	Liberalization details	Effects
Various services in Thailand	Share of foreign capital in service sector is limited to less than 50% according to the Foreign Business Act.	Japan Australia	• Allows 100% foreign capital in construction services. • Allows up to 60% foreign capital in restaurants and hotels. • Allows up to 100% and 75% foreign capital from Australia and Japan respectively, in wholesale and retail of merchandise manufactured domestically by a corporation established in Thailand.	–
Financial services in Singapore	In the banking industry, there are quantitative restrictions of branches and ATMs.	United States	Elimination of quantitative restrictions, expansion of service bases, ATM network connection with local banks, within three years after FTA coming into force.	Citibank to expand its operations.
	Full bank status for foreign banks is limited to one bank.	Japan	Singapore to provide full bank status to another Japanese bank.	Two Japanese megabanks now have full bank licenses.
Legal services in South Korea	There are strict restrictions on the entry of foreign capital in legal services.	United States EU	Law firms from FTA partner countries are allowed to establish offices and to offer legal services related to foreign laws. European and American law firms can offer all services including lawsuits, with hiring South Korean lawyers, from July 2016 and March 2017 respectively.	Various European and American law firms are setting up their offices in South Korea.
Retail services in Panama	Panama's constitution prohibits the entry of foreign capital in the retail industry.	United States	Law 62 of 2012 established just before the FTA come into force, allows large scale retailers to enter Panama. Invesment has to be over $3 million, with goods and services provided within the same facilities.	Walmart and Walgreens have shown interest in investing in Panama.

Source: JETRO and press reports.

Figure II-21: GATS plus commitments by Japan's FTA partners

Partner countries	GATS plus commitments
Singapore	**Finance:** Issuance of new license and abolition of foreign equity restriction for insurance companies, granting an additional full bank license to a Japanese bank. **Communications:** 100% Japanese equity is allowed. Transportation: New commitment to liberalize 35 industries, including overseas shipping and warehousing.
Thailand	**Transportation:** Abolition of cargo reservation for overseas shipping services, and other new commitments in several sectors. **Distribution:** Up to 75% Japanese equity is allowed in wholesale and retail for products manufactured in Thailand. **Maintenance and repair:** Up to 60% Japanese ownershio is allowed in maintenance and repair of household electrical appliances manufactured in either Thailand or Japan.
Malaysia	**Communications:** Up to 49% Japanese equity is allowed in application service providers. **Transportation:** New commitment on rental services of overseas freighters. **Rental, lease, maintenance and repair:** Up to 51% Japanese equity is allowed in rental, lease or maintenance and repair of certain products manufactured in Malaysia.
Indonesia	**Finance:** Abolition of differencial treatment in ratio of borrowed capital restriction in leasing business. **Communications:** New commitment to several services including leased line. Up to 40% Japanese equity is allowed in basic telecommunication services. **Maintenance and repair:** Maintenance and repair of some of the machinery manufactured in Indonesia is exempt from restriction.
Philippines	**Finance:** Up to 60% equity is allowed by Japanese commercial bank. **Computer and related services:** Under certain conditions, 100% Japanese equity is allowed. **Communications:** Expansion of the scope of liberalization in leased line and satellite services, as well as improving the level of liberalization.
India	**Finance:** Favorable consideration to Japanese banks's applications for opening branches. **Communication:** Up to 74% Japanese equity is allowed. **Distribution:** 100% Japanese equity is allowed in warehousing, wholesale and single brand franchisees.

Notes: The chart covers only some of the examples of commitments.
Source: "Report on Compliance by Major Trading Partners with Trade Agreements" (Ministry of Economy, Trade and Industry) and other METI resources.

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Huge economic gain expected by Trade Facilitation Agreement

■ Trade Facilitation Agreement (TFA) expected to contribute greatly to global trade

The TFA, agreed in Bali Ministerial, which was then adopted in November 2014, will enter into force upon ratifications by more than 2/3 of WTO members. Importers and exporters frequently encounter, especially in the customs of developing countries, a number of issues such as lack of transparency in laws/regulations, application of these laws/regulations, frequent delays in customs clearance and so on. Therefore, the agreement, aiming at facilitating trade by addressing these issues, is expected to bring a huge economic gain for WTO members.

■ WTO members to formulate a work program in the Doha Round, to advance the negotiations on the Information Technology Agreement (ITA) II as well as the Environmental Goods Agreement (EGA)

WTO members were engaging in the negotiation on the post-Bali work program to meet the July 31 deadline. However, they failed to narrow their differences by then on remaining issues such as non-agricultural market access (NAMA), agriculture, services, rules and so on. Some WTO members have also participated in the negotiations on plurilateral agreements such as ITA II and the Environmental Goods Agreement (EGA), in which they worked on selection of the products to be covered in the agreements. There was good news in the ITA II in July 2015. The participating countries agreed on 201 products to be covered in the accord. Now their focus has shifted to determining the liberalization schedule for each product selected.

Figure II-22: Overview of some of TFA elements

Purpose	Subjects	Overview
To make public Trade-related laws/regulations and to Improve Transparency	Prompt Publication of information related to export/import, Making available related information through internet, Establishment of enquiry points (Art. 1)	・Each member shall promptly publish the following information: procedures for importation, exportation, and transit, and required forms and documents, applied rates of duties and taxes of any kind imposed on, fees and charges, rules for the classification or valuation of products, rule of origin, restrictions or prohibitions, penalty provisions for breaches, procedures for appeal or review, agreements or parts thereof with any country or countries, procedures relating to the administration of tariff quotas. ・Each member shall make available, and update to the extent possible and as appropriate, the following through the internet: procedures for importation, exportation, and transit, including procedures for appeal or review, contact information on its enquiry point(s), etc. ・Each member shall establish or maintain one or more enquiry points to answer reasonable enquiries of governments, traders, and other interested parties.
	Preparaton for Advanced Ruling (Art. 3)	・Each Member shall issue an advance ruling in a reasonable, time-bound manner to the applicant that has submitted a written request containing all necessary information. ・If a Member declines to issue an advance ruling, it shall promptly notify the applicant in writing, setting out the relevant facts and the basis for its decision. ・The advance ruling shall be valid for a reasonable period of time after its issuance unless the law, facts, or circumstances supporting that ruling have changed. ・Where the Member revokes, modifies, or invalidates the advance ruling, it shall provide written notice to the applicant setting out the relevant facts and the basis for its decision. Where a Member revokes, modifies, or invalidates advance rulings with retroactive effect, it may only do so where the ruling was based on incomplete, incorrect, false, or misleading information. ・An advance ruling issued by a Member shall be binding on that Member in respect of the applicant that sought it. ・Each Member shall provide, upon written request of an applicant, a review of the advance ruling or the decision to revoke, modify, or invalidate the advance ruling
To Expedite and Facilitate Import/Export Procedures	Trade Facilitation Measures for Authorized Operators (AEO)(Art.7.7)	・Each Member shall provide additional trade facilitation measures related to import, export, or transit formalities and procedures to operators who meet specified criteria, hereinafter called authorized operators. Alternatively, a Member may offer such trade facilitation measures through customs procedures generally available to all operators. ・The specified criteria to qualify as an authorized operator shall be related to compliance, or the risk of non-compliance, with requirements specified in a Member's laws, regulations or procedures. ・The trade facilitation measures shall include at least three of the following measures: (1) low documentary and data requirements, as appropriate; (2) low rate of physical inspections and examinations, as appropriate; (3) rapid release time, as appropriate; (4) deferred payment of duties, taxes, fees, and charges; (5) use of comprehensive guarantees or reduced guarantees; (6) a single customs declaration for all imports or exports in a given period; and (7) clearance of goods at the premises of the authorized operator or another place authorized by customs. ・Members are encouraged to develop authorized operator schemes on the basis of international standards ・Members shall afford to other Members the possibility of negotiating mutual recognition of authorized operator schemes.
	Encouragement of Single Window (Art. 10.4)	・Members shall endeavour to establish or maintain a single window, enabling traders to submit documentation and/or data requirements for importation, exportation, or transit of goods through a single entry point to the participating authorities or agencies. ・After the examination by the participating authorities or agencies of the documentation and/or data, the results shall be notified to the applicants through the single window in a timely manner.

Source: WTO Secretariat

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Solving unfair trade practices through WTO dispute settlement mechanism

Japanese government challenging unfair trade practices of its trading partners at WTO dispute settlement (DS)

WTO DS contributes to bringing member countries' unfair trade measures in conformity with WTO rules. The number of WTO cases has greatly increased compared to that during the GATT years. In recent years, while the number of case has been decreasing, it is worth noting that the share of the cases brought against developing countries is rising.

Traditionally, it is the US and EU that utilize the DS mechanism most, but nowadays the Japanese government is also proactively using it for not only addressing unfair trade measures of its trading partners but also for bringing out more clarity in established trade rules. For example, in March 2014, a panel upheld the argument made by Japan in the case against China's export quota and tax on rare earth. China appealed, but the WTO Appellate Body upheld most of the decision made by the panel. The panel recommended China to bring the measures in conformity with WTO rules.

Figure II-23: WTO DS cases brought by Japanese government in recent years

Respondant	Case	Overview of measures	Points at issues in WTO agreement	Background
China	Measures related to the exportation of rare earths, tungsten and molybdenum	Imposition and administration of various export restrictions on substances like rare earth, tungsten, molybdenum. These restrictions include export duties, export quotas, and restriction on trading rights, etc.	• Imposition of export tax on rare earth and other products is in violation of the Protocol on the Accession of the People's Republic of China (export tax elimination obligation), the quantitative restriction on export is violating GATT Article 11 (general prohibitions of quantitative restriction) and the restriction on trading rights is violating Article 5 of the Protocol on Accession, and the Report of the Working Party on the Accession. • The panel upheld most of the arguments made by Japan, US and EU. • Mineral resources are not listed in the list of exceptions to the prohibitions on export tax in the Protocol on Accession and, both export tax and export quantity restriction is recognized as violating GATT Article 11, and restriction on right to trade is recognized as violating the Protocol on Accession. • China sought to justify its measures on the basis of "General Exceptions" (GATT Article 20 (b) and (g) in this case), but the panel rejected its claim. • The Appellate Body upheld most of the decisions by the panel	Mar-12 Request for consultation Apr-12 Consultation held Jun-12 Request to establish a panel Jul-12 Panel established Mar-14 Panel report circulated Apr-14 Appeal by China Aug-14 Appellate Body report adopted Jan-15 Quantitative restriction abolished May-15 Export tax abolished
Argentina	Measures affecting the importation of goods	The requirement to present for approval of a non-automatic import licence: Declaración Jurada Anticipada de Importación (DJAI), requirements imposed on importers to undertake certain trade-restrictive commitments.	• These measures are violating GATT Article 11 (general elimination of quantitative restrictions), GATT Article 10 (publication and administration of trade regulations) and the Agreement on Import licensing procedures • The panel mostly upheld the arguments made by Japan, the US and EU • Based on the large amount of evidence such as the statements made by high government officials, newspaper articles and so on all submitted by complainants, the Panel found the existence of measures, which effectively restricted imports, and decided that the measures was in violation of GATT Article 11. • The Appellate Body upheld the decisions made by the panel	Aug-12 Request for consultation Sep-12 Consultation held Jan-13 Panel established Aug-14 Panel report circulated Sep-14 Appeal by Argentina Jan-15 Appellate Body report adopted
Russia	Recycling fee on motor vehicles	Recycling fee on motor vehicles applied discriminately against imported cars	• Russia imposes a recycling fee on imported and domestic motor vehicles while exempting the fee from vehicles that are manufactured by companies that are registered in Russia. The recycling fee is in violation of GATT Article 3 (national treatment on internal taxation and regulation). • Russia also exempts the fee for manufacturers that have committed to produce their vehicles in Russia involving certain specific manufacturing operations in the territory of Russia, Belarus or Kazakhstan, which is in violation of GATT Article 1 (general most-favored nation treatment). • Russia corrected the tax on disused vehicles with the enforcement of the Amendment bill in January 2014	Jul-13 Request for consultation Aug-13 Consultation held Jan-14 Russia rectified tax on disused vehicles
South Korea	Import bans, and testing and certification requirements for radionuclides	Import bans on certain Japanese food products, additional testing and certification requirements regarding the presence of certain radionuclides, and a number of alleged omissions concerning transparency obligations under SPS Agreement. Korea's measures were adopted subsequent to the accident at the Fukushima Daiichi nuclear power plant in March 2011.	• Restrictions on food import imposed in South Korea are in violation of the "Agreement on the Application of Sanitary and Phytosanitary Measures" (SPS Agreement) and GATT Article 23 (nullification or impairment) because of various reasons such as: (1) The delays in announcement of details on the restrictions or in giving reasons for introduction after the introduction of health quarantine regulation, (2) Absence of risk assessment and insufficient scientific basis, (3) Requests for additional tests and authentication	May-15 Request for Consultation
Brazil	Certain measures concerning taxation and charges	• After tax on industrial goods related to automobiles was increased by 30% in 2011, a tax break was introduced in October 2012 on conditions of manufacturing or doing the research and development within the country (Inovar Auto) • Besides that, taxation and charges in the electronics and technology industry, and tax advantages for exporters.	• Various tax breaks in automobile, electronics and technology industry, among others, are violating GATT Article 3 (national treatment on internal taxation and regulation) or GATT Article 1 (general most favoured nation treatment) as the measures are discriminatory against import goods and beneficial to only some import goods. • Tax break measures based on conditions such as the export performance of companies are pertinent to prohibited export subsidies.	Jun-15 Request for Consultation

Sources: Created from data of METI and WTO

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Chapter 3

New efforts aimed at developing global business

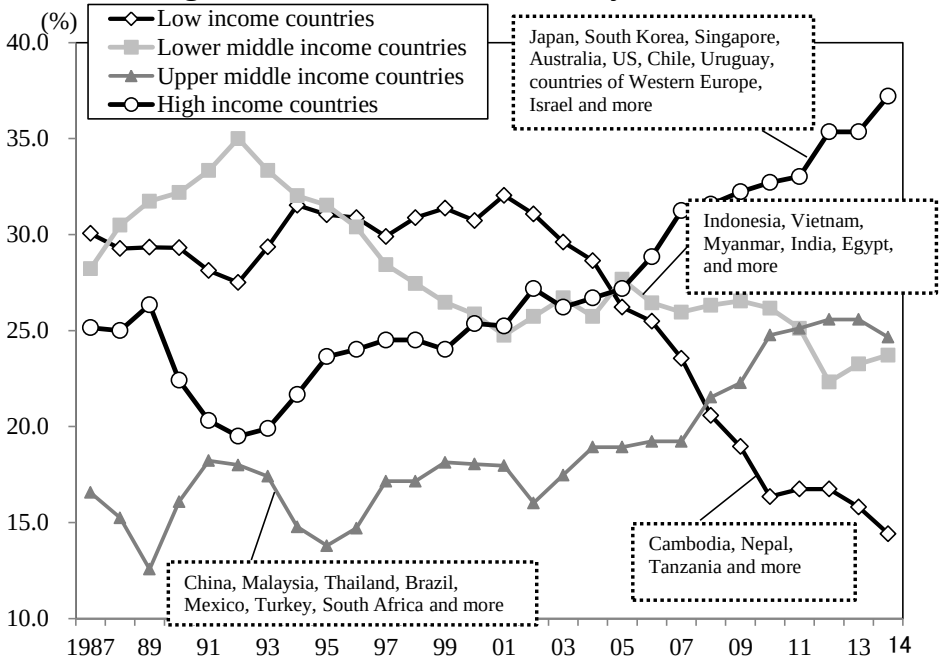
Increasingly attractive “critical mass” markets as consumer markets

Purchasing power increasing in “critical mass” markets

In emerging and developing countries, consumption is expected to grow as their income levels rise. Japanese companies have also proactively opened up a new market in developing markets, particularly in China and ASEAN. But in other regions, Japanese companies are behind Western companies in advancing into the countries with large markets and high growth rates. The Ministry of Economy, Trade and Industry indicates that it is “necessary to work intensively and strategically on achieving critical mass in a select few promising sectors” in emerging markets.

In this report, we analyze 10 countries which are promising as consumer markets but still have room for Japanese companies to cultivate, and name them “critical mass” markets. We selected (1) among middle-income countries other than China and ASEAN, (2) countries which have more than a $100 billion nominal GDP, and (3) the ten most largely populated countries. In “critical mass” markets, the ratio of households with an annual disposable income of more than $10,000 is only 13.2% as of 2014, but in 2030, it is expected to increase to 27.8%. In these markets, basic spending on food, clothing, etc. occupies more than half of consumption, but consumption is expected to diversify to services and luxury goods as well, with rising income levels in the future.

Figure III-1: Share of countries by income level



Note: 1) The income classifications are revised each year.
2) Listed countries in each group are based on the latest definitions.
Source: World Bank.

Figure III-2: 10 “critical mass” markets

Country	Nominal GDP ($100 million) (2014)	Population (10,000) (2014)	Personal consumption rate against GDP (%) (2013)
Brazil	23,530	20,277	62.5
India	20,495	125,970	57.1
Mexico	12,827	11,972	69.0
Turkey	8,061	7,690	70.9
Nigeria	5,737	17,394	72.1
Colombia	3,849	4,766	61.0
South Africa	3,501	5,400	60.6
Egypt	2,864	8,670	81.2
Pakistan	2,501	18,629	81.0
Bangladesh	1,854	15,822	72.8
<Reference: East Asia>			
China	103,804	136,782	36.2
Indonesia	8,886	25,149	55.8
Thailand	3,738	6,866	51.9
Malaysia	3,269	3,026	51.2

Note: Middle income countries defined by World Bank are regarded as emerging countries.

Sources: World Bank, WEO (IMF), and UN.

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Critical mass markets ushering period of full-fledged population bonus

Critical mass markets ushering period of full-fledged population bonus at present or in future

In critical mass markets, there are many countries seeing a full-fledged population bonus period at present or expecting one in the future. For the population bonus period wherein the percentage of the working age population to the total population will rise, and moreover the working age population is more than twice the dependent population, this period shall end or is approaching its end in advanced countries and a few of the emerging and developing countries in Asia, while currently there are many countries in the critical mass markets that are ushering or will soon usher in this period.

Figure III-3: Population bonus periods of critical mass markets

(10,000 people, US$, %)

		Population (2015)	GDP per capita (2015)	1990	1995	2000	2005	2010	2015	2020	2025	2030	2035	2040	2045	2050	2055	2060	Population bonus period	Population bonus period		
																				Period of continued rise in working age population ratio	Rise in working age population ratio + working age population/ dependant population for 2 or more periods	Working age population/ dependant population for 2 or more periods
Critical mass markets	Nigeria	18,352	2,884	1.1	1.1	1.2	1.2	1.1	1.1	1.1	1.2	1.2	1.3	1.3	1.4	1.4	1.5	1.6	1988～2095	1988～2095	–	–
	Pakistan	18,814	1,343(2014)	1.1	1.1	1.2	1.4	1.5	1.7	1.8	1.9	2.0	2.1	2.2	2.3	2.2	2.2	2.1	1993～2072	1993～2027	2028～2047	2048～2072
	South Africa	5,349	5,902	1.4	1.5	1.7	1.8	1.9	1.9	1.9	2.0	2.0	2.1	2.2	2.2	2.1	2.1	2.0	1967～2070	1967～2024	2025～2044	2045～2070
	India	128,239	1,808	1.4	1.5	1.6	1.7	1.8	2.0	2.0	2.1	2.1	2.2	2.2	2.1	2.1	2.0	2.0	1967～2060	1967～2014	2015～2040	2041～2060
	Bangladesh	16,041	1,284	1.2	1.3	1.4	1.6	1.8	2.0	2.1	2.2	2.3	2.3	2.2	2.1	2.0	1.8	1.7	1978～2051	1978～2014	2015～2032	2033～2051
	Egypt	8,471	3,304(2014)	1.3	1.3	1.5	1.6	1.7	1.7	1.8	1.8	1.9	2.0	2.0	2.0	1.9	1.9	1.8	1972～2048	1972～2032	2033～2041	2042～2048
	Brazil	20,366	9,312	1.5	1.7	1.9	2.0	2.1	2.2	2.3	2.2	2.1	2.0	1.9	1.8	1.6	1.5	1.5	1967～2038	1967～2004	2005～2020	2021～2038
	Turkey	7,669	9,680	1.5	1.6	1.7	1.9	2.0	2.1	2.1	2.1	2.1	2.0	1.9	1.8	1.7	1.6	1.5	1967～2037	1967～2009	2010～2022	2023～2037
	Mexico	12,524	10,174	1.3	1.5	1.6	1.7	1.8	1.9	2.0	2.1	2.1	2.0	1.9	1.8	1.7	1.6	1.5	1968～2037	1968～2016	2017～2027	2028～2037
	Colombia	4,953	6,895	1.4	1.5	1.7	1.8	1.9	2.0	2.0	2.0	2.0	1.9	1.9	1.8	1.8	1.7	1.6	1967～2031	1967～2012	2013～2024	2025～2031
Reference	Indonesia	25,571	3,511	1.5	1.6	1.8	1.9	1.9	2.0	2.1	2.2	2.2	2.1	2.0	1.9	1.9	1.9	1.8	1972～2044	1972～2013	2014～2026	2027～2044
	China	140,159	8,154	1.9	1.9	2.1	2.5	2.8	2.6	2.3	2.2	2.1	1.9	1.7	1.7	1.6	1.4	1.3	1974～2034	1974～1997	1998～2010	2011～2034
	Thailand	6,740	5,612	1.9	2.0	2.3	2.3	2.5	2.6	2.5	2.3	2.0	1.8	1.6	1.4	1.3	1.3	1.2	1969～2031	1969～1991	1992～2014	2015～2031
	United States	32,513	56,421	1.9	1.9	2.0	2.0	2.0	1.9	1.8	1.7	1.6	1.5	1.5	1.5	1.5	1.5	1.5	1963～2014	1963～1999	2000～2008	2009～2014
	Europe (excludes E. Europe & Russia)	45,062	–	2.0	2.0	2.0	2.0	2.0	1.9	1.8	1.7	1.5	1.4	1.4	1.3	1.3	1.3	1.3	1973～2010	1973～1983	1984～1999	2000～2010
	Japan	12,682	33,223	2.3	2.3	2.1	2.0	1.8	1.5	1.4	1.4	1.3	1.3	1.1	1.1	1.0	1.0	1.0	1950～2005	1950～1962	1963～1992	1993～2005

Note (1) Medium fertility projection.
(2) Light grey: Ratio of working age population/Total population rises almost consistently. Grey: Ratio of working age population/Total population rises almost consistently, and working age population/dependant population (young population + aged population) is for 2 or more periods. Shaded: working age population/dependant population is for 2 or more periods.
(3) Numeric value of chronological data is the working age population/ dependant population.
Sources: "World Population Prospects: The 2012 Revision" (United Nations), "World Economic Outlook, April 2015" (IMF)

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Japanese corporations in critical mass markets: Investment

■ Western investments having major presence in critical mass markets

Japan's FDI in emerging countries has been increasing. However, western countries have a major presence in the inward FDI stock of critical mass markets, on the back of both geographical and historical linkage among the regions. Chinese FDI is also emerging in Africa.

■ Except for East Asia, membership to chambers of commerce by Western companies exceed Japanese companies

Membership to chambers of commerce to some extent reflects the strength of ties between the two countries and the presence of the investing country in the host country. Japanese companies have a large membership in East Asian countries compared to other countries. However, in other regions memberships by American or German companies is overwhelming. Western companies, besides growing their roots deep in Central and South America, have higher membership than Japanese companies even in Southern Asia, and thus are more proactive in networking.

Figure III-4: Critical mass market's inward FDI stock - Share of each investing country- (as of end of 2013)

(Unit: %, US$ million)

Investing country / Recipient country	US	UK	Germany	Japan	China	South Korea	Total inward FDI stock
India	16.0	15.9	5.7	7.1	0.1	1.4	249,288
Pakistan	11.4	18.0	1.6	5.0	5.6	0.1	10,586
Bangladesh	8.7	11.0	0.7	5.0	1.8	7.8	8,063
Brazil	15.1	3.2	2.6	4.2	0.3	0.7	715,182
Mexico	45.3	4.0	2.5	2.2	0.1	0.3	391,879
Turkey	4.9	6.0	10.6	0.9	0.0	0.4	112,814
South Africa	6.1	48.3	4.7	2.2	3.7	0.4	152,124
Nigeria	4.5	10.6	0.3	0.0	14.2	0.0	94,960
(Reference)							
China	3.3	0.9	2.3	6.3	0.0	2.6	2,331,238
Singapore	13.0	5.4	2.1	7.4	3.9	0.6	750,078
Indonesia	3.2	4.6	1.1	11.3	1.0	3.7	230,439
Thailand	7.8	3.3	2.0	35.4	1.9	1.5	178,221
Malaysia	8.6	4.3	4.3	14.7	0.2	1.6	135,638

Notes: 1) Bangladesh's data are as of the end of 2012. No data for Colombia and Egypt. 2) Shaded areas indicate the largest investing country for each recipient. Source: "Coordinated Direct Investment Survey" (IMF).

Figure III-5: Number of Japanese, US and European chamber of commerce members in emerging markets (in parenthesis are members from the country of that chamber's nationality)

Country / Chamber's nationality	Critical mass markets								(Reference)			
	*1 India	*2 Pakistan	*3 Bangladesh	Brazil	Mexico	Colombia	*4 Turkey	South Africa	*5 China	Singapore	*6 Thailand	*7 Malaysia
Japan	1,209	67	183	373 (231)	370 (approx. 90%)	70 (19)	89	64	23,094	813	1,596	585
United States	2,125	65	230	approx. 4,600	1,500 (approx. 85%)	736 (approx. 40%)	112	225	20,210	737	650	344
Germany	approx. 7,000 (approx. 1,500)	199	620	1,266 (1,263)	620 (approx. 80%)	298 (approx. 210)	797	More than 500	4,417	502	550	342
United Kingdom	81	approx. 100	n.a.	approx. 400 (approx. 300)	approx. 280	123	390	144	3,282	approx. 400	570	approx. 360
France	550 (180)	33	140	930 (82)	More than 300	150	33	198	2,142	approx. 600	224	More than 250
Spain	n.a.	n.a.	n.a.	256 (approx. 60%)	585 (approx.80%)	207 (approx. 70%)	approx. 70	45	1,000	n.a.	n.a.	46

Notes: ① The numbers of Japanese companiess are from the following sources: *1 Embassy of Japan in India, *2 JETRO Karachi, *3 The Japanese Commerce and Industry Association in Dhaka, *4 The Japanese Society of Istanbul, *5 "China Trade and External Economic Statistical Yearbook" (National Bureau of Statistics, China, as of year 2012), *6 The Japanese Chamber of Commerce, Bangkok,*7 According to JETRO Kuala Lumpur survey, there are 1,438 firms.
② *1 The number of US companies based on the Indo-American Chamber of Commerce (IACC), *2 The number of UK companies are based on press reports, *5 The sources are the same as in ①.
③ For reference, there are 725 Japanese companies, more than 3,500 US companies, more than 2,400 German companies, and more than 1,000 UK companies, according to each chamber of commerce.
④ Not only companies from the concerned countries, but multinational and individual members including local companies, also join the chamber of commerce. Thus, unless otherwise specified, the data indicates the total numbers of members regardless of the chamber's nationality. On the other hand, since companies do not have the obligation to register themselves as members, there seems to be absent companies not covered by these numbers to a respctable degree. Shaded area indicate the largest numbers for each market.
Sources: Unless there is special mention, each Chamber of Commerce (as of 2014 to May, 2015).

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Japanese corporations in critical mass markets: Market share

■ Rival companies with high share in consumer goods

Japanese companies have occupied large shares within the critical mass markets for various commodity items, such as electric appliances, tissue and hygiene products and alcoholic drinks.

However the presence of rival companies surpasses Japanese enterprises. European enterprises in household electrical appliances and home care, Korean enterprises in electric appliances, dominate the market in almost all the critical mass countries.

Also, there are several industries which are dominated by the regional enterprises. In India and Pakistan, regional enterprises are influential notwithstanding the type of industry, and they are the main players in overall retailing (with the exception of Central and South America where foreign enterprises have a large market share).

Figure III-6: Company market shares by consumption good in critical mass markets

Categories	India		Pakistan		Brazil		Mexico		Colombia	
	Company name (Nationality)	Share (%)	Company name (Nationality)	Share (%)	Company name (Nationality)	Share (%)	Company name (Nationality)	Share (%)	Company name (Nationality)	Share (%)
Household electrical appliances (Reatail volume)	Bajaj Electricals	13.0			Whirlpool (USA)	10.8	Jarden (USA)	11.1	Landers & Cia	11.5
	Crompton Greaves	8.2			Electrolux (Sweden)	10.1	Colgate-Palmolive (USA)	7.7	Jarden (USA)	10.9
	Usha International	6.2			SEB (FR)	9.9	Controladora Mabe	6.9	Spectrum Brands (USA)	10.0
	Philips (NL)	5.0			Mondial	7.8	P&G (USA)	5.7	SEB (FR)	9.6
	Sunflame Enterprises	4.8			Britânia	6.0	Spectrum Brands (USA)	5.7	HACEB	8.5
Electric appliances (Retail volume)	Samsung (S.Korea)	22.6			Samsung (S.Korea)	29.7	Samsung (S.Korea)	19.8	Samsung (S.Korea)	14.9
	Nokia (Finland)	14.2			LG (S.Korea)	15.5	Nokia (Finland)	13.6	Alcatel-Lucent (FR)	7.6
	Micromax	10.2			Nokia (Finland)	8.4	LG (S.Korea)	12.0	Nokia (Finland)	7.3
	Karbonn Mobiles	7.7			Sony	5.6	Apple (USA)	7.5	LG (S.Korea)	5.9
	LG (S.Korea)	5.9			Google (USA)	3.8	Sony	6.8	Sony	4.7
Alcoholic drinks (Total volume)	UB	42.6	Murree Brewery	80.9	Anheuser-Busch (USA)	56.2	Anheuser-Busch (USA)	47.9	SABMiller (UK)	93.7
	SABMiller (UK)	12.6	Lucas Bols (NL)	2.1	Kirin Holdings	13.8	Heineken (Germany)	40.7	Fábrica de Licores de Antioquia	1.6
	Pernod Ricard (FR)	5.4	Russian Standard (Russia)	2.0	Cervejaria Petrópolis	9.8	Damm (Spain)	3.3	Empresa de Licores de Cundinamarca	0.7
	ABD	3.3	Carlsberg (Denmark)	1.0	Heineken (Germany)	5.8	Pernod Ricard (FR)	1.1	Bogotá Beer	0.5
	Carlsberg (Denmark)	3.3	Aujan Industries (UAE)	0.6	Bavaria (NL)	1.6	Brown-Forman (USA)	0.9	Industria Licorera de Caldas	0.4
Tissue and hygiene (Retail volume)	P&G (USA)	42.4	Packages	31.9	Kimberly-Clark (USA)	20.7	Kimberly-Clark (USA)	60.7	SCA Group (Sweden)	44.7
	Johnson & Johnson (USA)	11.7	P&G (USA)	30.4	P&G (USA)	14.2	SCA Group (Sweden)	7.9	Kimberly-Clark (USA)	16.1
	Unicharm	7.7	Jasmine Tissues	6.1	Santher	10.8	P&G (USA)	7.1	Tecnoquímicas	14.5
	Kimberly-Clark (USA)	6.9	Santex Products	4.1	Hypermarcas	7.7	Controladora Mabe	5.4	Kruger (Canada)	6.8
	Avantha Group	3.0	Misk Paper Mills	3.6	Mili	6.9	Empresas CMPC (Chile)	2.2	Johnson & Johnson (USA)	4.2
Retailing (Retail value)	Flipkart Online Services	0.5	Utility Store Corp of Pakistan	2.2	Casino Guichard-Perrachon (FR)	6.4	Wal-Mart Stores (USA)	10.7	Casino Guichard-Perrachon (FR)	7.1
	Tata Group	0.5	Canteen Stores Department	0.4	Wal-Mart Stores (USA)	3.3	FEMSA	3.6	Falabella SACI (Chile)	2.9
	Future Group	0.4	Carrefour (FR)	0.3	Carrefour (FR)	1.7	Organización Soriana	3.4	Olímpica	2.7
	Reliance Group	0.3	Imtiaz Supermarket	0.2	Lojas Americanas	1.7	Grupo Coppel	2.8	Cencosud (Brazil)	2.6
	Godrej Group	0.2	PSO Outlets	0.2	Cencosud	1.2	Liverpool	2.2	Colombiana de Comercio	2.3

Categories	Turkey		South Africa		Egypt		Nigeria	
	Company name (Nationality)	Share (%)	Company name (Nationality)	Share (%)	Company name (Nationality)	Share (%)	Company name (Nationality)	Share (%)
Household electrical appliances (Reatail volume)	Arçelik	23.1	Spectrum Brands (USA)	21.4	Toshiba	18.2		
	BSH Bosch & Siemens (Germany)	9.0	Philips (NL)	8.1	Electrolux (Sweden)	13.4		
	Philips (NL)	7.7	Arçelik (Turkey)	6.6	Universal Group	6.9		
	SEB (FR)	7.0	De'Longhi (Italy)	6.4	Fresh Electric Co	6.7		
	Arzum Elektrikli	5.6	P&G (USA)	5.9	Kiriazi Group	6.4		
Electric appliances (Retail volume)	Samsung (S.Korea)	32.8	Samsung (S. Korea)	28.1	Nokia (Finland)	25.8		
	Nokia (Finland)	10.1	Nokia (Finland)	24.9	Samsung (S. Korea)	18.4		
	Apple (USA)	7.9	BlackBerry (Canada)	8.1	Sony	7.1		
	Sony	7.6	LG (S.Korea)	6.6	Apple (USA)	6.6		
	LG (S.Korea)	4.1	Apple (USA)	5.4	LG (S.Korea)	6.5		
Alcoholic drinks (Total volume)	Anadolu	66.4	SABMiller (UK)	63.3	Heineken (Germany)	69.2	Heineken (Germany)	61.6
	Carlsberg (Denmark)	18.2	Distell	9.2	Brauerei Hurlimann (SW)	13.2	Diageo (UK)	25.5
	Diageo (UK)	6.0	UB (India)	8.3	Egyptian International Beverage	3.6	SABMiller (UK)	4.2
	Kavaklidere	1.4	Heineken (Germany)	5.0	Carlsberg (Denmark)	2.4	Sona Breweries	0.4
	SABMiller (UK)	1.3	Diageo (UK)	1.2	Al Masria Al Alamia	0.8	Carlsberg (Denmark)	0.4
Tissues and hygiene (Retail volume)	P&G (USA)	22.2	Kimberly-Clark (USA)	23.7	P&G (USA)	46.2	P&G (USA)	30.5
	Hayat	17.0	Nampak Ltd	20.4	Nuqul Group (Jordan)	21.6	Boulos Group	14.2
	Eczacibasi Group	15.0	P&G (USA)	17.3	Zeritis Group (Greece)	7.4	Kimberly-Clark (USA)	13.3
	Ontex bvba (Belgium)	7.5	Lil Lets Group (UK)	2.3	Egyptian Co for Paper & Tissue Products	3.1	Wemy Industries	6.6
	Kimberly-Clark (USA)	4.5	Johnson & Johnson (USA)	2.2	Unicharm	2.1	Epesok Paper Mills	2.1
Retailing (Retail value)	BIM Birlesik Magazacilik	3.6	Shoprite Holdings	10.6	Mansour Mfg & Distribution	1.3	Shoprite Holdings (South Africa)	0.8
	Migros Tic	1.8	Pick 'n' Pay Stores	8.1	Ragab Sons	0.8	Exclusive Stores	0.4
	LC Waikiki	1.4	Internationale Spar Centrale (NL)	6.1	Carrefour (FR)	0.8	Everyday Group	0.3
	Koç Holding	1.2	Wal-Mart Stores (USA)	4.8	Anwal (Saudi Arabia)	0.5	Rocket Internet GmbH (Germany)	0.3
	A101 Yeni Magazacilik	1.2	Woolworths Holdings	4.0	Tawheed & El Nour	0.4	Artee Industries	0.3

Notes: (1) The shaded cells are regional enterprises. Thick borders are Japanese companies. FR, SW, NL are short for France, Switzerland, Netherlands, respectively.
(2) Consumer appliances refers to dishwashers, washing machines, cooking appliances, refrigerators, air conditioners, irons, beauty appliances, vacuum cleaners, etc. Consumer electronics refers to computers and peripheral accessories, video equipment, telecommunication equipment, gaming devices, etc. Tissues and hygiene refers to tissues, cotton, diapers, sanitary napkins, etc.
(3) Data on consumer electronics and alcoholic drinks are as of 2013.
(4) Especially for retailing, even the leading company's share is comparatively small. This is because the share of "other companies" whose specific names are not avaliable is large.
Sources: Euromonitor International

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Trends in expansion into critical mass markets

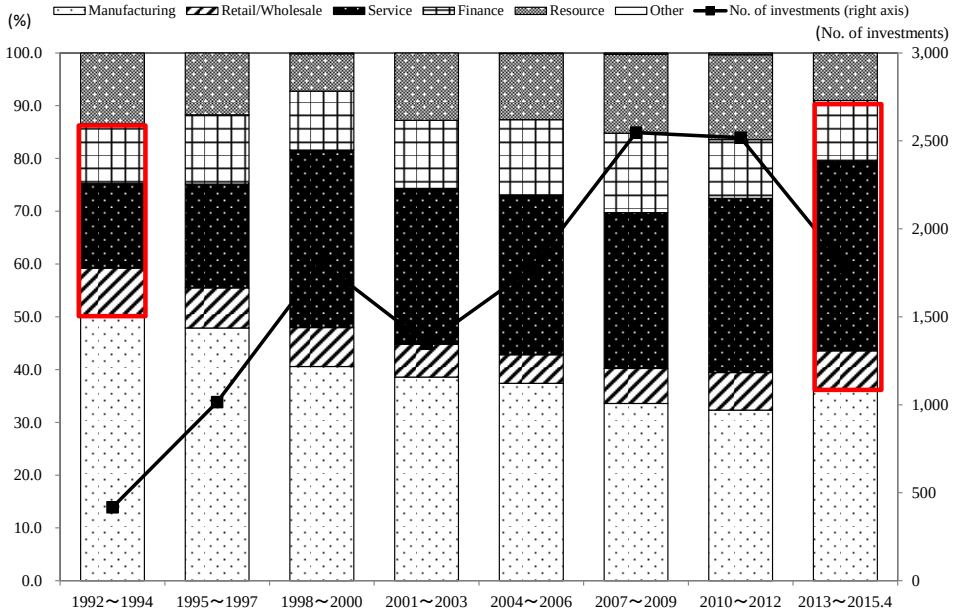
■ **The number of expansion through M&As into critical mass markets has increased sharply**

The number of expansions through M&As in the world's critical mass markets was at 2,518 from years 2010 to 2012, showing an increase of more than six times while it was 417 in the three years ranging from 1992 to 1994. By industry type, the share of the manufacturing industry occupied in the total number of M&A cases is on the decline, while the share of the non-manufacturing industries such as retail, wholesale and services is on the rise.

■ **Trends in Japanese firm's business expansion by country and approach**

Looking at the trends in Japanese firms' business expansion into the critical mass markets, in most countries, greenfield investment was more than half. In Mexico, the trend shows that many automobile companies have advanced alone, with greenfield investment accounting for 81.4% of all expansion cases. In other countries, the rate of expansion through alliances with regional enterprises is also high in addition to greenfield investment. The rate of expansion through the establishment of joint ventures is higher in Bangladesh, Turkey and India, the rate of acquisition and merger based expansion is higher in South Africa, Turkey and Brazil, and the rate of business alliance-based expansion is higher in countries such as Egypt, Colombia and South Africa.

Figure III-7: Trends in expansion through M&As into critical mass markets by industry in world



Sources: Thomson Reuters

Figure III-8: Trends in Japanese firms' business expansion by country and approach (January 1, 2010 – April 13, 2015)

(Case, %)

	Total	Greenfield investment	Establishment of a joint venture	M&A	Cooperation with government	Business/ capital alliance	Capital participation
Overall critical mass market	1,700	62.9	9.1	9.7	1.5	11.6	5.1
India	829	61.6	10.4	9.4	0.7	12.7	5.2
Mexico	349	81.4	7.2	1.7	2.0	5.4	2.3
Brazil	292	57.5	4.5	15.4	2.1	13.4	7.2
Turkey	82	50.0	11.0	19.5	-	7.3	7.3
South Africa	52	42.3	-	26.9	-	21.2	-
Bangladesh	45	57.8	28.9	-	-	-	-
Colombia	18	38.9	-	-	-	27.8	-
Egypt	13	-	-	-	-	38.5	-

Note: Only items with five or more cases are valid.
Source: Nikkei ValueSearch

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Making inroad into markets through tie-ups with local enterprises

■ **For making inroad into critical mass markets, partnering with local firms good option**

Making inroad into huge and complicated "critical mass" markets alone, many firms, especially those trying to sell consumer products as well as in the service sector, are likely to face a number of obstacles in exploring those markets, acquiring customers and so on. This indicates that tie-ups with local firms or third-country companies with abundant knowledge of and experience in the markets can be another option, which may ease entrance into the markets. The forms of partnership often observed in the markets include: (1) business partnerships, (2) joint ventures, (3) mergers and acquisitions (M&As), and (4) support to local governments for programs such as improvements in the system of healthcare, education, etc. US/EU companies, engaging in these tie-up schemes early on, have successfully gained ground in the critical mass markets.

Figure III-9: Examples of Japan/US/European firms partnering with local firms in critical mass markets

Form of tie-up	Host country	Industry	Company	Home country	Overview
Business partnership	India	Pharmaceuticals	Novartis	Switzerland	• Announced in July 2013 an agreement related to vaccine development and license provision with the local bio-pharmaceutical company Biological E. • Objective was to provide a vaccine that is convenient and affordable in developing countries. • Biological E aims at providing a WHO certified vaccine to developing countries, after continued development of a combination vaccine for abdominal typhoid and paratyphoid from Novartis.
	Mexico	Transformers	Spellman	United States	• Maintain several plants in the northern part of Mexico with most of the products exported to the United States. • Focus today on Mexican markets. By forging an alliance with the local distributor Electrónica Seta, its sales to the Universidad Nacional Autonoma de Mexico and Institute of Technology's research center, as well as business with Pemex and each airline are progressing.
	South Africa	Cosmetics	SHISEIDO	Japan	• Partnered with local sales agency Prestige Cosmetics for domestic sales of SHISEIDO products. Sales began in October 2010. • Partnering with this local company, SHISEIDO started over the counter sales through a beauty consultant to sell their brand in local high end department stores.
Joint ventures	India	Food	UNIVEG	Belgium	• Announced in April 2014 about the establishment of a joint venture with Motherson Sumi Systems Ltd., a subsidiary of the local Samvardhana Motherson Group. • With the modernization of the supply chain, the supply of high quality raw fruits to Indian markets and foreign markets is possible.
	Turkey	Auto-parts	Bridgestone	Japan	• Established in 1988 the joint venture company Brisa, with the Turkish Sabanci Group. • In September 2013, reached an agreement with Aksaray Province Organized Industrial Zone, regarding the acquisition of a site for the construction of a new passenger car radial tire plant with total investment amount reaching approximately ¥ 28.0 billion.
	Mexico	Beverages	PepsiCo	United States	• Established a bottling joint venture between the local Grupo Empotrados-Unidos and the Venezuelan Empresas Polar. • The former aims at introducing its sales network and experience in the country and the latter is to introduce operation techniques.
	Brazil	Travel Agency	JTB	Japan	• Established Altur JTB by partnering with the local major travel agent Walhalatur, now expanding business in the country as well as other regions in South America • Expanding BTM (business travel management) business that targetted both Brazilian and South American markets, while also striving to expand MICE (meetings, incentives, conferences, exhibitions). • Established a new division oriented for Brazil-based Japanese customers within Alatur JTB, and planning to expand the customer base to include Asian companies operating in Brazil and other parts of South America.
Mergers and acquisitions	Bangladesh	Medical equipment	Nipro	Japan	• Announced decision to invest in JMI Pharma Ltd. in Bangladesh, by subscribing newly issued shares so as to make it Nipro's subsidiary by the end of March 2012. • Could take advantage of their cooperative relations based on the manufacturing system and sales basement established by JMI Pharma Ltd. for effectively promoting the pharmaceutical business.
	Turkey	Food	Ajinomoto	Japan	• Agreed in November 2013 to acquire 50% of the shares of the local food company Kukre. • With the strong branding and distribution capability of Kukre, and by including a wide range of product development and production techniques of Ajinomoto, strengthening existing business and expanding into new food products was possible. In the future, the plan is to strengthen development into the Middle Eastern and Central Asian markets. • Without giving up on direct entry into the market, Ajinomoto is also considering business development in Turkey through learning from local companies, because in this country, which has a culture, customs and religion different from Japan, there remain things that Japanese companies do not know how to handle or cope with.
	Egypt	Pharmaceuticals	Otsuka Pharmaceutical	Japan	• Announced in the middle of August 2014 the acquisition of local IV manufacturing and sales company Ateco pharma Egypt. • With the acquisition of Ateco, the manufacturing capabilities for transfusions increased by 1.5 times, and the company could respond to the high demand. • The plan is to supply IV products not only within Egypt but also export products to the Middle East and various countries in Africa.
	Mexico Brazil	Courier	FedEx	United States	• The company has proactively acquired local companies in Central and Southern America. It acquired MultiPack in Mexico and Rapidão Cometa in Brazil. The aim was to increase market share and reduce competition through these acquisitions. • In Brazil, there are many instances where the acquired company does not meet the compliance standards of the United States. The company selected Rapidão Cometa because of its long history of collaboration.
Collaborations with government in upgrading hospitals and educational institutions	India	Infrastructure	Mitsubishi Heavy Industries	Japan	• Signed a memorandum in January 2011 with Gujarat State government of India and Delhi-Mumbai Industrial Corridor Development Corperation (DMICDC) to collaborate in the development of an environmentally friendly smart community. • In order to promote the development of the smart community, which creates energy-conserving, low-carbon, next-generation urban infrastructure through the introduction of the most advanced energy-saving technologies and urban transportation systems, MHI will form a consortium with four other Japanese companies - Mitsubishi Electric Corporation, Mitsubishi Corporation, Mitsubishi Research Institute, Inc. and the Electric Power Development Co., Ltd. (J-POWER)
	Colombia	Medical equipment	Medtronic Plc	United States	• Established the regional hub office for the Andian region in Bogota in 2007. Collaborations were made for hospitals and clinics, and a training center for doctors was set up in Bogota in 2010. • Carried out training by inviting more than 100 doctors each year from the entire Andes area. Selling its products while collaborating for improvements in health care systems with governments.

Source: Compiled from interviews by Americas Market Intelligence (AMI) with each company, JETRO trade publicity, press release of each company and various magazines.

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Careful checks on business partner candidates necessary in each process

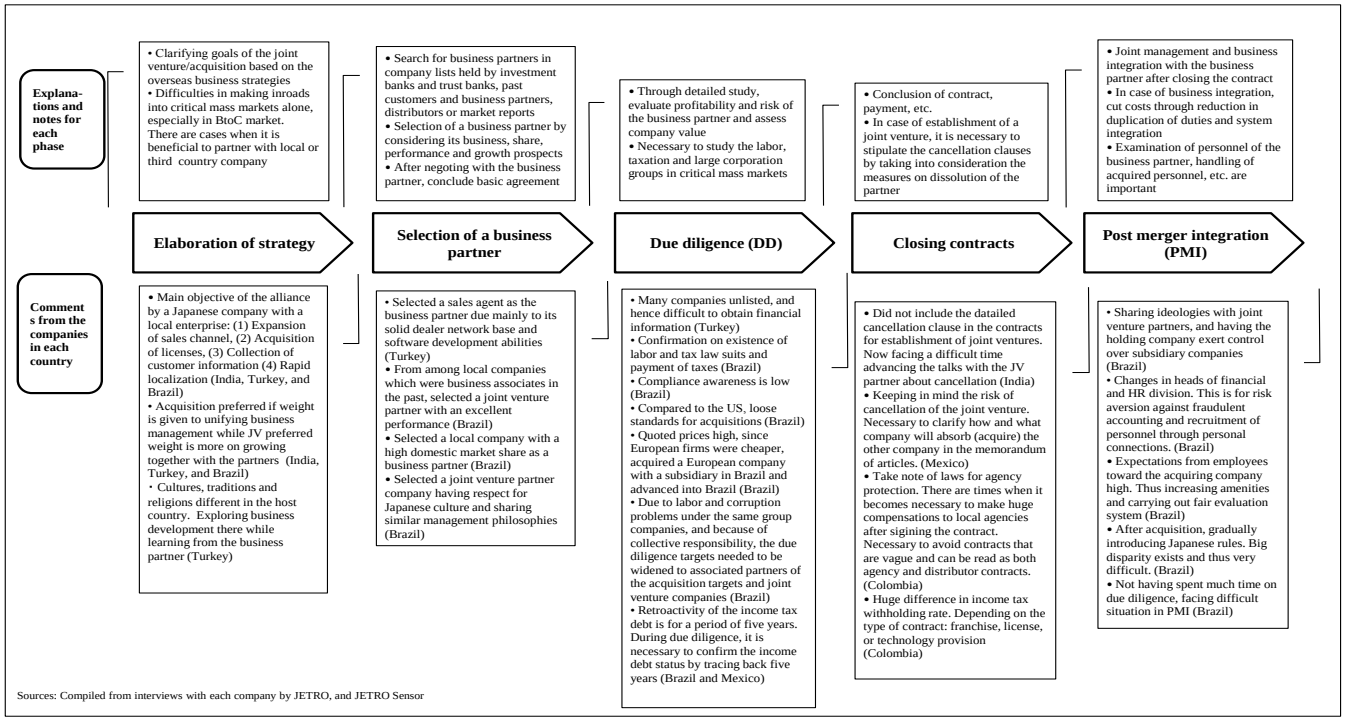
Careful deliberation for each process necessary for tie-up

For any form of partnership, careful business partner selection and due diligence (DD), closing and post-merger integration (PMI) is essential. For joint ventures, selection of a partner with shared management philosophies. For acquisitions, comprehensive check-ups on business conditions, financial situations and labor conditions of the target company. For closing, inclusion of a cancellation policy in the contract. And for PMI, management of personnel and financial affairs of the acquired partner.

Insufficient financial information on conglomerates and family businesses

Japanese firms tend to select local agencies to whom they have entrusted sales of their products/services prior to advancing into the market, or local firms with whom they have worked before, for their partner candidates. Moreover, in critical mass markets, Japanese firms often choose groups or family businesses, and encounter difficulty in obtaining detailed financial information from them during the DD process. PMI by Japanese firms reveals that many pick top management of the acquired company as new CEOs while often replacing heads of human resources and finance departments of the old companies.

Figure III-10: Things to consider in each process for joint ventures and M&As in critical mass markets



Sources: Compiled from interviews with each company by JETRO, and JETRO Sensor

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Exploring frontier markets in cooperation with the companies from critical mass markets

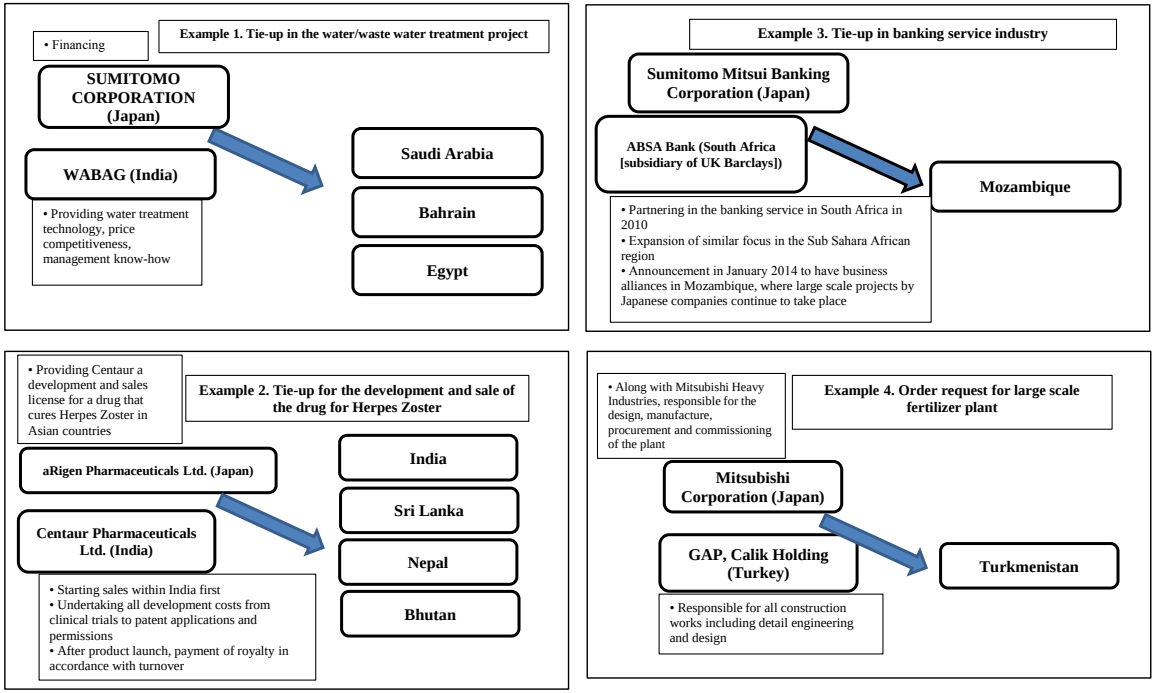
Partnering with third-country companies with abundant local knowledge and experience

It is fair to say that local firms can be the main targets of consideration by Japanese companies for potential partners as they have an advantage in their knowledge and experience in domestic markets. But cases of partnering are often observed with third-country companies, such as highly experienced firms from the US and the EU and a few Asian companies in critical mass markets, which have a long history of local operations. This trend is especially strong in Mexico, Brazil and South Africa. The reason for this type of alliance being: (1) Maintaining good business relations in the country of origin of partners and there agreeing on tie-up operations globally, (2) These firms have steadier corporate governance than local firms of critical mass markets, and (3) The value of these firms is shrinking due to the economic downturn back home.

Moving into "frontier" markets through alliances with critical mass market firms

There are some cases where Japanese firms partner up with critical mass market enterprises to enter into the surrounding smaller markets. In many cases, the neighboring countries of the critical mass markets are unknown to Japanese firms, but are well known to those critical mass market firms. Thus, partnering with companies from critical mass markets can be an option for those who want to explore the surrounding countries. For example, Mitsubishi Corporation, by partnering with the Turkish Calik Enerji, a company well versed with Turkmenistan, successfully won a project for the construction of a large scale fertilizer plant in said country in August 2014.

Figure III-11: Examples of alliances in third countries between Japanese companies and critical mass market companies



Source: Press releases from the individual companies

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Expectations high on Hispanic market, critical mass market in US

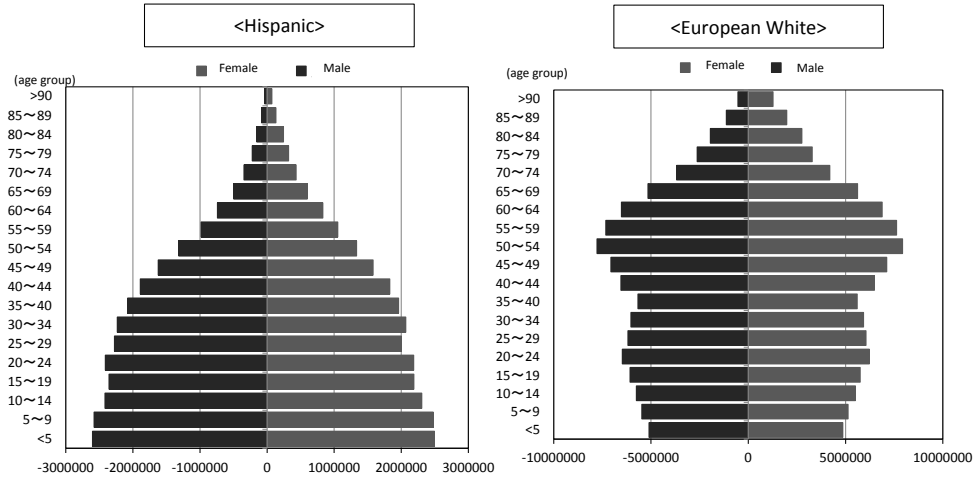
■ **US Hispanic population is projected to reach around 30% of the entire population by 2060.**

According to the US Census Bureau, in July 2013, the US Hispanic population was about 54 million. The rapidly-growing Hispanic population is forecasted to increase from 17.7% in 2015 to 20.3% in 2025, 25.3% in 2045 and 28.6% in 2060.

■ **Getting into unique Hispanic markets requires approach tailored to their needs**

Marketing activities on Hispanic consumers often requires the careful considerations of their awareness and nostalgia for their families' country of origin, the usage of Spanish language or contents that touch their core value as well as face-to-face contact with them. Hence, an approach different from general US markets such as over-the-counter demonstrations and sampling is required. In addition, since the rate of usage of internet and smart phones by youths is higher than any other race, it is important to use various mass media. Some US companies and Japanese companies now see the Hispanic market separately from the general US market and have begun market strategies carefully tailored to the Hispanic population.

Figure III-12: Population pyramid of Hispanics and whites the US



[Material] Created from the 2012 American Community Survey

Figure III-13: Examples of US companies' marketing strategies tailored to Hispanic consumers

Industry	Company	Date	Overview
Media	Turner Broadcasting (CNN)	3/1/97	・Began broadcasting CNN Espanol. The broadcasting coverage have been expanded to the entire Latin America.
	Business Wire	7/1/08	・Began "Latino Wire" news content service in empanel.
	CNET	9/1/13	・Partnered up with "Latin World Entertainment," a Hispanic talent management and entertainment marketing firm to open website in Espanol.
Foods	Nestle	4/1/14	・Began campaign for Hispanic consumers by partnering up with "Superior," a supermarket chain mainly operating in the southern California region. ・Delivered catalogues featuring "El Major Nido," a website established in 2011 which listed various recipes for Nestle products.
	MacDonald		・Introduced scholarship programs for Hispanic students and training programs for Hispanic workers. ・Always ranked among the top in terms of spending on marketing for Hispanic markets. ・Won the Marketer of the Year Award from Association of Hispanic Advertising Agencies (AHAA) in 2014.
Retails	Walmart	3/1/09	・Opened "Supermercado", food stores for Hispanic consumers in Arizona and Texas. ・Since then, opened new stores in California, Florida, New Mexico and so on. ・Won the Marketer of the Year Award from AHAA in 2013.
Telecommunications	AT&T		・Replenished stores with Spanish languages in the Hispanic-concentrated areas in California, Florida, New York and Texas. ・Invested in programs aiming at upgrading of life such as education in Hispanic community ・Had "Mobile Movement" campaign, targeting for Hispanic youngsters, which mainly featured their suffering in balancing two different cultures (US and Hispanic), speaking "Spanglish" (mixture of Spanish and English).

Source: Campanies' news release

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Scale of US economy to surpass total of 50 emerging countries

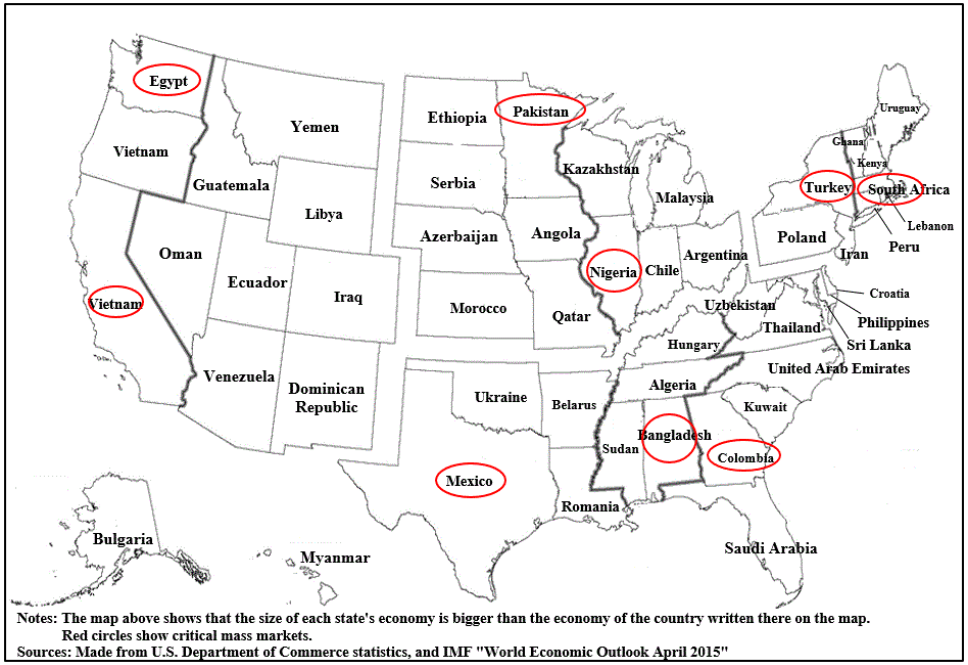
Economic scale of each state matches with prospective emerging countries

The scale of the US economy matches that of 50 emerging countries. California's GRP, which is the largest economy among US states, surpasses India's GDP. Texas' GRP, which is the second largest economy, surpasses Mexico's GDP. Personal consumption in the US occupies about 70% of GDP. The difference in personal consumption between 2013 and 2014 (US$446 billion) surpasses the GDP of UAE and Thailand.

Consumption patterns greatly differ among regions

The US is expected to continue to show economic recovery from "Lehman shock" along with upward trends in employment and income. Thus, expectations toward the biggest market of the world are generally high among companies. Caution is, however, needed when one attempts to enter into the market in which consumption trends differ greatly among the regions. For instance, the state of California has the largest consumption base of all the states, maintaining a huge lead over the 2nd ranked Texas. However, the state falls to 2nd in spending on automobiles and automotive parts, following the top-ranked Texas. Ranked third in total consumption, New York is ranked 2nd to California when it comes to spending on clothing and entertainment. In addition to regions, consumption patterns also largely differ among races, income brackets and so on. Thus, it is imperative for a company to examine markets carefully and to determine targeting on which region, state, city, and race best fits their products and/or services.

Figure III-14: Comparisons of economic scale between US states and other countries (2014)



Notes: The map above shows that the size of each state's economy is bigger than the economy of the country written there on the map.
Red circles show critical mass markets.
Sources: Made from U.S. Department of Commerce statistics, and IMF "World Economic Outlook April 2015"

Figure III-15: Top 10 consumption values, by state and product (2012)

(US$ million)

All			Automobiles and automobile components			Household durables			Food			Clothing			Entertainment products		
Rank	State	Consumed value	Rank	State	Consumed value	Rank	State	Consumed value	Rank	State	Consumed value	Rank	State	Consumed value	Rank	State	Consumed value
1	California	1,412,648	1	Texas	45,120	1	California	32,218	1	California	101,079	1	California	45,647	1	California	51,746
2	Texas	840,967	2	California	39,934	2	Texas	23,048	2	Texas	69,751	2	New York	33,698	2	New York	27,764
3	New York	822,789	3	Florida	25,096	3	Florida	19,019	3	Florida	56,078	3	Texas	31,719	3	Texas	25,849
4	Florida	652,058	4	New York	18,632	4	New York	18,224	4	New York	52,135	4	Florida	18,833	4	Florida	20,731
5	Pennsylvania	480,144	5	Pennsylvania	16,738	5	Pennsylvania	10,416	5	Pennsylvania	36,411	5	Illinois	15,984	5	Washington	14,027
6	Illinois	467,266	6	Illinois	16,079	6	Illinois	10,054	6	Illinois	34,002	6	New Jersey	13,933	6	Pennsylvania	11,646
7	Ohio	382,555	7	Ohio	14,606	7	New Jersey	9,333	7	Ohio	29,307	7	Pennsylvania	13,688	7	Michigan	10,549
8	New Jersey	378,108	8	North Carolina	12,805	8	Ohio	8,309	8	New Jersey	27,269	8	Ohio	11,154	8	Illinois	10,049
9	North Carolina	310,999	9	Georgia	12,643	9	North Carolina	8,292	9	Georgia	25,826	9	Georgia	10,348	9	Massachusetts	9,706
10	Georgia	309,690	10	New Jersey	11,670	10	Virginia	7,884	10	North Carolina	25,790	10	North Carolina	9,798	10	Ohio	9,631

Source: Created based on statistics of U.S. Department of Commerce

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Investment by foreign companies have positive impact on regional economies

Increased contribution of foreign capital

The number of total full-time persons employed by foreign companies with a more than a 33.4% foreign capital ratio is 610,000. Greenfield investment in Japan varies depending on region: a large amount of investment is made in the tourism-related industry in Hokkaido, the renewable energy industry in Kyushu and Okinawa and the electronic parts industry in Tohoku, Chubu and Kansai. Large scale investments by semiconductor manufacturers have had an especially large impact on the local economy. Investment by foreign companies have a positive impact on regional economies, by such means as creating jobs, increasing the number of foreign tourists, expanding exports and the introduction of new technologies and services.

Figure III-16: Top greenfield investment in Japan by region

(Unit: US$ million)

Destination		Project date	Company name	Nationality	Industry sector	Capital investment
Hokkaido		Apr 2013	Hanwha	South Korea	Renewable energy	272
		May 2008	West Paces Hotel Group	US	Hotel/tourism	183
		Aug 2008	Pacific Century Group (PCG)	Hong Kong	Leisure/entertainment	170
Tohoku	Fukushima	Jun 2006	Spansion	US	Semiconductor	1,200
	Iwate	Jul 2014	Royal Dutch Shell Plc	Netherlands	Renewable energy	272
	Yamagata	Feb 2004	Entegris	US	Semiconductor	220
Kanto	Ibaraki	Jan 2009	Areva	France	Coal, oil and natural gas	840
	Tokyo	Jan 2007	Aegon	Netherlands	Financial service	490
	Tochigi	Oct 2013	Juwi	Germany	Renewable energy	272
Chubu	Shizuoka	Apr 2006	Corning	US	Electronic components	174
	Shizuoka	Feb 2012	Intelligent Energy	UK	Electronic components	147
	Aichi	Jul 2008	ProLogis	US	Real estate	144
	Gifu	Nov 2014	Simon Property Group	US	Real estate	144
Kansai	Mie	Aug 2013	SanDisk	US	Semiconductor	4,000
	Mie	Dec 2003	SanDisk	US	Semiconductor	2,600
	Osaka	Dec 2007	Corning	US	Electronic components	400
Chugoku	Hiroshima	Nov 2014	Micron Technology	US	Semiconductor	859
	Yamaguchi	Dec 2006	Royal Dutch Shell Plc	Netherlands	Chemicals	168
	Okayama	Feb 2012	Global Logistics Properties (GLP)	Singapore	Real estate	103
Shikoku	Ehime	Aug 2005	Albemarle Corporation	US	Chemicals	81
	Ehime	Nov 2012	Assuranceforeningen Gard	Norway	Financial service	48
	Tokushima	May 2008	Volkswagen	Germany	Automotive parts	30
Kyushu/ Okinawa	Fukuoka	Nov 2013	First Solar	US	Renewable energy	272
	-	Apr 2013	Hanwha	South Korea	Renewable energy	272
	Nagasaki	Apr 2014	Royal Dutch Shell Plc	Netherlands	Renewable energy	272

Note: Investment values include estimates.

Source: "fDi Markets" (Financial Times)

Figure III-17: Examples of companies making use of JETRO supports to set up their business/affiliate in region (2009-2014)

Destination		Company name	Nationality	Business
Tohoku	Miyagi	Osbert Hotels Ltd.	Hong Kong	Hot spring & spa resort
Kanto	Chiba	Snowflake	Switzerland	Open source software
	Saitama	Thaicom Public Company Limited (IPSTAR)	Thailand	Satellite base station
	Chiba	Spring Airlines Japan	China	LCC
	Kanagawa	Faurecia Japan	France	Automobile parts
Chubu	Aichi	Infosys Ltd.	India	IT Consulting
	Mie	Mag-Isover KK	France	Glass wool for residential and industrial use
	Aichi	Magnate Technology Co., Ltd.	Taiwan	Parts of air planes, precision parts of industrial machinery
	Mie	Cabot Microelectronics Japan	US	Polishing materials and cloth for semiconductors
Kansai	Hyogo	INSTAR ITS	Czech Republic	Energy saving business management
	Hyogo	Umicore	Belgium	Materials of lithium-ion battery
Chugoku	Tottori	DBS Cruise Ferry Co., Ltd.	South Korea	Cargo-passenger liner
Kyushu/ Okinawa	Okinawa/ Osaka	Juneyao Airlines	China	LCC
	Fukuoka/ Osaka	Air Busan	South Korea	LCC
	Fukuoka	Elanex	US	Translation
	Fukuoka	Tway Airlines	South Korea	LCC

Note: The investment destinations of Juneyao Airlines and Air Busan are classified according to their first flight destinations in Japan.

Source: JETRO website

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Exports of Japanese agricultural, forestry, fishery and food products hit record high

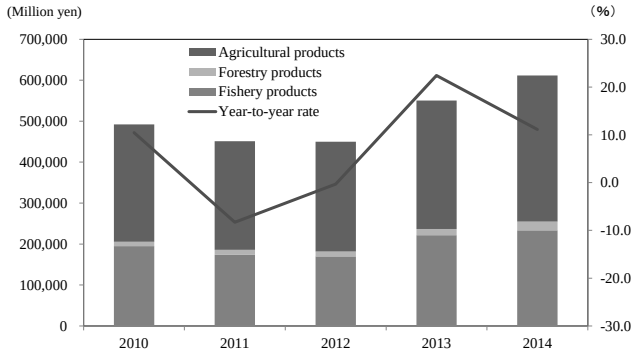
Share of Asia has exceeds 70%

In 2014, exports of Japanese agricultural, forestry, fishery and food products hit a record high at ¥611.7 billion, 11.1% higher from a year earlier. Exports to Asian countries and regions including Hong Kong, Taiwan, China and Korea accounted for 72.3%. The top five commodities being "scallops", "alcoholic beverages", "pearls", "cigarettes" as well as "sauces and mixed seasonings". The 3rd ranked "pearls" has shown a sudden increase in Hong Kong (of 43.2%) where an international jewelry show was held, as compared to the 30.5% of the previous year.

Efforts towards regional export promotion through the "One Prefecture, One Support Program"

At JETRO, we support the systemized incorporation of local pioneer exports as well as cooperation between production zones. We have unearthed specific export projects and developed a total of 50 ideas for this program, set up over all prefectures from July 2013 onwards, with an aim to achieve an advanced model in other regions. For example, we endorse the Ishinomaki City Fisheries processing brand "Hitakami no Kuni", achieving exports to the tune of about ¥46 million to Hong Kong in FY2014.

Figure III-19: Japan's exports in agricultural and fishery products



Note: Alcoholic beverages, tobacco and pearls are included.
Source: "Overview of Foreign Trade of Agricultural, Forestry, and Fishery Products" (MAFF)

Figure III-18: "One Prefecture, One Support Program" initiatives

Region and product		Region and product		Region and product	
Hokkaido	Japanese scallops	Niigata	Colored carp	Shimane	Flowering plants (tree peony, balloon flowers)
	Bulls for dairy cattle breeding, Japanese beef cattle	Yamanashi	Peach and grapes	Okayama	Peaches, grapes and related processed foods
	Kelp	Nagano	Fresh lettuce	Hiroshima	Fishery products such as small sardines
	Farm produce such as melons	Fukui	Japanese sake	Yamaguchi/Fukuoka	Marine products in Kanmon straits
Aomori	Japanese scallops and apples	Toyama	Fishery products such as yellow tail	Tokushima	Citrus sudachi, Asiatic citron and its processed products
Iwate	Livestock and fisheries	Ishikawa	Traditional products such as soy sauce and miso paste	Kagawa	Bonsai
Akita	Japanese sake	Gifu	Sweet Japanese persimmons	Ehime	Lumber
Miyagi Ishinomaki restoration	Fishery product brand "Hitakami no Kuni"	Shizuoka	Tea and related related products	Kochi	Tosa wood (Japanese cypress)
Yamagata	Apples La-France	Aichi	Agricultural produce and related processed items	Fukuoka	Ebisu oysters
Fukushima	Peach	Mie	Cultivation of tai (sea bream), yellow tail, etc.	Saga	Gold kiwi related products
Ibaraki	Melons and their processed goods	Shiga	Omi beef	Nagasaki	Dried shiitake
Tochigi	Strawberries, pears, and grapes	All Kansai Area	Fresh foods such as vegetables, fruits and fish	Oita	Dried shiitake
Chiba	Various agricultural and livestock products	Kyoto	Kyo-tanabe high quality green tea	Miyazaki	Agriculture and livestock products
Tokyo	Tsukiji (Higashioroshi) marine products	Nara	Persimmons	Kumamoto	Tomatoes and its processed products
Kanagawa	Various agricultural and livestock products	Wakayama	Persimmons	Kagoshima	Brown sugar shochu
Saitama	Bonsai	Hyogo	Tanba black soybeans	Okinawa	Spermatochnaceae seaweed
Gumma	Konjak product	Tottori	Japanese pears, water melons and sweet Japanese persimmons		

Source: Compiled by JETRO

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Revitalization of regional economies through inbound tourism

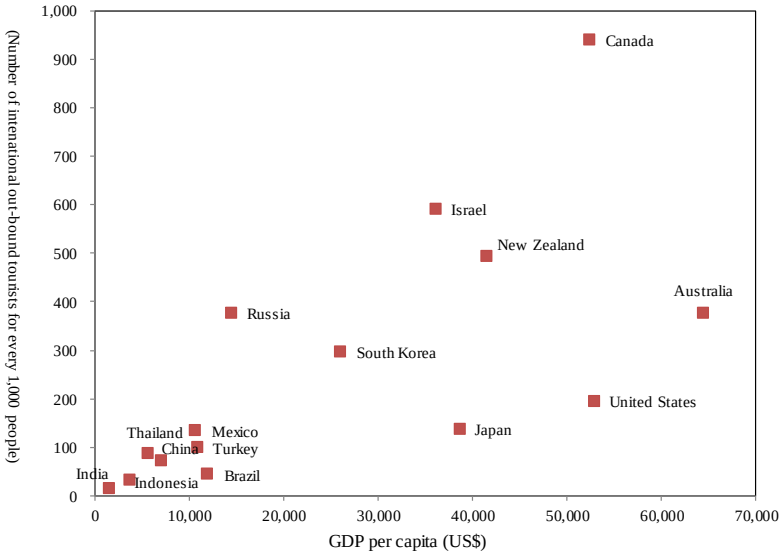
■ **Exploring emerging markets with focus on Asia**

The Japan National Tourism Organization (JNTO) announced that the number of inbound tourists in 2014 reached a new high of 13.41 million, an increase of 29.4% from the previous year, on the back of the weakening yen and other factors. Inbound tourists from Asia are the engine of overall growth. There is a correlation between the number of international outbound tourist for every 1,000 people and the per capita GDP, thus, in the future, more tourists are expected to come from countries and regions in Asia, given their proximity to Japan. Importance is laid on the exploring of emerging markets with Asia as the focus, aiming toward the attainment of the goal of 30 million in 2030.

■ **Industrial tourism extending in region**

In the midst of increase of travelers to Japan, in the future it will be important to focus on the increase of repeat travelers. Beyond the conventional frame of tourism, tours offering a chance to experience production centers, such as superb Japanese manufacturing sites or farms, are extending over all regions. In the tourist farm (peaches and grapes) in Akaiwa City, Okayama Prefecture, foreign tourists have shown a considerable rise from 50 visitors in 2011 to 5,111 visitors in 2014. Recently, the rise in individual travelers is significant. At JETRO, we invite overseas buyers, media and educational and research institutions, and along with publicizing the local industries and tourist attractions abroad, we incorporate plans for overseas business development of local industries, collaborative development of local products, attracting foreign business, increasing inbound tourists and training of international business human resources.

Figure III-20: Per capita GDP and number of international outbound tourists



Sources: World Economic Outlook Database, April 2015 (IMF), World Development Indicators (World Bank)

Figure III-21: JETRO's industrial tourism support projects by region

	Saga	Hamamatsu	Ibaraki	Kyoto	Tsubame Sanjo
Area	Design	Music	Science	Lifestyle	Manufacturing such as metal working
Period	Mar 1-5, 2015	Mar 9-10, 2015	Mar 16-19, 2015	Mar 11-12, 2015	Jun 25-28, 2015
Invited personnel	Buyers, media, designers and design schools from Singapore	Those involved in music business, a music business school and media from the US and France	A research organization of industrial technology from Taiwan, media and travel companies from Vietnam	Buyers, media and others from ASEAN and Northeast Asia	Buyers, designers, hairdressers, chefs, design schools, media from Singapore and Malaysia
Destination	Arita ware companies, Arita College of Ceramics, companies related to Morodomi furniture and so on	Music instrument manufacturers (vocal synthesis technology, score recognition and writing technology, etc.), high-sensitivity acoustic systems and so on	Science and technology research facilities (Space Center, AIST, robot suit development companies) and so on	Companies related to kitchen, tableware, interior, beauty and health products, gifts and so on	Companies related to kitchen tools including knives and cutlery, beauty products such as scissors and nail clippers

Source: JETRO

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Strengthened governance through dialogue between companies and investors

Corporate Governance Code enforced

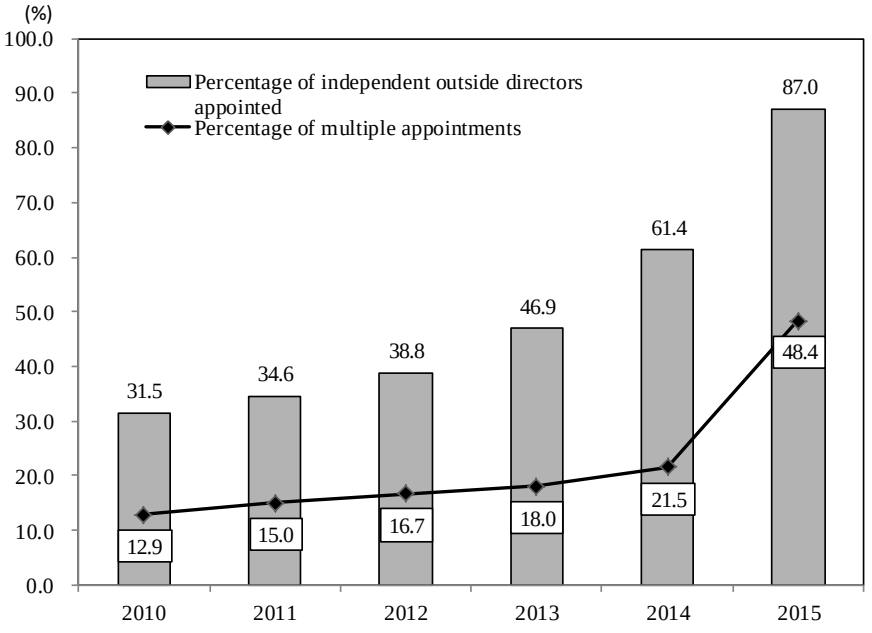
The corporate governance in Japan has moved into a direction that accelerates corporate profitability along with the prevention of misconduct and compliance of laws and regulations. (1) Japan's Stewardship Code (February 2014), (2) Revision of the Companies Act (May 2015) and (3) Japan's Corporate Governance Code (June 2015), are the three main pillars of corporate governance. By promoting dialogue between the company and investors, further utilization of outside directors and ensuring diversity within the company, the aim is to achieve improved profitability through good corporate governance. The interest in Japanese corporate governance reform is high overseas as seen in articles such as "Few initiatives could be more effective in revitalizing Japan's economy", "Corporate initiatives are all more effective because of their complementary nature" (*the Financial Times*, March 30, 2015).

Figure III-22: Creation of code related to corporate governance and revision of Companies Act

Japan's Stewardship Code (finalized on February 26, 2014)
• Monitor investee companies • Constructive engagement with investee companies • Clear policy on voting and disclosure of voting activity • In-depth knowledge and skills and resources needed to appropriately engage with the companies and make proper judgement, etc.
Revision of Companies Act (Enforced on May 1, 2015)
• Establishment of companies with committee governance structure such as that capable of audits • Strict requirements of independence for outside directors • Clarification of reasons for non appointment of outside directors
Japan's Corporate Governance Code (Entered into force on June 1, 2015)
• Securing the rights and equal treatment of shareholders -Disclosure of policy with respect to cross-shareholdings • Appropriate cooperation with stakeholders other than shareholders -Ensuring diversity, including active participation of women • Ensuring appropriate information disclosure and transparency -Full disclosure of business strategies and remuneration of the senior management and directors • Responsibilities of the board -Appointment of multiple independent outside directors • Dialogue with shareholders -Senior management and directors should have a basic position to engage in dialogue with shareholders and the like

Sources: Japan's Stewardship Code, Japan's Corporate Governance Code, among others

Figure III-23: Ratio of companies appointing independent outside directors (companies listed on First Section of Tokyo Stock Exchange) over time



Source: Tokyo Stock Exchange

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Globalization of management: Diversity by hiring foreign employees

Promotion of a diversity strategy to hire human resources having diverse values and capabilities

To enhance corporate competitiveness in overseas markets, training and securing human resources capable of playing such roles is of prime importance. One of the methods is to promote the diversity strategy to hire human resources with diverse values and capabilities as employees, independent of nationality, age or sex, such as foreigners or the elderly. Among challenges that Japanese firms face when engaging in export and expanding their overseas business, a lack of human resources capable of playing a central role in overseas operations is commonly reported.

Aggressive hiring and appointments of foreign employees

Looking at the status of employment of foreigners by Japanese firms, companies that are currently hiring foreign staff (42.2%) or are interested in hiring foreign staff in the future (20.8%) totals 63%. Of these companies, the percentage of hiring or expressing a desire to hire foreign students studying in Japan is the highest. This indicates that there is a high demand for international students among Japanese companies.

Figure III-24: Bottlenecks for export and overseas business expansion

(Unit: %,Multiple answers)

	Total (n=3,471)	Large companies (n=680)	SMES (n=2,791)
Local business partners	47.8	46.3	48.1
Human resources to play a central role in overseas business	41.2	52.6	38.4
Information on rules&regulation (tariff, regulations, license, etc.)	40.1	48.7	38.0
Information on local markets (Consumers' preferences and needs, etc.)	39.4	42.1	38.8
Expansion of sales network in overseas	32.5	33.8	32.2
Cost competitiveness	27.0	36.0	24.8
Products development for local markets	21.4	26.3	20.2
Securement of necessary funds	16.2	8.1	18.2

Note: Parameter is the total number of replying companies participating in this survey.
Source: "Results of JETRO's FY 2013 Survey on the International Operations of Japanese Firms" (JETRO)

Figure III-25: Hiring of foreign employees by Japanese firms

(Unit: %)

	Total (n=2,995)	Large companies (n=661)	SMEs (n=2,334)
Currently hiring foreign employees	42.2	70.3	34.2
Not currently hiring foreign employees but expecting to consider recruitment of it	20.8	10.4	23.8
Not currently hiring foreign nationals and not planning to consider it in the future	27.2	12.9	31.3
No answer	9.7	6.4	10.7

Note: Parameter is the total number of replying companies participating in this survey.
Source: "Results of JETRO's FY 2014 Survey on the International Operations of Japanese Firms" (JETRO)

Figure III-26: Demand for foreign nationals by Japanese firms

(Unit: %, multiple answers)

	Total (n=1,887)	Large companies (n=534)	SMEs (n=1,353)
Hiring/want to hire foreign students studying in Japan	48.1	60.7	43.2
Hiring/want to hire foreign nationals (not including foreign students studying in Japan)	40.6	42.1	40.0
Hiring/want to hire foreign foreign nationals residing overseas	34.6	35.8	34.1
Others	3.5	3.4	3.5

Note: Parameter is the total number of companies responding with "hiring foreigners" and "want to hire foreigners". Source: "Results of JETRO's FY 2014 Survey on the International Operations of Japanese Firms" (JETRO)

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Expansion in overseas development through utilization of foreign students

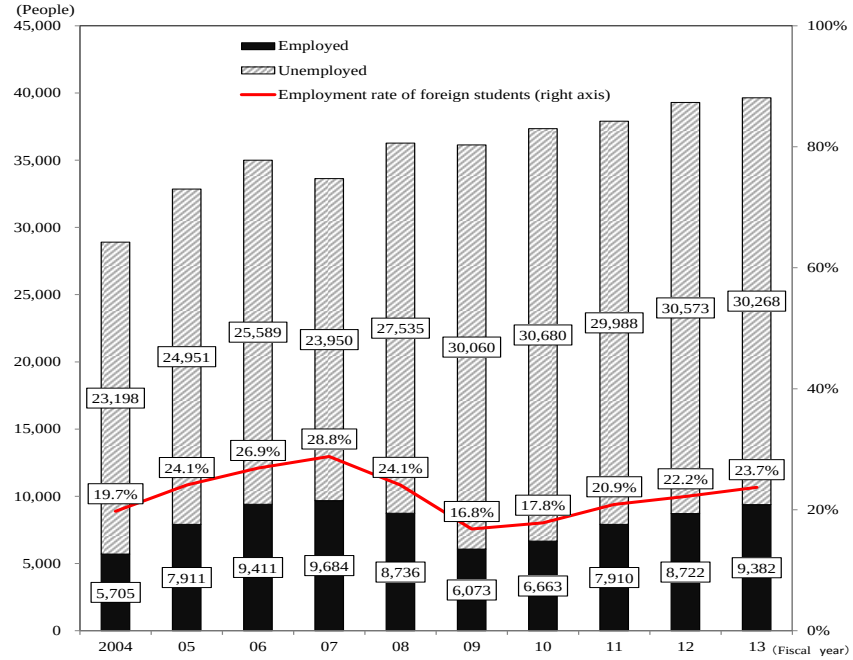
Increased trend in employment rate of foreign students

According to "Lifestyle survey of privately financed international students " (the Japan Student Services Organization) (*), the percentage of foreign students who intend to work in Japan was 65.0% in 2013. On the one hand, according to the "Survey on international students' career and academic pathways" (same organization), the employment rate of foreign students in Japan has risen yearly since FY2009, but it still remained at 23.7% in FY2013. The number of foreign students changing to resident status with the objective of gaining employment in Japan was the highest among Chinese students (7,637 in 2013, 65.6% of applicants who were granted the change), while in recent years, Vietnamese students showed an increasing trend at 424 students (3.6%), an increase of 40.4% as compared to the previous year. *Survey of 7,000 students from universities, junior colleges, specialized training colleges, Japanese language institutes, etc.

SMEs consider foreign staff to be useful in expanding sales channels

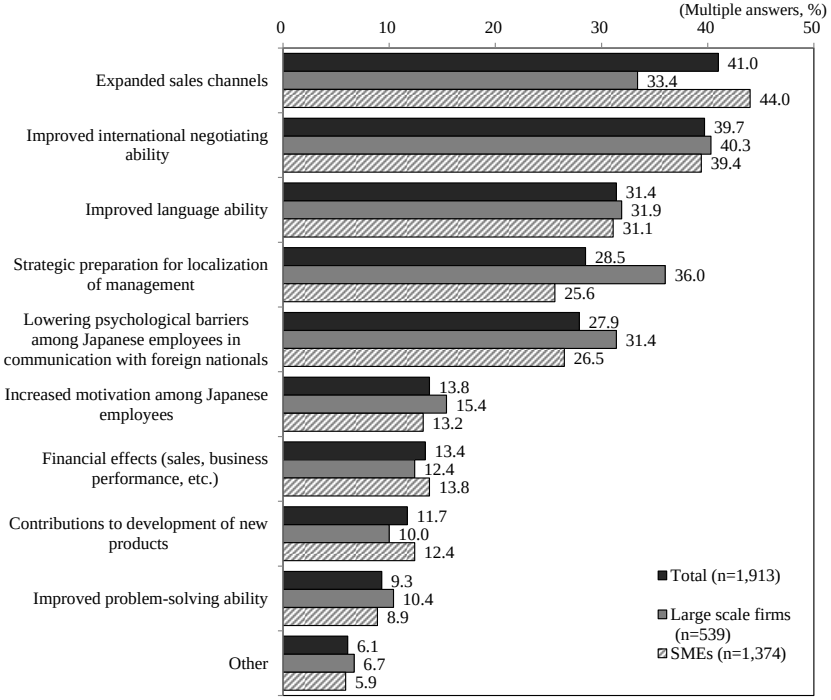
According to the "FY2014 Survey on the International Operations of Japanese Firms", the highest merit of recruiting foreign students for companies is "expanded sales channels" (40.9%). The smaller the scale of the company, the higher the ratio. As regards to expansion of sales channels, the importance of language of the target country and its business practices become clear. However, some companies also pointed out the advantage of having personal connections.

Figure III-27: Status of employment of foreign students in Japan



Note: 1) "Foreign study abroad students " are defined as those studying in such institutions as universities, two-year colleges, specialized vocational high schools, special technical schools, etc. 2) Years represent fiscal years 3) "Unemployed" is calculated by subtracting the number of "employed" from that of "foreign study graduates". The number includes those with no set career options.
Source: Survey on international students career and academic degrees (JASSO)

Figure III-28: Benefits of hiring/employing foreign employees



Note: Parameter is the total number of companies responding with "hiring foreigners" and "want to hire foreigners". Source: "Results of JETRO's FY 2014 Survey on the International Operations of Japanese Firms" (JETRO)

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Expansion in overseas development through utilization of foreign students

Overseas expansion through utilization of foreign students

There are also cases of SMEs proactively utilizing foreign students in developing their overseas business. Moreover, in certain regions, collaborative industry-academia-government bodies provide support to help foreign students find employment with Japanese companies.

Efforts corresponding to each step important for utilization of foreign students (next page)

The utilization of foreign students by companies is broadly divided into four categories: (1) motivation, (2) recruiting preparations, (3) recruiting, and (4) retention. It is important for companies to take measures tailored to each process. Moreover, utilizing local governments, universities, industry-academia-government cooperation is an effective means for utilizing foreign students. Lack of understanding of methods of recruiting, treatment, and human resource management are some of the issues faced by companies in hiring and employing foreign students.

Figure III-29: Cases of utilizing foreign students and other foreign nationals in terms of SMEs' business expansion overseas and employment supported by industry-academia-government collaboration bodies

	Effects	Cases regarding business expansion overseas/industry-academia-government collaboration bodies
Companies	Expanding sales channels	On referral from a local university, we hired a foreign student from Asia in 2014. He was hired as a part-timer at first and was made a regular employee. The staff enhanced our public relations activities by posting product information on our new English website jointly created by a Japanese engineer. This brought us specific results such as increased business inquiries from overseas.
	Expanding sales channels, improving international negotiation ability	We started to employ foreign staff seven years ago, hoping to hire employees with knowledge on trading operations and partner countries. Our current foreign staff member, who is from Africa and fluent in four languages, has helped us to expand business in Africa and the Middle East. We intend to hire a foreign employee who has a good command of Portuguese and Spanish in accordance with our business expansion plans.
	Expanding sales channels, improving international negotiation ability	We hired a foreign staff member with experience studying in Japan in 2013, which allowed us to create a dedicated department for overseas business afterward. Active promotional activities such as demonstrating products at overseas exhibitions resulted in exports. He/she also contributed to changing specifications and taking the necessary steps to make our products meet local standards. We came to be able to grasp overseas customers' needs accurately, which led to the improvement of our products.
	Management localization, improving international negotiation ability	We started to employ foreign employees from around 2004. We hired foreign staff including international students from Latin America in 2014 as well. Employees from Northeast Asia, Southwest Asia and Latin America are working with us. They are improving our international negotiation ability. We have assigned Chinese employees with a good command of local languages to the procurement department, because we largely depend on materials from China. We are promoting foreign staff to sales managers of the headquarters and directors of the overseas offices.
	Management localization, expanding sales channels	We have hired foreign students from China and also assigned Chinese employees to top executive positions of our local office in China. Our Chinese staff has contributed to our business expansion in China, through the discovery of customers by utilizing their knowledge on Japanese management and adapting it to the Chinese culture. Since our customers largely consist of Chinese local companies, the Chinese staff is essential to our business. We are considering the employment of foreign nationals from the region into which we are planning to expand business.
	Management localization, expanding sales channels	We employed a person from Southeast Asia as an engineer at the headquarters. He is currently playing an important role as a future executive officer in our overseas office in his native country. Additionally, our overseas office employed a local with experience working in Japan for the sales department. We are planning to train him to be a candidate president of our subsidiary. We are also planning to further utilize local staff. Senior personnel with experience working for large companies are also hired to be assigned to overseas subsidiaries as their executive officers.
	Establishment of bases	A capable graduate from a local university in Southeast Asia, who we employed five years ago, was the deciding factor in expanding our business there. The headquarters hired an engineer who graduated from a university in Southeast Asia. He is expected to be assigned as a manager of a representative office, which is planned to be established. Moreover, we are planning to hire a few other local employees as programmers. They are expected to be responsible for selecting local staff and communicating with the headquarters.
Industry-academia-government collaboration bodies		In recent years, some regions see a number of local governments establishing organizations in collaboration with industry and academia, in order to provide comprehensive service ranging from attracting foreign students to assisting them in getting a job in Japanese companies. The Fukuoka International Student Support Center (established in 2008) and the Hiroshima Support Center for International Students (established in 2011) have taken steady steps. In Nagasaki, aiming to boost the economy, Nagasaki Summit has been held by its parent organization composed of prefectural and municipal governments, Nagasaki University, the Nagasaki Chamber of Commerce and Industry and other local management organizations. The Nagasaki International Student Support Center was built in 2013 as a facility to deal with the top priority issues of support for and utilization of foreign students. It also provides the students living in Nagasaki with employment support such as creating opportunities to meet with local companies in addition to recruiting and supporting the students. Iwate Prefecture has established an organization in 2007, Iwate Exchange Student Job Search Support Association, which is dedicated to providing employment support with international students and composed of universities, industry groups and local governments.

Source: Interview survey

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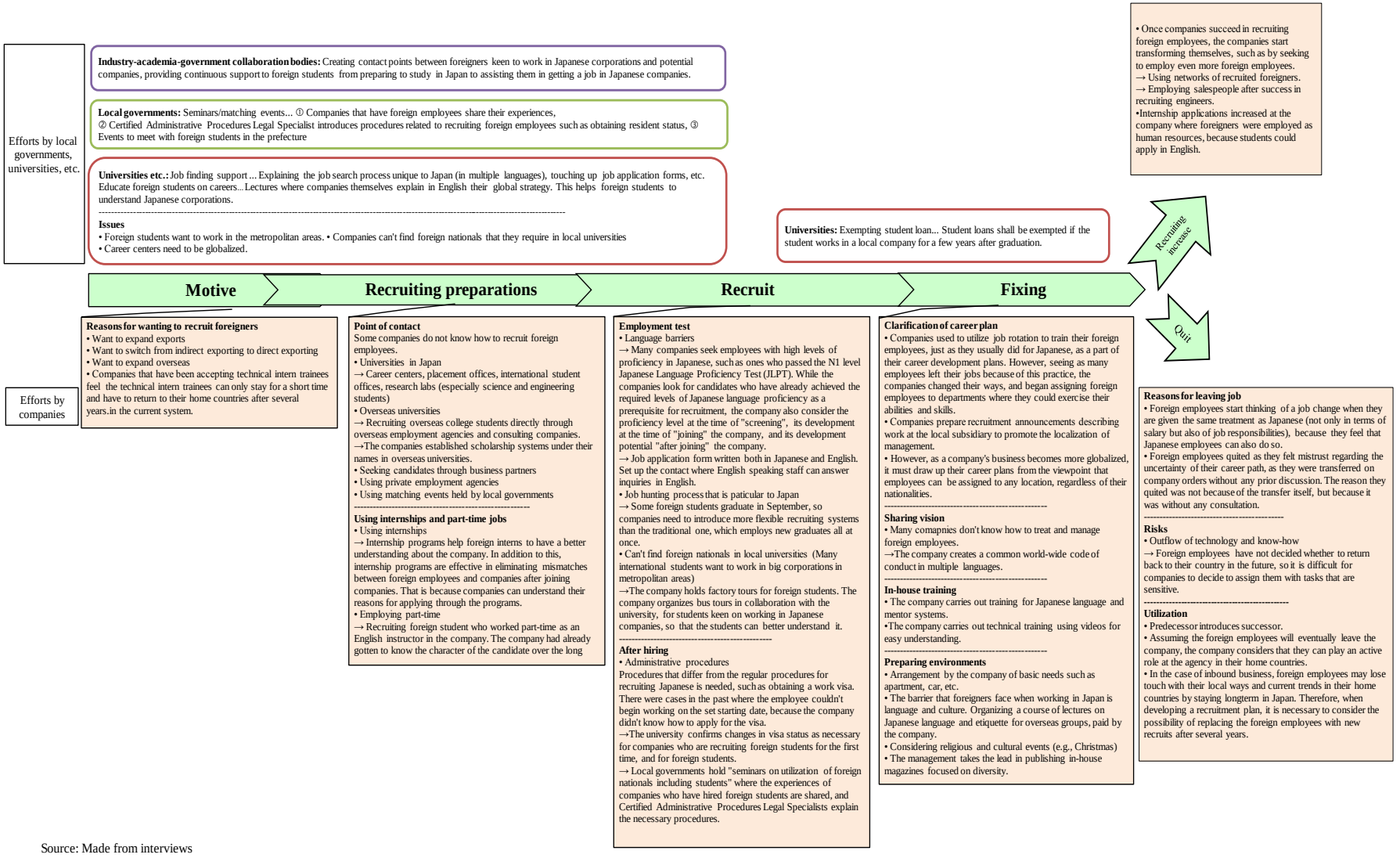
Corporate efforts in recruiting foreign employees (steps)

Figure III-30: Efforts by companies to recruit foreign students



Source: Made from interviews

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